Piedmont Office Realty Trust, Inc.
Form 10-K
February 20, 2019

false--12-31FY20182018-12-3110-K0001042776125595994YesfalseLarge Accelerated Filer2531552680Piedmont Office Realty Trust, Inc.falsefalseNoYes5000005000002705520004845300020169000244600093500005584700059144000P6MP1Y15000000000
0001042776 2018-01-01 2018-12-31 0001042776 2019-02-19 0001042776 2018-06-29 0001042776 2017-12-31 0001042776 2018-12-31 0001042776 us-gaap:SecuredDebtMember 2017-12-31 0001042776 us-gaap:UnsecuredDebtMember 2017-12-31 0001042776 us-gaap:UnsecuredDebtMember 2018-12-31 0001042776 us-gaap:SecuredDebtMember 2018-12-31 0001042776 us-gaap:BuildingAndBuildingImprovementsMember 2018-12-31 0001042776 us-gaap:BuildingAndBuildingImprovementsMember 2017-12-31 0001042776 2017-01-01 2017-12-31 0001042776 2016-01-01 2016-12-31 0001042776 us-gaap:ManagementServiceMember 2017-01-01 2017-12-31 0001042776 us-gaap:RealEstateOtherMember 2016-01-01 2016-12-31 0001042776 us-gaap:ManagementServiceMember 2016-01-01 2016-12-31 0001042776 us-gaap:RealEstateOtherMember 2017-01-01 2017-12-31 0001042776 us-gaap:ManagementServiceMember 2018-01-01 2018-12-31 0001042776 us-gaap:RealEstateOtherMember 2018-01-01 2018-12-31 0001042776 us-gaap:AdditionalPaidInCapitalMember 2018-12-31 0001042776 us-gaap:CommonStockMember 2018-01-01 2018-12-31 0001042776 us-gaap:RetainedEarningsMember 2018-01-01 2018-12-31 0001042776 us-gaap:RetainedEarningsMember 2016-01-01 2016-12-31 0001042776 us-gaap:RetainedEarningsMember 2018-01-01 0001042776 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-01-01 2017-12-31 0001042776 us-gaap:RetainedEarningsMember 2017-12-31 0001042776 us-gaap:CommonStockMember 2016-01-01 2016-12-31 0001042776 us-gaap:AdditionalPaidInCapitalMember 2018-01-01 2018-12-31 0001042776 us-gaap:CommonStockMember 2015-12-31 0001042776 us-gaap:NoncontrollingInterestMember 2017-01-01 2017-12-31 0001042776 us-gaap:NoncontrollingInterestMember 2018-01-01 2018-12-31 0001042776 us-gaap:RetainedEarningsMember 2017-01-01 2017-12-31 0001042776 us-gaap:NoncontrollingInterestMember 2015-12-31 0001042776 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-12-31 0001042776 us-gaap:CommonStockMember 2018-12-31 0001042776 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2016-12-31 0001042776 2015-12-31 0001042776 us-gaap:AdditionalPaidInCapitalMember 2015-12-31 0001042776 us-gaap:NoncontrollingInterestMember 2016-01-01 2016-12-31 0001042776 us-gaap:AdditionalPaidInCapitalMember 2016-12-31 0001042776 us-gaap:AdditionalPaidInCapitalMember 2016-01-01 2016-12-31 0001042776 us-gaap:AdditionalPaidInCapitalMember 2017-01-01 2017-12-31 0001042776 us-gaap:NoncontrollingInterestMember 2016-12-31 0001042776 us-gaap:NoncontrollingInterestMember 2018-12-31 0001042776 us-gaap:CommonStockMember 2017-01-01 2017-12-31 0001042776 us-gaap:CommonStockMember 2016-12-31 0001042776 us-gaap:CommonStockMember 2017-12-31 0001042776 us-gaap:RetainedEarningsMember 2018-12-31 0001042776 us-gaap:AdditionalPaidInCapitalMember 2017-12-31 0001042776 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-01-01 2018-12-31 0001042776 us-gaap:NoncontrollingInterestMember 2017-12-31 0001042776 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2016-01-01 2016-12-31 0001042776 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2015-12-31 0001042776 2016-12-31 0001042776 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-12-31 0001042776 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-01-01 0001042776 us-gaap:RetainedEarningsMember 2016-12-31 0001042776 us-gaap:RetainedEarningsMember 2015-12-31 0001042776 pdm:InServiceOfficePropertiesMember 2018-12-31 0001042776 pdm:RedevelopmentAssetMember 2018-12-31 0001042776 country:US 2018-12-31 0001042776 us-gaap:AccountingStandardsUpdate201409Member us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2017-01-01 2017-12-31 0001042776 pdm:EyeStreet1201NWAssociatesLLCandEyeStreet1225NWAssociatesLLCMember 2018-12-31 0001042776 us-gaap:AccountingStandardsUpdate201602Member us-gaap:SubsequentEventMember 2019-01-01 0001042776 us-gaap:DeferredCompensationExcludingShareBasedPaymentsAndRetirementBenefitsMember 2018-12-31 0001042776 us-gaap:AccountingStandardsUpdate201409Member us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2016-01-01 2016-12-31 0001042776 us-gaap:AccountingStandardsUpdate201601Member 2018-12-31 0001042776

us-gaap:AboveMarketLeasesMember 2018-12-31 0001042776 us-gaap:LeasesAcquiredInPlaceMember 2018-12-31 0001042776 pdm:LeaseOriginationCostsMember 2018-12-31 0001042776 us-gaap:LeasesAcquiredInPlaceMember 2017-12-31 0001042776 us-gaap:AboveMarketLeasesMember 2017-12-31 0001042776 pdm:LeaseOriginationCostsMember 2017-12-31 0001042776 us-gaap:AboveMarketLeasesMember 2018-01-01 2018-12-31 0001042776 us-gaap:LeasesAcquiredInPlaceMember 2018-01-01 2018-12-31 0001042776 pdm:LeaseOriginationCostsMember 2018-01-01 2018-12-31 0001042776 srt:MaximumMember us-gaap:LandImprovementsMember 2018-01-01 2018-12-31 0001042776 srt:MinimumMember us-gaap:BuildingImprovementsMember 2018-01-01 2018-12-31 0001042776 srt:MaximumMember us-gaap:BuildingImprovementsMember 2018-01-01 2018-12-31 0001042776 srt:RestatementAdjustmentMember 2017-01-01 2017-12-31 0001042776 us-gaap:BuildingMember 2018-01-01 2018-12-31 0001042776 srt:RestatementAdjustmentMember 2016-01-01 2016-12-31 0001042776 srt:MinimumMember us-gaap:LandImprovementsMember 2018-01-01 2018-12-31 0001042776 srt:MaximumMember us-gaap:FurnitureAndFixturesMember 2018-01-01 2018-12-31 0001042776 srt:MinimumMember us-gaap:FurnitureAndFixturesMember 2018-01-01 2018-12-31 0001042776 pdm:A9320ExcelsiorBoulevardMember 2018-10-25 0001042776 pdm:A25BurlingtonMallRoadMember 2018-12-12 0001042776 pdm:A25BurlingtonMallRoadMember 2018-12-12 2018-12-12 0001042776 pdm:WestChurchStreet501Member 2018-02-23 2018-02-23 0001042776 pdm:WestChurchStreet501Member 2018-02-23 0001042776 pdm:A9320ExcelsiorBoulevardMember 2018-10-25 2018-10-25 0001042776 us-gaap:LineOfCreditMember pdm:Unsecured500Million2018LineOfCreditMember us-gaap:UnsecuredDebtMember 2018-12-31 0001042776 pdm:Unsecured2018500MillionLineOfCredit2011300MillionTermLoanAnd2018250MillionTermLoanMember us-gaap:UnsecuredDebtMember 2018-01-01 2018-12-31 0001042776 pdm:A300Million2011UnsecuredTermLoanMaturing2020Member us-gaap:UnsecuredDebtMember 2018-12-31 0001042776 pdm:Unsecured300million2013TermLoanMaturing2019Member us-gaap:UnsecuredDebtMember 2018-01-01 2018-12-31 0001042776 pdm:FromMarch302020ThroughMarch312025Member pdm:A250Million2018UnsecuredTermLoanMaturing2025Member us-gaap:UnsecuredDebtMember 2018-12-31 0001042776 srt:MinimumMember us-gaap:LineOfCreditMember pdm:Unsecured500Million2018LineOfCreditMember us-gaap:UnsecuredDebtMember 2018-01-01 2018-12-31 0001042776 srt:MinimumMember us-gaap:LineOfCreditMember pdm:A300Million2011UnsecuredTermLoanMaturing2020Member us-gaap:UnsecuredDebtMember 2018-01-01 2018-12-31 0001042776 pdm:A250Million2018UnsecuredTermLoanMaturing2025Member us-gaap:InterestRateSwapMember 2018-12-31 0001042776 us-gaap:LineOfCreditMember pdm:Unsecured500Million2015LineofCreditMember us-gaap:UnsecuredDebtMember 2018-12-31 0001042776 pdm:A250Million2018UnsecuredTermLoanMaturing2025Member us-gaap:FederalFundsEffectiveSwapRateMember 2018-01-01 2018-12-31 0001042776 pdm:SevenYearInterestRateSwapAgreementMember us-gaap:InterestRateSwapMember 2018-12-31 0001042776 pdm:ThroughMarch292020Member pdm:A250Million2018UnsecuredTermLoanMaturing2025Member us-gaap:UnsecuredDebtMember 2018-12-31 0001042776 us-gaap:LineOfCreditMember pdm:Unsecured500Million2018LineOfCreditMember us-gaap:UnsecuredDebtMember 2018-01-01 2018-12-31 0001042776 us-gaap:LineOfCreditMember pdm:Unsecured500Million2018LineOfCreditMember us-gaap:UnsecuredDebtMember us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:A250Million2018UnsecuredTermLoanMaturing2025Member us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-01 2018-12-31 0001042776 pdm:A250Million2018UnsecuredTermLoanMaturing2025Member us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-01 2018-12-31 0001042776 srt:MaximumMember us-gaap:LineOfCreditMember pdm:A300Million2011UnsecuredTermLoanMaturing2020Member us-gaap:UnsecuredDebtMember 2017-01-01 2017-12-31 0001042776 pdm:Secured35MillionMortgageLoanMember us-gaap:SecuredDebtMember 2018-12-31 0001042776 us-gaap:LineOfCreditMember pdm:Unsecured500Million2018LineOfCreditMember us-gaap:UnsecuredDebtMember us-gaap:FederalFundsEffectiveSwapRateMember 2018-01-01 2018-12-31 0001042776 srt:MinimumMember us-gaap:LineOfCreditMember pdm:A300Million2011UnsecuredTermLoanMaturing2020Member us-gaap:UnsecuredDebtMember 2017-01-01 2017-12-31 0001042776 srt:MaximumMember

pdm:A250Million2018UnsecuredTermLoanMaturing2025Member
us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-01 2018-12-31 0001042776
pdm:A250Million2018UnsecuredTermLoanMaturing2025Member us-gaap:UnsecuredDebtMember 2018-12-31
0001042776 srt:MaximumMember us-gaap:LineOfCreditMember
pdm:Unsecured500Million2018LineOfCreditMember us-gaap:UnsecuredDebtMember 2018-01-01 2018-12-31
0001042776 pdm:A300Million2011UnsecuredTermLoanMaturing2020Member us-gaap:UnsecuredDebtMember
2018-01-01 2018-12-31 0001042776 us-gaap:LineOfCreditMember
pdm:A300Million2011UnsecuredTermLoanMaturing2020Member us-gaap:UnsecuredDebtMember
us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-01 2018-12-31 0001042776
pdm:Unsecured170Million2015TermLoanMember us-gaap:UnsecuredDebtMember 2018-01-01 2018-12-31
0001042776 srt:MaximumMember us-gaap:LineOfCreditMember
pdm:A300Million2011UnsecuredTermLoanMaturing2020Member us-gaap:UnsecuredDebtMember 2018-01-01
2018-12-31 0001042776 pdm:UnsecuredSenior350MillionNotesMember us-gaap:UnsecuredDebtMember 2018-12-31
0001042776 pdm:FixedRate160MillionLoanMember us-gaap:SecuredDebtMember 2018-12-31 0001042776
pdm:Secured35MillionMortgageLoanMember us-gaap:SecuredDebtMember 2017-12-31 0001042776
pdm:UnsecuredSenior400MillionNotesMember us-gaap:UnsecuredDebtMember 2018-12-31 0001042776
pdm:A250Million2018UnsecuredTermLoanMaturing2025Member us-gaap:UnsecuredDebtMember 2017-12-31
0001042776 pdm:A300Million2011UnsecuredTermLoanMaturing2020Member us-gaap:InterestRateSwapMember
us-gaap:UnsecuredDebtMember 2018-12-31 0001042776
pdm:Unsecured300million2013TermLoanMaturing2019Member us-gaap:UnsecuredDebtMember 2017-12-31
0001042776 pdm:UnsecuredSenior350MillionNotesMember us-gaap:UnsecuredDebtMember 2017-12-31
0001042776 pdm:Unsecured170Million2015TermLoanMember us-gaap:UnsecuredDebtMember 2018-12-31
0001042776 pdm:A300Million2011UnsecuredTermLoanMaturing2020Member us-gaap:UnsecuredDebtMember
2017-12-31 0001042776 pdm:UnsecuredSenior400MillionNotesMember us-gaap:UnsecuredDebtMember 2017-12-31
0001042776 us-gaap:LineOfCreditMember pdm:Unsecured500Million2018LineOfCreditMember
us-gaap:UnsecuredDebtMember 2017-12-31 0001042776
pdm:Unsecured300million2013TermLoanMaturing2019Member us-gaap:UnsecuredDebtMember 2018-12-31
0001042776 pdm:FixedRate160MillionLoanMember us-gaap:SecuredDebtMember 2017-12-31 0001042776
pdm:Unsecured170Million2015TermLoanMember us-gaap:UnsecuredDebtMember 2017-12-31 0001042776
pdm:Unsecured300million2013TermLoanMaturing2019Member us-gaap:InterestRateSwapMember
us-gaap:UnsecuredDebtMember 2018-12-31 0001042776 us-gaap:LineOfCreditMember
pdm:Unsecured500Million2015LineofCreditMember us-gaap:UnsecuredDebtMember 2017-12-31 0001042776
us-gaap:LineOfCreditMember pdm:Unsecured500Million2015LineofCreditMember us-gaap:UnsecuredDebtMember
us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-01 2018-12-31 0001042776
pdm:Unsecured500Million2018LineOfCreditMember us-gaap:UnsecuredDebtMember 2018-12-31 0001042776
pdm:A300Million2011UnsecuredTermLoanMaturing2020Member us-gaap:UnsecuredDebtMember
us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-01 2018-12-31 0001042776
pdm:Unsecured500Million2018LineOfCreditMember us-gaap:UnsecuredDebtMember
us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-01 2018-12-31 0001042776
pdm:Unsecured170Million2015TermLoanMember us-gaap:UnsecuredDebtMember
us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-01 2018-12-31 0001042776
pdm:A250Million2018UnsecuredTermLoanMaturing2025Member us-gaap:UnsecuredDebtMember
us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-01 2018-12-31 0001042776
pdm:Unsecured300million2013TermLoanMaturing2019Member us-gaap:UnsecuredDebtMember
us-gaap:LondonInterbankOfferedRateLIBORMember 2018-01-01 2018-12-31 0001042776
pdm:A250Million2018UnsecuredTermLoanMaturing2025Member us-gaap:UnsecuredDebtMember 2018-01-01
2018-12-31 0001042776 us-gaap:InterestRateSwapMember us-gaap:InterestExpenseMember 2016-01-01 2016-12-31
0001042776 us-gaap:InterestRateSwapMember pdm:GainLossOnExtinguishmentOfDebtMember 2017-01-01
2017-12-31 0001042776 us-gaap:InterestRateSwapMember us-gaap:InterestExpenseMember 2017-01-01 2017-12-31
0001042776 us-gaap:InterestRateSwapMember pdm:GainLossOnExtinguishmentOfDebtMember 2016-01-01
2016-12-31 0001042776 us-gaap:InterestRateSwapMember 2017-01-01 2017-12-31 0001042776

us-gaap:InterestRateSwapMember us-gaap:InterestExpenseMember 2018-01-01 2018-12-31 0001042776
us-gaap:InterestRateSwapMember 2018-01-01 2018-12-31 0001042776 us-gaap:InterestRateSwapMember
2016-01-01 2016-12-31 0001042776 us-gaap:InterestRateSwapMember
pdm:GainLossOnExtinguishmentOfDebtMember 2018-01-01 2018-12-31 0001042776
pdm:A250Million2018UnsecuredTermLoanMaturing2025Member pdm:InterestRateSwap4through5Member
us-gaap:UnsecuredDebtMember 2018-12-31 0001042776
pdm:A250Million2018UnsecuredTermLoanMaturing2020Member pdm:InterestRateSwap6Member
us-gaap:UnsecuredDebtMember 2018-12-31 0001042776
pdm:A300Million2011UnsecuredTermLoanMaturing2020Member pdm:InterestRateSwap1through3Member
us-gaap:UnsecuredDebtMember 2018-12-31 0001042776
pdm:Unsecured300million2013TermLoanMaturing2019Member us-gaap:UnsecuredDebtMember 2018-01-01
2018-01-31 0001042776 us-gaap:InterestRateSwapMember 2018-01-01 2018-01-31 0001042776
us-gaap:CreditRiskContractMember 2018-12-31 0001042776
pdm:Unsecured300million2013TermLoanMaturing2019Member us-gaap:InterestRateSwapMember
us-gaap:UnsecuredDebtMember 2018-01-01 2018-01-31 0001042776
us-gaap:CarryingReportedAmountFairValueDisclosureMember 2017-12-31 0001042776
us-gaap:CarryingReportedAmountFairValueDisclosureMember us-gaap:InterestRateSwapMember 2018-12-31
0001042776 us-gaap:CarryingReportedAmountFairValueDisclosureMember 2018-12-31 0001042776
us-gaap:FairValueInputsLevel1Member us-gaap:EstimateOfFairValueFairValueDisclosureMember 2017-12-31
0001042776 us-gaap:FairValueInputsLevel2Member us-gaap:EstimateOfFairValueFairValueDisclosureMember
us-gaap:InterestRateSwapMember 2017-12-31 0001042776 us-gaap:FairValueInputsLevel2Member
us-gaap:EstimateOfFairValueFairValueDisclosureMember 2017-12-31 0001042776
us-gaap:FairValueInputsLevel2Member us-gaap:EstimateOfFairValueFairValueDisclosureMember
us-gaap:InterestRateSwapMember 2018-12-31 0001042776 us-gaap:FairValueInputsLevel1Member
us-gaap:EstimateOfFairValueFairValueDisclosureMember 2018-12-31 0001042776
us-gaap:CarryingReportedAmountFairValueDisclosureMember us-gaap:InterestRateSwapMember 2017-12-31
0001042776 us-gaap:FairValueInputsLevel2Member us-gaap:EstimateOfFairValueFairValueDisclosureMember
2018-12-31 0001042776 us-gaap:DisposalGroupHeldforsaleNotDiscontinuedOperationsMember
pdm:CORPORATEBOULEVARD9200and9211Member 2018-01-01 2018-12-31 0001042776
us-gaap:DisposalGroupDisposedOfBySaleNotDiscontinuedOperationsMember
pdm:CorporateBoulevard9221Member 2017-01-01 2017-12-31 0001042776
us-gaap:DisposalGroupHeldforsaleNotDiscontinuedOperationsMember pdm:DisposalGroupOfThirteenAssetsMember
2017-01-01 2017-12-31 0001042776 us-gaap:DisposalGroupHeldforsaleNotDiscontinuedOperationsMember
pdm:DisposalGroupOfThirteenAssetsMember 2018-01-01 2018-12-31 0001042776
us-gaap:DisposalGroupHeldforsaleNotDiscontinuedOperationsMember pdm:WestJefferson150Member 2018-01-01
2018-12-31 0001042776 us-gaap:DisposalGroupHeldforsaleNotDiscontinuedOperationsMember
pdm:DisposalGroupOfThirteenAssetsMember 2016-01-01 2016-12-31 0001042776
us-gaap:DisposalGroupHeldforsaleNotDiscontinuedOperationsMember
pdm:CORPORATEBOULEVARD9200and9211Member 2016-01-01 2016-12-31 0001042776
us-gaap:DisposalGroupDisposedOfBySaleNotDiscontinuedOperationsMember
pdm:CorporateBoulevard9221Member 2018-01-01 2018-12-31 0001042776
us-gaap:DisposalGroupHeldforsaleNotDiscontinuedOperationsMember pdm:WestJefferson150Member 2017-01-01
2017-12-31 0001042776 us-gaap:DisposalGroupHeldforsaleNotDiscontinuedOperationsMember
pdm:CORPORATEBOULEVARD9200and9211Member 2017-01-01 2017-12-31 0001042776
us-gaap:DisposalGroupDisposedOfBySaleNotDiscontinuedOperationsMember
pdm:CorporateBoulevard9221Member 2016-01-01 2016-12-31 0001042776
us-gaap:DisposalGroupHeldforsaleNotDiscontinuedOperationsMember pdm:WestJefferson150Member 2016-01-01
2016-12-31 0001042776 us-gaap:DisposalGroupHeldforsaleNotDiscontinuedOperationsMember
pdm:CORPORATEBOULEVARD9200and9211Member 2016-07-31 0001042776
us-gaap:DisposalGroupHeldforsaleNotDiscontinuedOperationsMember
pdm:CORPORATEBOULEVARD9200and9211Member 2016-07-01 2016-07-31 0001042776

pdm:CollectibilityOfTenantReimbursementsMember 2018-01-01 2018-12-31 0001042776
pdm:IncrementalCapitalExpendituresMember 2018-12-31 0001042776
pdm:CollectibilityOfTenantReimbursementsMember 2016-01-01 2016-12-31 0001042776
pdm:NonincrementalCapitalExpendituresMember 2018-12-31 0001042776
pdm:CollectibilityOfTenantReimbursementsMember 2017-01-01 2017-12-31 0001042776
pdm:NonincrementalCapitalExpendituresMember 2018-01-01 2018-12-31 0001042776 srt:MaximumMember
pdm:NonincrementalCapitalExpendituresMember 2018-01-01 2018-12-31 0001042776
pdm:DeferredStockAwardGrantedJanuary32014Member pdm:DeferredStockAwardMember 2014-01-03 0001042776
pdm:DeferredStockAwardGrantedMay242016Member pdm:DeferredStockAwardMember 2016-05-24 0001042776
pdm:DeferredStockAwardGrantedMay172018Member pdm:DeferredStockAwardMember 2018-05-17 0001042776
pdm:PerformanceShareProgramAwardGrantedMay172018Member us-gaap:PerformanceSharesMember 2018-05-17
0001042776 pdm:PerformanceShareProgramAwardGrantedMay182017Member us-gaap:PerformanceSharesMember
2017-05-18 0001042776 pdm:PerformanceShareProgramAwardGrantedMay172018Member
us-gaap:PerformanceSharesMember 2018-12-31 0001042776
pdm:DeferredStockAwardGrantedJanuary32014Member pdm:DeferredStockAwardMember 2018-12-31 0001042776
pdm:DeferredStockAwardGrantedMay172018Member pdm:DeferredStockAwardMember 2018-12-31 0001042776
pdm:DeferredStockAwardGrantedMay172018DeferredStockAwardIndependentDirectorsMember
pdm:DeferredStockAwardMember us-gaap:DirectorMember 2018-05-17 0001042776
pdm:PerformanceShareProgramAwardGrantedMay242016Member us-gaap:PerformanceSharesMember 2016-05-24
0001042776 pdm:DeferredStockAwardGrantedMay242016Member pdm:DeferredStockAwardMember 2018-12-31
0001042776 pdm:PerformanceShareProgramAwardGrantedMay182017Member us-gaap:PerformanceSharesMember
2018-12-31 0001042776 pdm:DeferredStockAwardGrantedMay182017Member pdm:DeferredStockAwardMember
2017-05-18 0001042776
pdm:DeferredStockAwardGrantedMay172018DeferredStockAwardIndependentDirectorsMember
pdm:DeferredStockAwardMember us-gaap:DirectorMember 2018-12-31 0001042776
pdm:PerformanceShareProgramAwardGrantedMay242016Member us-gaap:PerformanceSharesMember 2018-12-31
0001042776 pdm:DeferredStockAwardGrantedMay182017Member pdm:DeferredStockAwardMember 2018-12-31
0001042776 pdm:StockAwardsMember 2018-12-31 0001042776 pdm:DeferredStockAwardMember 2016-01-01
2016-12-31 0001042776 us-gaap:PerformanceSharesMember 2017-01-01 2017-12-31 0001042776
pdm:DeferredStockAwardMember 2017-01-01 2017-12-31 0001042776 pdm:DeferredStockAwardMember
2018-01-01 2018-12-31 0001042776 us-gaap:PerformanceSharesMember 2018-01-01 2018-12-31 0001042776
us-gaap:PerformanceSharesMember 2016-01-01 2016-12-31 0001042776 pdm:StockAwardsMember 2017-12-31
0001042776 srt:WeightedAverageMember 2018-01-01 2018-12-31 0001042776 pdm:StockAwardsMember
us-gaap:DirectorMember 2018-01-01 2018-12-31 0001042776 pdm:DeferredStockAwardGrantedMay172018Member
pdm:DeferredStockAwardMember us-gaap:ShareBasedCompensationAwardTrancheThreeMember 2018-05-17
2018-05-17 0001042776 pdm:DeferredStockAwardGrantedMay182017Member pdm:DeferredStockAwardMember
pdm:SharebasedCompensationAwardTrancheFourMember 2017-05-18 2017-05-18 0001042776
pdm:DeferredStockAwardGrantedJanuary32014Member pdm:DeferredStockAwardMember
pdm:SharebasedCompensationAwardTrancheFiveMember 2014-01-03 2014-01-03 0001042776
pdm:DeferredStockAwardGrantedMay242016Member pdm:DeferredStockAwardMember
us-gaap:ShareBasedCompensationAwardTrancheThreeMember 2016-05-24 2016-05-24 0001042776
pdm:DeferredStockAwardGrantedMay182017Member pdm:DeferredStockAwardMember
us-gaap:ShareBasedCompensationAwardTrancheTwoMember 2017-05-18 2017-05-18 0001042776
pdm:DeferredStockAwardGrantedMay242016Member pdm:DeferredStockAwardMember
pdm:SharebasedCompensationAwardTrancheFourMember 2016-05-24 2016-05-24 0001042776
pdm:DeferredStockAwardGrantedJanuary32014Member pdm:DeferredStockAwardMember
us-gaap:ShareBasedCompensationAwardTrancheOneMember 2014-01-03 2014-01-03 0001042776
pdm:DeferredStockAwardGrantedMay242016Member pdm:DeferredStockAwardMember
us-gaap:ShareBasedCompensationAwardTrancheOneMember 2016-05-24 2016-05-24 0001042776
pdm:DeferredStockAwardGrantedMay242016Member pdm:DeferredStockAwardMember
us-gaap:ShareBasedCompensationAwardTrancheTwoMember 2016-05-24 2016-05-24 0001042776

pdm:DeferredStockAwardGrantedMay172018DeferredStockAwardIndependentDirectorsMember
pdm:DeferredStockAwardMember us-gaap:DirectorMember
us-gaap:ShareBasedCompensationAwardTrancheOneMember 2018-05-17 2018-05-17 0001042776
pdm:DeferredStockAwardGrantedMay182017Member pdm:DeferredStockAwardMember
us-gaap:ShareBasedCompensationAwardTrancheOneMember 2017-05-18 2017-05-18 0001042776
pdm:DeferredStockAwardGrantedMay172018Member pdm:DeferredStockAwardMember
us-gaap:ShareBasedCompensationAwardTrancheOneMember 2018-05-17 2018-05-17 0001042776
pdm:DeferredStockAwardGrantedJanuary32014Member pdm:DeferredStockAwardMember
us-gaap:ShareBasedCompensationAwardTrancheTwoMember 2014-01-03 2014-01-03 0001042776
pdm:DeferredStockAwardGrantedMay172018Member pdm:DeferredStockAwardMember
pdm:SharebasedCompensationAwardTrancheFourMember 2018-05-17 2018-05-17 0001042776
pdm:DeferredStockAwardGrantedJanuary32014Member pdm:DeferredStockAwardMember
us-gaap:ShareBasedCompensationAwardTrancheThreeMember 2014-01-03 2014-01-03 0001042776
pdm:DeferredStockAwardGrantedMay172018Member pdm:DeferredStockAwardMember
us-gaap:ShareBasedCompensationAwardTrancheTwoMember 2018-05-17 2018-05-17 0001042776
pdm:DeferredStockAwardGrantedMay182017Member pdm:DeferredStockAwardMember
us-gaap:ShareBasedCompensationAwardTrancheThreeMember 2017-05-18 2017-05-18 0001042776
pdm:DeferredStockAwardGrantedJanuary32014Member pdm:DeferredStockAwardMember
pdm:SharebasedCompensationAwardTrancheFourMember 2014-01-03 2014-01-03 0001042776
us-gaap:DisposalGroupDisposedOfBySaleNotDiscontinuedOperationsMember pdm:UplandDrive8560Member
2018-12-31 0001042776 pdm:SecuredPromissoryNoteMember us-gaap:SecuredDebtMember 2018-01-04
0001042776 us-gaap:NotesReceivableMember
us-gaap:DisposalGroupDisposedOfBySaleNotDiscontinuedOperationsMember pdm:MainStreet1901Member
pdm:SecuredPromissoryNoteMember 2016-05-02 0001042776
us-gaap:DisposalGroupDisposedOfBySaleNotDiscontinuedOperationsMember
pdm:JohnsCreekParkway11695Member 2016-12-22 2016-12-22 0001042776
us-gaap:DisposalGroupDisposedOfBySaleNotDiscontinuedOperationsMember
pdm:CORPORATEBOULEVARD9200and9211Member 2016-09-28 2016-09-28 0001042776
us-gaap:DisposalGroupDisposedOfBySaleNotDiscontinuedOperationsMember
pdm:NorthBrandBoulevard800Member 2018-11-29 2018-11-29 0001042776
us-gaap:DisposalGroupDisposedOfBySaleNotDiscontinuedOperationsMember pdm:BrakerPointeIiiMember
2016-12-29 2016-12-29 0001042776 us-gaap:DisposalGroupDisposedOfBySaleNotDiscontinuedOperationsMember
pdm:SarasotaCommerceCenterIiMember 2017-06-16 2017-06-16 0001042776
us-gaap:DisposalGroupDisposedOfBySaleNotDiscontinuedOperationsMember
pdm:TwoIndependenceSquareMember 2017-07-05 2017-07-05 0001042776
us-gaap:DisposalGroupDisposedOfBySaleNotDiscontinuedOperationsMember
pdm:CorporateBoulevard9221Member 2016-07-27 2016-07-27 0001042776
us-gaap:DisposalGroupDisposedOfBySaleNotDiscontinuedOperationsMember pdm:UplandDrive8560Member
2017-07-27 2017-07-27 0001042776 us-gaap:DisposalGroupDisposedOfBySaleNotDiscontinuedOperationsMember
pdm:A2017DispositionPortfolioMember 2018-01-04 2018-01-04 0001042776
us-gaap:DisposalGroupDisposedOfBySaleNotDiscontinuedOperationsMember pdm:MainStreet1901Member
2016-05-02 2016-05-02 0001042776 us-gaap:DisposalGroupDisposedOfBySaleNotDiscontinuedOperationsMember
pdm:FairwayCenterIiMember 2016-04-28 2016-04-28 0001042776
us-gaap:DisposalGroupDisposedOfBySaleNotDiscontinuedOperationsMember pdm:WestJefferson150Member
2016-07-29 2016-07-29 0001042776 us-gaap:DisposalGroupDisposedOfBySaleNotDiscontinuedOperationsMember
pdm:EastColoradoBoulevard1055Member 2016-04-21 2016-04-21 0001042776
us-gaap:DisposalGroupHeldforsaleNotDiscontinuedOperationsMember 2018-12-31 0001042776
us-gaap:DisposalGroupHeldforsaleNotDiscontinuedOperationsMember 2017-12-31 0001042776
us-gaap:DisposalGroupHeldforsaleNotDiscontinuedOperationsMember us-gaap:LandMember 2017-12-31
0001042776 us-gaap:DisposalGroupHeldforsaleNotDiscontinuedOperationsMember
us-gaap:BuildingAndBuildingImprovementsMember 2017-12-31 0001042776

us-gaap:DisposalGroupHeldforsaleNotDiscontinuedOperationsMember us-gaap:ConstructionInProgressMember 2018-12-31 0001042776 us-gaap:DisposalGroupHeldforsaleNotDiscontinuedOperationsMember us-gaap:BuildingAndBuildingImprovementsMember 2018-12-31 0001042776 us-gaap:DisposalGroupHeldforsaleNotDiscontinuedOperationsMember us-gaap:LandMember 2018-12-31 0001042776 us-gaap:DisposalGroupHeldforsaleNotDiscontinuedOperationsMember us-gaap:ConstructionInProgressMember 2017-12-31 0001042776 pdm:PiedmontOfficeHoldingsIncMember 2018-01-01 2018-12-31 0001042776 pdm:PiedmontWashingtonPropertiesIncMember 2016-01-01 2016-12-31 0001042776 pdm:PiedmontOfficeHoldingsIncMember 2016-01-01 2016-12-31 0001042776 pdm:PiedmontWashingtonPropertiesIncMember 2018-01-01 2018-12-31 0001042776 pdm:PiedmontWashingtonPropertiesIncMember 2017-01-01 2017-12-31 0001042776 pdm:PiedmontOfficeHoldingsIncMember 2017-01-01 2017-12-31 0001042776 2018-10-01 2018-12-31 0001042776 2018-01-01 2018-03-31 0001042776 2018-04-01 2018-06-30 0001042776 2018-07-01 2018-09-30 0001042776 2017-04-01 2017-06-30 0001042776 2017-10-01 2017-12-31 0001042776 2017-01-01 2017-03-31 0001042776 2017-07-01 2017-09-30 0001042776 2017-12-13 2017-12-13 0001042776 srt:NonGuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember 2016-01-01 2016-12-31 0001042776 srt:ConsolidationEliminationsMember 2016-01-01 2016-12-31 0001042776 srt:SubsidiaryIssuerMember srt:ReportableLegalEntitiesMember 2016-01-01 2016-12-31 0001042776 srt:ConsolidationEliminationsMember us-gaap:ManagementServiceMember 2016-01-01 2016-12-31 0001042776 srt:ParentCompanyMember srt:ReportableLegalEntitiesMember 2016-01-01 2016-12-31 0001042776 srt:SubsidiaryIssuerMember srt:ReportableLegalEntitiesMember us-gaap:RealEstateOtherMember 2016-01-01 2016-12-31 0001042776 srt:NonGuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember us-gaap:ManagementServiceMember 2016-01-01 2016-12-31 0001042776 srt:ConsolidationEliminationsMember us-gaap:RealEstateOtherMember 2016-01-01 2016-12-31 0001042776 srt:ParentCompanyMember srt:ReportableLegalEntitiesMember us-gaap:RealEstateOtherMember 2016-01-01 2016-12-31 0001042776 srt:SubsidiaryIssuerMember srt:ReportableLegalEntitiesMember us-gaap:ManagementServiceMember 2016-01-01 2016-12-31 0001042776 srt:NonGuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember us-gaap:RealEstateOtherMember 2016-01-01 2016-12-31 0001042776 srt:ParentCompanyMember srt:ReportableLegalEntitiesMember us-gaap:ManagementServiceMember 2016-01-01 2016-12-31 0001042776 srt:ParentCompanyMember srt:ReportableLegalEntitiesMember 2018-01-01 2018-12-31 0001042776 srt:NonGuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember 2018-01-01 2018-12-31 0001042776 srt:ConsolidationEliminationsMember 2018-01-01 2018-12-31 0001042776 srt:SubsidiaryIssuerMember srt:ReportableLegalEntitiesMember 2018-01-01 2018-12-31 0001042776 srt:NonGuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember us-gaap:RealEstateOtherMember 2018-01-01 2018-12-31 0001042776 srt:ConsolidationEliminationsMember us-gaap:ManagementServiceMember 2018-01-01 2018-12-31 0001042776 srt:ConsolidationEliminationsMember us-gaap:RealEstateOtherMember 2018-01-01 2018-12-31 0001042776 srt:ParentCompanyMember srt:ReportableLegalEntitiesMember us-gaap:ManagementServiceMember 2018-01-01 2018-12-31 0001042776 srt:NonGuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember us-gaap:ManagementServiceMember 2018-01-01 2018-12-31 0001042776 srt:ParentCompanyMember srt:ReportableLegalEntitiesMember us-gaap:RealEstateOtherMember 2018-01-01 2018-12-31 0001042776 srt:SubsidiaryIssuerMember srt:ReportableLegalEntitiesMember us-gaap:ManagementServiceMember 2018-01-01 2018-12-31 0001042776 srt:SubsidiaryIssuerMember srt:ReportableLegalEntitiesMember us-gaap:RealEstateOtherMember 2018-01-01 2018-12-31 0001042776 srt:SubsidiaryIssuerMember srt:ReportableLegalEntitiesMember 2017-01-01 2017-12-31 0001042776 srt:ParentCompanyMember srt:ReportableLegalEntitiesMember 2017-01-01 2017-12-31 0001042776 srt:ConsolidationEliminationsMember 2017-01-01 2017-12-31 0001042776 srt:NonGuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember us-gaap:RealEstateOtherMember 2017-01-01 2017-12-31 0001042776 srt:NonGuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember 2017-01-01 2017-12-31 0001042776 srt:ParentCompanyMember srt:ReportableLegalEntitiesMember us-gaap:ManagementServiceMember 2017-01-01 2017-12-31 0001042776 srt:ParentCompanyMember srt:ReportableLegalEntitiesMember us-gaap:RealEstateOtherMember 2017-01-01 2017-12-31 0001042776 srt:SubsidiaryIssuerMember srt:ReportableLegalEntitiesMember us-gaap:ManagementServiceMember 2017-01-01 2017-12-31 0001042776 srt:NonGuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember us-gaap:ManagementServiceMember 2017-01-01 2017-12-31 0001042776 srt:SubsidiaryIssuerMember srt:ReportableLegalEntitiesMember us-gaap:RealEstateOtherMember 2017-01-01 2017-12-31 0001042776 srt:ConsolidationEliminationsMember us-gaap:RealEstateOtherMember 2017-01-01 2017-12-31 0001042776 srt:ConsolidationEliminationsMember us-gaap:ManagementServiceMember 2017-01-01 2017-12-31 0001042776 srt:SubsidiaryIssuerMember srt:ReportableLegalEntitiesMember 2018-12-31 0001042776 srt:NonGuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember 2018-12-31 0001042776 srt:ParentCompanyMember srt:ReportableLegalEntitiesMember 2018-12-31 0001042776 srt:ConsolidationEliminationsMember 2018-12-31 0001042776 srt:ParentCompanyMember srt:ReportableLegalEntitiesMember 2017-12-31 0001042776 srt:SubsidiaryIssuerMember srt:ReportableLegalEntitiesMember 2017-12-31 0001042776 srt:ConsolidationEliminationsMember 2017-12-31 0001042776 srt:NonGuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember 2017-12-31 0001042776 srt:SubsidiaryIssuerMember srt:ReportableLegalEntitiesMember 2016-12-31 0001042776 srt:ParentCompanyMember srt:ReportableLegalEntitiesMember 2016-12-31 0001042776 srt:NonGuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember 2016-12-31 0001042776 srt:ConsolidationEliminationsMember 2016-12-31 0001042776 srt:SubsidiaryIssuerMember srt:ReportableLegalEntitiesMember 2015-12-31 0001042776 srt:NonGuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember 2015-12-31 0001042776 srt:ConsolidationEliminationsMember 2015-12-31 0001042776 srt:ParentCompanyMember srt:ReportableLegalEntitiesMember 2015-12-31 0001042776 us-gaap:SubsequentEventMember 2019-02-05 2019-02-05 0001042776 pdm:UsBancorpCenterMember 2018-12-31 0001042776 pdm:OneIndependenceSquareMember 2018-12-31 0001042776 srt:MaximumMember pdm:UsBancorpCenterMember 2018-01-01 2018-12-31 0001042776 pdm:CNLCENTERIMember 2018-12-31 0001042776 pdm:MediciMember 2018-12-31 0001042776 pdm:Galleria300Member 2018-12-31 0001042776 pdm:ConnectionDrive6021Member 2018-12-31 0001042776 pdm:EyeStreet1201Member 2018-12-31 0001042776 pdm:VirginiaAve400Member 2018-12-31 0001042776 pdm:TwoMeridianCrossingsMember 2018-12-31 0001042776 pdm:PresidentialWay235Member 2018-12-31 0001042776 pdm:ParkPlaceonTurtleCreekMember 2018-12-31 0001042776 srt:MaximumMember pdm:SunTrustCenterMember 2018-01-01 2018-12-31 0001042776 pdm:ConnectionDrive6031Member 2018-12-31 0001042776 pdm:UndevelopedLandParcelsMember 2018-12-31 0001042776 srt:MinimumMember pdm:CorporateDrive600Member 2018-01-01 2018-12-31 0001042776 pdm:LasColinasCorporateCenterIMember 2018-12-31 0001042776 pdm:A9320ExcelsiorBoulevardMember 2018-12-31 0001042776 pdm:ArlingtonGatewayMember 2018-12-31 0001042776 pdm:Townpark400Member 2018-12-31 0001042776 pdm:PresidentialWay225Member 2018-12-31 0001042776 pdm:MarketStreet1901Member 2018-12-31 0001042776 pdm:CNLCENTERIIMember 2018-12-31 0001042776 pdm:ClarendonBoulevard3100Member 2018-12-31 0001042776 pdm:TwoPiercePlaceMember 2018-12-31 0001042776 srt:MaximumMember pdm:CORPORATECENTER161Member 2018-01-01 2018-12-31 0001042776 pdm:SixFiveSixFiveMacArthurBlvdMember 2018-12-31 0001042776 pdm:BroadStreet60Member 2018-12-31 0001042776 us-gaap:WhollyOwnedPropertiesMember 2018-12-31 0001042776 pdm:OneBrattleSquareMember 2018-12-31 0001042776 pdm:NormanPointeIMember 2018-12-31 0001042776 pdm:CentralStreet80Member 2018-12-31 0001042776 pdm:PiedmontPowerLlcMember 2018-12-31 0001042776 pdm:OneLincolnParkMember 2018-12-31 0001042776 srt:MaximumMember pdm:TwoPiercePlaceMember 2018-01-01 2018-12-31 0001042776 pdm:BridgewaterCrossing400Member 2018-12-31 0001042776 pdm:CrescentRidgeIiMember 2018-12-31 0001042776 pdm:LasColinasCorporateCenterIiMember 2018-12-31 0001042776 pdm:GlenridgeHighlandsTwoMember 2018-12-31 0001042776 pdm:BridgewaterCrossing200Member 2018-12-31 0001042776 pdm:DupreeMember 2018-12-31 0001042776 pdm:MassachusettsAvenue1414Member 2018-12-31 0001042776 pdm:A25BurlingtonMallRoadMember 2018-12-31 0001042776 pdm:The5WallStreetBuildingMember 2018-12-31 0001042776 pdm:GLENRIDGEHIGHLANDSONEMember 2018-12-31 0001042776 pdm:CentralStreet90Member 2018-12-31 0001042776 srt:MinimumMember pdm:LasColinasCorporateCenterIMember 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:OneBrattleSquareMember 2018-01-01 2018-12-31 0001042776 pdm:CORPORATECENTER161Member 2018-12-31 0001042776 pdm:CorporateDrive600Member 2018-12-31 0001042776 pdm:WaysideRoad5And15Member 2018-12-31 0001042776 srt:MaximumMember pdm:EyeStreet1201Member 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:The5WallStreetBuildingMember 2018-01-01 2018-12-31 0001042776 pdm:NorthFairfaxDrive4250Member 2018-12-31 0001042776 srt:MaximumMember pdm:NorthFairfaxDrive4250Member 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:NormanPointeIMember 2018-01-01 2018-12-31 0001042776 pdm:WestChurchStreet501Member 2018-12-31 0001042776 pdm:PerimeterCenterWest1155Member 2018-12-31 0001042776 srt:MaximumMember pdm:ClarendonBoulevard3100Member 2018-01-01 2018-12-31 0001042776 pdm:OneMeridianCrossingsMember 2018-12-31 0001042776 pdm:A750WestJohnCarpenterFreewayMember 2018-12-31 0001042776 pdm:Galleria200BuildingMember 2018-12-31 0001042776 srt:MinimumMember pdm:OneIndependenceSquareMember 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:OneIndependenceSquareMember 2018-01-01 2018-12-31 0001042776 pdm:A500TownParkBuildingMember 2018-12-31 0001042776 srt:MaximumMember pdm:ConnectionDrive6031Member 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:PresidentialWay225Member 2018-01-01 2018-12-31 0001042776 pdm:ConnectionDrive6011Member 2018-12-31 0001042776 pdm:WESTMONROESTREET500Member 2018-12-31 0001042776 srt:MinimumMember pdm:SixFiveSixFiveMacArthurBlvdMember 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:TwoMeridianCrossingsMember 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:LasColinasCorporateCenterIiMember 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:ENCLAVEPLACEMember 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:CNLCENTERIMember 2018-01-01 2018-12-31 0001042776 pdm:EyeStreet1225Member 2018-12-31 0001042776 pdm:A1201EquityLlcMember pdm:EyeStreet1201NwAssociatesLlcMember 2018-12-31 2018-12-31 0001042776 pdm:ENCLAVEPLACEMember 2018-12-31 0001042776 srt:MinimumMember pdm:BridgewaterCrossing200Member 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:CORPORATECENTER161Member 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:LasColinasCorporateCenterIiMember 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:TwoMeridianCrossingsMember 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:CentralStreet90Member 2018-01-01 2018-12-31 0001042776 pdm:SunTrustCenterMember 2018-12-31 0001042776 srt:MaximumMember pdm:MarketStreet1901Member 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:PresidentialWay225Member 2018-01-01 2018-12-31 0001042776 pdm:EnclaveParkway1430Member 2018-12-31 0001042776 pdm:A1225EquityLlcMember pdm:EyeStreet1225NwAssociatesLlcMember 2018-12-31 2018-12-31 0001042776 srt:MaximumMember pdm:PerimeterCenterWest1155Member 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:CrescentRidgeIiMember 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:The5WallStreetBuildingMember 2018-01-01 2018-12-31 0001042776 pdm:OneWaysideRoadMember 2018-12-31 0001042776 srt:MaximumMember pdm:ParkPlaceonTurtleCreekMember 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:Galleria300Member 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:OneLincolnParkMember 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:ENCLAVEPLACEMember 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:ConnectionDrive6021Member 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:UsBancorpCenterMember 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:OneWaysideRoadMember 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:MassachusettsAvenue1414Member 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:WESTMONROESTREET500Member 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:BridgewaterCrossing400Member 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:WaysideRoad5And15Member 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:ArlingtonGatewayMember 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:ConnectionDrive6011Member 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:A25BurlingtonMallRoadMember 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:WESTMONROESTREET500Member 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:CentralStreet90Member 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:OneBrattleSquareMember 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:MediciMember 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:GLENRIDGEHIGHLANDSONEMember 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:LasColinasCorporateCenterIMember 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:Townpark400Member 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:A25BurlingtonMallRoadMember 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:Townpark400Member 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:EyeStreet1225Member 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:MassachusettsAvenue1414Member 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:CentralStreet80Member 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:EyeStreet1201Member 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:A750WestJohnCarpenterFreewayMember 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:MarketStreet1901Member 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:DupreeMember 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:GlenridgeHighlandsTwoMember 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:OneWaysideRoadMember 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:ConnectionDrive6011Member 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:ConnectionDrive6031Member 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:ClarendonBoulevard3100Member 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:EnclaveParkway1430Member 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:BroadStreet60Member 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:EyeStreet1225Member 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:BroadStreet60Member 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:CentralStreet80Member 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:WestChurchStreet501Member 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:A9320ExcelsiorBoulevardMember 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:MediciMember 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:VirginiaAve400Member 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:Galleria200BuildingMember 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:Galleria200BuildingMember 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:TwoPiercePlaceMember 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:WaysideRoad5And15Member 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:CrescentRidgeIiMember 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:PresidentialWay235Member 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:A9320ExcelsiorBoulevardMember 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:A750WestJohnCarpenterFreewayMember 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:OneMeridianCrossingsMember 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:ConnectionDrive6021Member 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:BridgewaterCrossing400Member 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:A500TownParkBuildingMember 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:PiedmontPowerLlcMember 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:BridgewaterCrossing200Member 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:CNLCENTERIIMember 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:OneMeridianCrossingsMember 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:PerimeterCenterWest1155Member 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:ParkPlaceonTurtleCreekMember 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:OneLincolnParkMember 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:WestChurchStreet501Member 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:NormanPointeIMember 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:PiedmontPowerLlcMember 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:PresidentialWay235Member 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:ArlingtonGatewayMember 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:CNLCENTERIMember 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:CNLCENTERIIMember 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:Galleria300Member 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:SixFiveSixFiveMacArthurBlvdMember 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:GlenridgeHighlandsTwoMember 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:CorporateDrive600Member 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:VirginiaAve400Member 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:A500TownParkBuildingMember 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:SunTrustCenterMember 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:EnclaveParkway1430Member 2018-01-01 2018-12-31 0001042776 srt:MaximumMember pdm:DupreeMember 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:NorthFairfaxDrive4250Member 2018-01-01 2018-12-31 0001042776 srt:MinimumMember pdm:GLENRIDGEHIGHLANDSONEMember 2018-01-01 2018-12-31 pdm:segment iso4217:USD xbrli:shares pdm:contract pdm:property xbrli:pure iso4217:USD pdm:vote pdm:subsidiary xbrli:shares pdm:category pdm:period pdm:Joint_Venture pdm:market pdm:building utreg:sqft

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

FORM 10-K

(Mark One)

x **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2018

or

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from to _______________ to _______________

Commission file number 001-34626

PIEDMONT OFFICE REALTY TRUST, INC.
(Exact name of registrant as specified in its charter)

Maryland	**58-2328421**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
5565 Glenridge Connector Ste. 450, Atlanta, Georgia	**30342**
(Address of principal executive offices)	**(Zip Code)**

(770) 418-8800
(Registrant’s telephone number, including area code)

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

Title of each class	**Name of exchange on which registered**
COMMON STOCK	**NEW YORK STOCK EXCHANGE**

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

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

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 o No x

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 x No o

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 x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o Emerging growth company o

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. o

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

As of June 29, 2018, the aggregate market value of the common stock of Piedmont Office Realty Trust, Inc., held by non-affiliates was

$2,531,552,680 based on the closing price as reported on the New York Stock Exchange. As of February 19, 2019, 125,595,994 shares of common stock were outstanding.

Documents Incorporated by Reference:

Registrant incorporates by reference portions of the Piedmont Office Realty Trust, Inc. Definitive Proxy Statement for the 2019 Annual Meeting of Stockholders (Items 10, 11, 12, 13, and 14 of Part III) to be filed no later than April 30, 2019.

Table of Contents
Index to Financial Statements

FORM 10-K
PIEDMONT OFFICE REALTY TRUST, INC.
TABLE OF CONTENTS

Table of Contents
Index to Financial Statements

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Form 10-K may constitute forward-looking statements within the meaning of the federal securities laws. In addition, Piedmont Office Realty Trust, Inc. ("Piedmont," "we," "our," or "us"), or its executive officers on Piedmont's behalf, may from time to time make forward-looking statements in reports and other documents Piedmont files with the Securities and Exchange Commission or in connection with other written or oral statements made to the press, potential investors, or others. Statements regarding future events and developments and Piedmont's future performance, as well as management's expectations, beliefs, plans, estimates, or projections relating to the future, are forward-looking statements. Forward-looking statements include statements preceded by, followed by, or that include the words "may," "will," "expect," "intend," "anticipate," "estimate," "believe," "continue," or other similar Examples of such statements in this report include descriptions of our real estate, financings, and operating objectives; discussions regarding future dividends and share repurchases; and discussions regarding the potential impact of economic conditions on our real estate and lease portfolio.

These statements are based on beliefs and assumptions of Piedmont's management, which in turn are based on information available at the time the statements are made. Important assumptions relating to the forward-looking statements include, among others, assumptions regarding the demand for office space in the markets in which Piedmont operates, competitive conditions, and general economic conditions. These assumptions could prove inaccurate. The forward-looking statements also involve risks and uncertainties, which could cause actual results to differ materially from those contained in any forward-looking statement. Many of these factors are beyond Piedmont's ability to control or predict. Such factors include, but are not limited to, the following:

- Economic, regulatory, socio-economic changes, and/or technology changes (including accounting standards) that impact the real estate market generally, or that could affect patterns of use of commercial office space;
- The impact of competition on our efforts to renew existing leases or re-let space on terms similar to existing leases;
- Changes in the economies and other conditions affecting the office sector in general and specifically the eight markets in which we primarily operate where we have high concentrations of our Annualized Lease Revenue (see definition in Item 1. Business of this Annual Report on Form 10-K);
- Lease terminations, lease defaults, or changes in the financial condition of our tenants, particularly by one of our large lead tenants;
- Adverse market and economic conditions, including any resulting impairment charges on both our long-lived assets or goodwill resulting therefrom;
- The success of our real estate strategies and investment objectives, including our ability to identify and consummate suitable acquisitions and divestitures;
- The illiquidity of real estate investments, including regulatory restrictions to which REITs are subject and the resulting impediment on our ability to quickly respond to adverse changes in the performance of our properties;
- The risks and uncertainties associated with our acquisition and disposition of properties, many of which risks and uncertainties may not be known at the time of acquisition or disposition;
- Development and construction delays and resultant increased costs and risks;
- Our real estate development strategies may not be successful;
- Future acts of terrorism in any of the major metropolitan areas in which we own properties, or future cybersecurity attacks against us or any of our tenants;
- Costs of complying with governmental laws and regulations;
- Additional risks and costs associated with directly managing properties occupied by government tenants, including an increased risk of default by government tenants during periods in which state or federal governments are shut down or on furlough;
- Significant price and volume fluctuations in the public markets, including on the exchange which we listed our common stock;
-

Changes in the method pursuant to which the LIBOR rates are determined and the potential phasing out of LIBOR after 2021:

- The effect of future offerings of debt or equity securities or changes in market interest rates on the value of our common stock;
- Uncertainties associated with environmental and other regulatory matters;
- Potential changes in political environment and reduction in federal and/or state funding of our governmental tenants;
- Changes in the financial condition of our tenants directly or indirectly resulting from geopolitical developments that could negatively affect international trade, including the United Kingdom's referendum to withdraw from the European Union, the termination or threatened termination of existing international trade agreements, or the implementation of tariffs or retaliatory tariffs on imported or exported goods;
- The effect of any litigation to which we are, or may become, subject;

1

Table of Contents
Index to Financial Statements

- Changes in tax laws impacting real estate investment trusts ("REITs") and real estate in general, as well as our ability to continue to qualify as a REIT under the Internal Revenue Code of 1986 (the “Code”) or otherwise adversely affect our stockholders;
- The future effectiveness of our internal controls and procedures; and
- Other factors, including the risk factors discussed under Item 1A. of this Annual Report on Form 10-K.

Management believes these forward-looking statements are reasonable; however, undue reliance should not be placed on any forward-looking statements, which are based on current expectations. Further, forward-looking statements speak only as of the date they are made, and management undertakes no obligation to update publicly any of them in light of new information or future events.

Table of Contents
Index to Financial Statements

PART I

ITEM 1. BUSINESS

General

Piedmont Office Realty Trust, Inc. (“Piedmont," "we," "our," or "us") (NYSE: PDM) is a Maryland corporation that operates in a manner so as to qualify as a real estate investment trust (“REIT”) for federal income tax purposes and engages in the acquisition, development, management, and ownership of commercial real estate properties located primarily in the Eastern-half of the United States, including properties that are under construction, are newly constructed, or have operating histories. Piedmont was incorporated in 1997 and commenced operations in 1998. Piedmont conducts business primarily through Piedmont Operating Partnership, L.P. (“Piedmont OP”), a Delaware limited partnership, as well as performing the management of our buildings through two wholly-owned subsidiaries, Piedmont Government Services, LLC and Piedmont Office Management, LLC. Piedmont owns 99.9% of, and is the sole general partner of, Piedmont OP and as such, possesses full legal control and authority over the operations of Piedmont OP. The remaining 0.1% ownership interest of Piedmont OP is held indirectly by Piedmont through our wholly-owned subsidiary, Piedmont Office Holdings, Inc. ("POH"), the sole limited partner of Piedmont OP. Piedmont OP owns properties directly, through wholly-owned subsidiaries, and through various joint ventures which we control. References to Piedmont herein shall include Piedmont and all of its subsidiaries, including Piedmont OP and its subsidiaries and joint ventures.

Operating Objectives and Strategy

As of December 31, 2018, we owned and operated 54 in-service office properties comprised of approximately 16.2 million square feet of primarily Class A office space which was 93.3% leased. Collectively, 92% of our Annualized Lease Revenue (see definition below) is generated from select sub-markets located within eight major office markets located in the Eastern-half of the United States: Atlanta, Boston, Chicago, Dallas, Minneapolis, New York, Orlando, and Washington, D.C. As we typically lease to larger, credit-worthy corporate tenants, our average lease size is approximately 19,000 square feet with an average lease term remaining of approximately seven years. Our diversified tenant base is primarily comprised of investment grade or nationally recognized corporations or governmental agencies, with the majority of our Annualized Lease Revenue derived from such tenants. No tenant accounts for more than 5.1% of our Annualized Lease Revenue.

Headquartered in Atlanta, Georgia, with regional and/or local management offices in each of our eight major markets, Piedmont values operational excellence and is a leading participant among REITs based on the number of buildings owned and managed with Building Owners and Managers Association ("BOMA") 360 designations. BOMA 360 is a program that evaluates six major areas of building operations and management and benchmarks a building's performance against industry standards. The achievement of such a designation recognizes excellence in building operations and management. We also have focused on environmental sustainability initiatives at our properties, and approximately 80% of our office portfolio (based on square footage) has achieved and maintains "Energy Star" efficiency (a designation for the top 25% of commercial buildings in energy consumption efficiency). In addition to operational excellence, we focus on fostering long-term relationships with our high-credit quality, diverse tenant base as evidenced by our approximately 69% tenant retention rate over the past ten years.

Our primary objectives are to maximize the risk-adjusted return to our stockholders by increasing cash flow from operations, by achieving sustainable growth in Funds From Operations, and by growing net asset value by realizing long-term capital appreciation. We manage risk by owning almost exclusively Class A, geographically diverse office properties which are among the most desirable in their respective office sub-markets. In addition to the creditworthiness of our tenants, we strive to ensure our tenants represent a broad spectrum of industry types with lease expirations that are laddered over many years. Operationally, we maintain a low leverage structure, utilizing primarily unsecured financing facilities with laddered maturities. We utilize a national buying platform of property management support services to ensure optimal pricing for landlord and tenant services, as well as to implement best practices and achieve sustainability standards. The strategies we intend to execute to achieve these objectives include:

Capitalizing on Acquisition/Investment Opportunities

Our overall acquisition/investment strategy focuses on properties within eight major office markets located primarily in the Eastern-half of the United States that were identified based on their positive economic and demographic growth trends so as to position our investments for long-term appreciation. In addition, we concentrate our portfolio in select sub-markets where efficiencies can be gained and our market expertize can be maximized. We believe these sub-markets are generally characterized by their strong amenity base, desired location for large corporate users, above-average job and rental rate growth, proximity to robust housing options, market-leading transportation infrastructure, and limited competitive REIT ownership. Both our acquisition and development activities are targeted towards attractively priced, high quality, Class A office properties that complement our existing portfolio.

Proactive Asset Management, Leasing Capabilities and Property Management

Our proactive approach to asset and property management encompasses a number of operating initiatives designed to maximize occupancy and rental rates, including the following: devoting significant resources to building and cultivating our relationships with commercial real estate executives; maintaining local management offices in markets in which we have a significant presence; demonstrating our commitment to our tenants by maintaining the high quality of our properties; and driving a significant volume of leasing transactions in a manner that provides optimal returns by using creative approaches, including early extensions, lease wrap-arounds and restructurings. We manage portfolio risk by structuring lease expirations to avoid, among other things, having multiple leases expire in the same market in a relatively short period of time; applying our leasing and operational expertise in meeting the specialized requirements of federal, state and local government agencies to attract and retain these types of tenants; evaluating potential tenants based on third party and internal assessments of creditworthiness; and using our purchasing power and market knowledge to reduce our operating costs and those of our tenants.

Recycling Capital Efficiently

We use our proven, disciplined capital recycling capabilities to maximize total return to our stockholders by selectively disposing of non-core assets and assets in which we believe full valuations have been achieved, and redeploying the proceeds of those dispositions into new investment opportunities with higher overall return prospects.

Financing Strategy

We employ a conservative leverage strategy by typically maintaining a debt-to-gross assets ratio of between 30% - 40%. To effectively manage our long-term leverage strategy, we continue to analyze various sources of debt capital to prudently ladder debt maturities and to determine which sources will be the most beneficial to our investment strategy at any particular point in time.

Use of Joint Ventures to Improve Returns and Mitigate Risk

We may selectively enter into strategic joint ventures with third parties to acquire, develop, improve or dispose of properties, thereby potentially reducing the amount of capital required by us to make investments, diversifying our sources of capital, enabling us to creatively acquire and control targeted properties, and allowing us to reduce our investment concentration in certain properties and/or markets without disrupting our operating performance or local operating capabilities.

Redevelopment and Repositioning of Properties

As circumstances warrant, we may redevelop or reposition properties within our portfolio, including the creation of additional amenities for our tenants to increase both occupancy and rental rates and thereby improve returns on our invested capital.

Information Regarding Disclosures Presented

Annualized Lease Revenue ("ALR"), a non-GAAP measure, is calculated by multiplying (i) rental payments (defined as base rent plus operating expense reimbursements, if payable by the tenant on a monthly basis under the terms of a lease that has been executed, but excluding (a) rental abatements and (b) rental payments related to executed but not commenced leases for space that was covered by an existing lease), by (ii) 12. In instances in which contractual rents or operating expense reimbursements are collected on an annual, semi-annual, or quarterly basis, such amounts are multiplied by a factor of 1, 2, or 4, respectively, to calculate the annualized figure. For leases that have been executed but not commenced relating to un-leased space, ALR is calculated by multiplying (i) the monthly base rental payment (excluding abatements) plus any operating expense reimbursements for the initial month of the lease term, by (ii) 12. Unless stated otherwise, this measure excludes revenues associated with development/re-development properties, if any.

Employees

As of December 31, 2018, we had 134 employees, with 49 of our employees working in our corporate office located in Atlanta, Georgia. Our remaining employees work in regional and/or local management offices located in our eight major markets. These employees are involved in acquiring, developing, leasing, and managing our portfolio of properties. We outsource various functions where cost efficiencies can be achieved, such as certain areas of information technology, construction, building engineering, and leasing.

Competition

We compete for tenants for our high-quality assets in major U.S. markets by fostering strong tenant relationships and by providing quality customer service including; leasing, asset management, property management, and construction management services. As the competition for high-credit-quality tenants is intense, we may be required to provide rent abatements, incur charges for tenant improvements and other concessions, or we may not be able to lease vacant space timely, all of which may impact our results of operations. We also compete with other buyers who are interested in properties we elect to acquire, which may affect the amount that we are required to pay for such properties or may ultimately result in our decision not to acquire such properties. Further, we compete with sellers of similar properties when we sell properties, which may determine the amount of proceeds we receive from the disposal, or which may result in our inability to dispose of such properties due to the lack of an acceptable return.

Financial Information About Industry Segments

Our current business primarily consists of owning, managing, operating, leasing, acquiring, developing, investing in, and disposing of office real estate assets. We internally evaluate all of our real estate assets as one operating segment, and, accordingly, we do not report segment information.

Concentration of Credit Risk

We are dependent upon the ability of our current tenants to pay their contractual rent amounts as the rents become due. The inability of a tenant to pay future rental amounts would have a negative impact on our results of operations. As of December 31, 2018, no individual tenant represented more than 5.1% of our ALR.

Other Matters

We have contracts with various governmental agencies, exclusively in the form of operating leases in buildings we own. See Item 1A. Risk Factors for further discussion of the risks associated with these contracts.

Additionally, as the owner of real estate assets, we are subject to environmental risks. See Item 1A. Risk Factors for further discussion of the risks associated with environmental concerns.

Website Address

Access to copies of each of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, and other filings with the Securities and Exchange Commission (the "SEC"), including any amendments to such filings, may be obtained free of charge from the following website, http://www.piedmontreit.com, or directly from the SEC’s website at http://www.sec.gov. These filings are available promptly after we file them with, or furnish them to, the SEC.

ITEM 1A. RISK FACTORS

Risks Related to Our Business and Operations

Economic, regulatory, socio-economic and/or technology changes that impact the real estate market generally, or that could affect patterns of use of commercial office space, may cause our operating results to suffer and decrease the value of our real estate properties.

The investment returns available from equity investments in real estate depend on the amount of income earned and capital appreciation generated by the properties, as well as the expenses incurred in connection with the properties. If our properties do not generate income sufficient to meet operating expenses, including debt service and capital expenditures, then our ability to make distributions to our stockholders could be adversely affected. In addition, there are significant expenditures associated with an investment in real estate (such as mortgage payments, real estate taxes, and maintenance costs) that generally do not decline when circumstances reduce the income from the property. The following factors, among others, may adversely affect the operating performance and long- or short-term value of our properties:

- changes in the national, regional, and local economic climate, particularly in markets in which we have a concentration of properties;
- local office market conditions such as employment rates and changes in the supply of, or demand for, space in properties similar to those that we own within a particular area;
- changes in the patterns of office or parking garage use due to technological advances which may make telecommuting more prevalent or reduce the demand for office workers or parking spaces generally;
- increased demand for "co-working" or sharing of office space with other companies;

Table of Contents
Index to Financial Statements

- increased supply of office space due to the conversion of other asset classes such as shopping malls and other retail establishments to office space;
- the attractiveness of our properties to potential tenants;
- changes in interest rates and availability of permanent mortgage funds that may render the sale of a property difficult or unattractive or otherwise reduce returns to stockholders;
- the financial stability of our tenants, including bankruptcies, financial difficulties, or lease defaults by our tenants;
- changes in operating costs and expenses, including costs for maintenance, insurance, and real estate taxes, and our ability to control rents in light of such changes;
- the need to periodically fund the costs to repair, renovate, and re-let space;
- earthquakes, tornadoes, hurricanes and other natural disasters, civil unrest, terrorist acts or acts of war, which may result in uninsured or under insured losses;
- changes in, or increased costs of compliance with, governmental regulations, including those governing usage, zoning, the environment, and taxes; and
- significant changes in accounting standards and tax laws.

In addition, periods of economic slowdown or recession, rising interest rates, or declining demand for real estate could result in a general decrease in rents or an increased occurrence of defaults under existing leases, which would adversely affect our financial condition and results of operations. Any of the above factors may prevent us from generating sufficient cash flow or maintaining the value of our real estate properties.

We face considerable competition in the leasing market and may be unable to renew existing leases or re-let space on terms similar to the existing leases, or we may expend significant capital in our efforts to re-let space.

Every year, we compete with a number of other developers, owners, and operators of office and office-oriented, mixed-use properties to renew leases with our existing tenants and to attract new tenants. The competition for credit worthy tenants is intense, and we may have difficulty competing, especially with competitors who have purchased properties at discounted prices allowing them to offer space at reduced rental rates, or those that have the ability to offer superior amenities. To the extent that we are able to renew leases that are scheduled to expire in the short-term or re-let such space to new tenants, this intense competition may require us to utilize rent concessions and tenant improvements to a greater extent than we have historically.

If our competitors offer office accommodations at rental rates below current market rates or below the rental rates we currently charge our tenants, we may lose potential tenants, and we may be pressured to reduce our rental rates below those we currently charge in order to retain tenants upon expiration of their existing leases. Even if our tenants renew their leases or we are able to re-let the space to new tenants, the terms and other costs of renewal or re-letting, including the cost of required renovations or additional amenities, increased tenant improvement allowances, leasing commissions, declining rental rates, and other potential concessions, may be less favorable than the terms of our current leases and could require significant capital expenditures. If we are unable to renew leases or re-let space in a reasonable time, or if rental rates decline or tenant improvement, leasing commissions, or other costs increase, our financial condition, cash flows, cash available for distribution, value of our common stock, and ability to satisfy our debt service obligations could be adversely affected.

Our rental revenues will be significantly influenced by the conditions of the office market in general and of the specific markets in which we operate.

Because our portfolio consists exclusively of office properties, we are subject to risks inherent in investments in a single property type. This concentration exposes us to the risk of economic downturns in the office sector to a greater extent than if our portfolio also included other sectors of the real estate industry. Further, our portfolio of properties is primarily located in eight major metropolitan areas: Atlanta, Boston, Chicago, Dallas, Minneapolis, New York, Orlando, and Washington, D.C. Collectively, these eight metropolitan areas account for 92% of our ALR from our portfolio of properties as of December 31, 2018. As a result, we are particularly susceptible to adverse market conditions in these particular cities, including any reduction in demand for office properties, industry slowdowns, governmental cut backs, relocation of businesses and changing demographics. Adverse economic or real estate developments in these markets, or in any of the other markets in which we operate, or any decrease in demand for office space resulting from the local or national government and business climates, could adversely affect our rental revenues and operating results.

We depend on tenants for our revenue, and accordingly, lease terminations and/or tenant defaults, particularly by one of our significant lead tenants, could adversely affect the income produced by our properties.

The success of our investments materially depends on the financial stability of our tenants, any of whom may experience a change in their business at any time. Many of our tenants may be adversely impacted by the specific consequences of, and the general market uncertainty associated with, geopolitical developments that could negatively affect international trade, including the United

Kingdom's referendum to withdraw from the European Union or by the recent rejection by the United Kingdom's House of Commons of the negotiated agreement that was to govern the United Kingdom's withdrawal, the termination or threatened termination of existing international trade agreements, or the implementation of tariffs or retaliatory tariffs on imported or exported goods. If any of our tenants experience or anticipate an adverse change in their respective businesses for any reason, they may delay lease commencements, decline to extend or renew their leases upon expiration, fail to make rental payments when due, or declare bankruptcy. Any of these actions could result in the termination of the tenants' leases, or expiration of existing leases without renewal, and the loss of rental income attributable to the terminated or expired leases. In the event of a tenant default or bankruptcy, we may experience delays in enforcing our rights as a landlord and may incur substantial costs in protecting our investment and re-letting our property. If significant leases are terminated or defaulted upon, we may be unable to lease the property for the rent previously received or to sell the property without incurring a loss. In addition, significant expenditures related to mortgage payments, real estate taxes, insurance, and maintenance costs are generally fixed or may not decrease immediately when revenues at the related property decrease.

The occurrence of any of the situations described above, particularly if it involves one of our significant lead tenants, could seriously harm our operating performance. As of December 31, 2018, our largest lead tenants, based on ALR, were: the State of New York (5.1% of ALR), US Bancorp (4.7% of ALR), Independence Blue Cross (3.7% of ALR), GE (3.4% of ALR), and U.S. Government (2.3% of ALR). The revenues generated by the properties that any of our lead tenants occupy are substantially dependent upon the financial condition of these tenants and, accordingly, any event of bankruptcy, insolvency, or a general downturn in the business of any of these tenants may result in the failure or delay of such tenant's rental payments, which may have a substantial adverse effect on our operating performance.

Some of our leases provide tenants with the right to terminate their leases early.

Certain of our leases permit our tenants to terminate their leases of all or a portion of the leased premises prior to their stated lease expiration dates under certain circumstances, such as providing notice by a certain date and, in many cases, paying a termination fee. In certain cases, such early terminations can be effectuated by our tenants with little or no termination fee being paid to us. To the extent that our tenants exercise early termination rights, our cash flow and earnings will be adversely affected, and we can provide no assurances that we will be able to generate an equivalent amount of net rental income by leasing the vacated space to new third party tenants.

We may face additional risks and costs associated with directly managing properties occupied by government tenants.

We currently own six properties in which some of the tenants in each property are federal government agencies. Lease agreements with these federal government agencies contain certain provisions required by federal law, which require, among other things, that the contractor (which is the lessor or the owner of the property) agree to comply with certain rules and regulations, including but not limited to, rules and regulations related to anti-kickback procedures, examination of records, audits and records, equal opportunity provisions, prohibitions against segregated facilities, certain executive orders, subcontractor costs or pricing data, and certain provisions intending to assist small businesses. Through one of our wholly-owned subsidiaries, we directly manage properties with federal government agency tenants and, therefore, we are subject to additional risks associated with compliance with all such federal rules and regulations. In addition, we face additional risks and costs associated with directly managing properties occupied by government tenants, including an increased risk of default by such tenants during periods in which state or federal governments are shut down or on furlough. There are certain additional requirements relating to the potential application of the Employment Standards Administration's Office of Federal Contract Compliance Programs and the related requirement to prepare written affirmative action plans applicable to government contractors and subcontractors. Some of the factors used to determine whether such requirements apply to a company that is affiliated with the actual government contractor (the legal entity that is the lessor under a lease with a federal government agency) include whether such company and the government contractor are under common ownership, have common management, and are under common control. One of our wholly-owned subsidiaries is considered a government contractor, increasing the risk that requirements of these equal opportunity provisions, including the requirement to prepare affirmative action plans, may be determined to be applicable to the entire operations of our company.

Adverse market and economic conditions may negatively affect us and could cause us to recognize impairment charges on tangible real estate and related lease intangible assets or otherwise impact our performance.

We continually monitor events and changes in circumstances that could indicate that the carrying value of the real estate and related lease intangible assets in which we have an ownership interest, either directly or through investments in joint ventures, may not be recoverable. When indicators of potential impairment are present which indicate that the carrying value of real estate and related lease intangible assets may not be recoverable, we assess the recoverability of these assets by determining whether the carrying value will be recovered through the undiscounted future operating cash flows expected from the use of the asset and its eventual disposition. In the event that such expected undiscounted future cash flows do not exceed the carrying value, we adjust the real estate and related lease intangible assets to their estimated fair value and recognize an impairment loss.

Projections of expected future cash flows require management to make assumptions to estimate future market rental income amounts subsequent to the expiration of current lease agreements, property operating expenses, the number of months it takes to re-lease the property, and the number of years the property is held for investment, among other factors. The subjectivity of assumptions used in the future cash flow analysis, including discount rates, could result in an incorrect assessment of the property's estimated fair value and, therefore, could result in the misstatement of the carrying value of our real estate and related lease intangible assets and our net income. In addition, adverse economic conditions could also cause us to recognize additional asset impairment charges in the future, which could materially and adversely affect our business, financial condition and results of operations.

Adverse market and economic conditions could cause us to recognize impairment charges on our goodwill, or otherwise impact our performance.

We review the value of our goodwill on an annual basis and when events or changes in circumstances indicate that the carrying value of goodwill may exceed the estimated fair value of such assets. Such interim events could be adverse changes in legal matters or in the business climate, adverse action or assessment by a regulator, the loss of key personnel, or persistent declines in our stock price below our carrying value. Volatility in the overall market could cause the price of our common stock to fluctuate and cause the carrying value of our company to exceed the estimated fair value. If that occurs, our goodwill potentially could be impaired. Impairment charges recognized in order to reduce our goodwill could materially and adversely affect our financial condition and results of operations.

Our earnings growth will partially depend upon future acquisitions of properties, and we may not be successful in identifying and consummating suitable acquisitions that meet our investment criteria.

Our business strategy involves the acquisition of primarily high-quality office properties in selected markets. These activities require us to identify suitable acquisition candidates or investment opportunities that meet our criteria and are compatible with our growth strategy. We may not be successful in identifying suitable properties or other assets that meet our acquisition criteria or in consummating acquisitions on satisfactory terms, if at all. Failure to identify or consummate acquisitions could slow our growth. Likewise, we may incur costs pursuing acquisitions that we are ultimately unsuccessful in completing.

Further, we face significant competition for attractive investment opportunities from a large number of other real estate investors, including investors with significant capital resources such as domestic and foreign corporations and financial institutions, publicly traded and privately held REITs, private institutional investment funds, investment banking firms, life insurance companies and pension funds. As a result of competition, we may be unable to acquire additional properties as we desire, the purchase price may be significantly elevated, or we may have to accept lease-up risk for a property with lower occupancy, any of which could adversely affect our financial condition, results of operations, cash flows and the ability to pay dividends on, and the market price of, our common stock.

The illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our properties.

Because real estate investments are relatively illiquid and large-scale office properties such as many of those in our portfolio are particularly illiquid, our ability to sell promptly one or more properties in our portfolio in response to changing economic, financial, and investment conditions is limited. The real estate market is affected by many forces, such as general economic conditions, availability of financing, interest rates, and other factors, including supply and demand, that are beyond our control. We cannot predict whether we will be able to sell any property for the price or on the terms set by us or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. We may be required to expend funds to correct defects or to make improvements before a property can be sold. We cannot provide any assurances that we will have funds available to correct such defects or to make such improvements. Our inability to dispose of assets at opportune times or on favorable terms could adversely affect our cash flows and results of operations, thereby limiting our ability to make distributions to stockholders.

Future acquisitions of properties may not yield anticipated returns, may result in disruptions to our business, and may strain management resources.

We intend to continue acquiring high-quality office properties, subject to the availability of attractive properties, to our ability to arrange financing, and to consummate acquisitions on satisfactory terms. In deciding whether to acquire a particular property, we make certain assumptions regarding the expected future performance of that property. However, newly acquired properties may fail to perform as expected. Costs necessary to bring acquired properties up to standards established for their intended market position may exceed our expectations, which may result in the properties' failure to achieve projected returns.

In particular, to the extent that we engage in acquisition activities, they will pose the following risks for our ongoing operations:

- we may acquire properties or other real estate-related investments that are not initially accretive to our results upon acquisition or accept lower cash flows in anticipation of longer term appreciation, and we may not successfully manage and lease those properties to meet our expectations;
- we may not achieve expected cost savings and operating efficiencies;
- we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations;
- management attention may be diverted to the integration of acquired properties, which in some cases may turn out to be less compatible with our operating strategy than originally anticipated;
- we may not be able to support the acquired property through one of our existing property management offices and may not successfully open new satellite offices to serve additional markets;
- the acquired properties may not perform as well as we anticipate due to various factors, including changes in macro-economic conditions and the demand for office space; and
- we may acquire properties without any recourse, or with only limited recourse, for liabilities, whether known or unknown, such as clean-up of environmental contamination, unknown/undisclosed latent structural issues or maintenance problems, claims by tenants, vendors or other persons against the former owners of the properties, and claims for indemnification by general partners, directors, officers, and others indemnified by the former owners of the properties.

Acquired properties may be located in new markets, where we may face risks associated with investing in an unfamiliar market.

We may acquire properties located in markets in which we do not have an established presence. We may face risks associated with a lack of market knowledge or understanding of the local economy, forging new business relationships in the area and unfamiliarity with local government and permitting procedures. As a result, the operating performance of properties acquired in new markets may be less than we anticipate, and we may have difficulty integrating such properties into our existing portfolio. In addition, the time and resources that may be required to obtain market knowledge and/or integrate such properties into our existing portfolio could divert our management’s attention from our existing business or other attractive opportunities.

We may seek to dispose of properties that no longer meet our strategic plans.

We may seek to dispose of properties that no longer meet our strategic plans with the intent to use the proceeds generated from such potential disposition to acquire additional properties better aligned with our investment criteria and growth strategy or to fund other operational needs. We may not be able to dispose of these properties for the proceeds we expect, or at all, and we may incur costs and divert management attention from our ongoing operations as part of efforts to dispose of these properties, regardless whether such efforts are ultimately successful. In addition, if we are able to dispose of those properties, we may not be able to re-deploy the proceeds in a timely or more efficient manner, if at all. As such, we may not be able to adequately time any decrease in revenues from the sale of properties with a corresponding increase in revenues associated with the acquisition of new properties. The failure to dispose of properties, or to timely and more efficiently apply the proceeds from any disposition of properties to attractive acquisition opportunities, could have an adverse effect on our results of operations and our ability to make distributions to our stockholders.

We may invest in mezzanine debt, which is subject to increased risk of loss relative to senior mortgage loans.

We may invest in mezzanine debt. These investments, which are subordinate to the mortgage loans secured by the real property underlying the loan, are generally secured by pledges of the equity interests of the entities owning the underlying real estate. As a result, these investments involve greater risk of loss than investments in senior mortgage loans that are secured by real property since they are subordinate to the mortgage loan secured by the building and may be subordinate to the interests of other mezzanine lenders. Therefore, if the property owner defaults on its debt service obligations payable to us or on debt senior to us, or declares bankruptcy, such mezzanine loans will be satisfied only after the senior debt and the other senior mezzanine loans are paid in full, resulting in the possibility that we may be unable to recover some or all of our investment. In addition, the value of the assets securing or supporting our mezzanine debt investments could deteriorate over time due to factors beyond our control, including acts or omissions by owners, changes in business, economic or market conditions, or foreclosure, any of which could result in the recognition of impairment losses. There may also be significant delays and costs associated with the process of foreclosing on the collateral securing or supporting such investments.

Our operating results may suffer because of potential development and construction delays and resultant increased costs and risks.

From time to time, we engage in various development and re-development projects where we may be subject to uncertainties associated with re-zoning, environmental concerns of governmental entities and/or community groups, and our builders' ability to build in conformity with plans, specifications, budgeted costs and timetables. A builder's performance may also be affected or delayed by conditions beyond the builder's control. Delays in completing construction could also give tenants the right to terminate preconstruction leases. We may incur additional risks when we make periodic progress payments or other advances to builders before they complete construction. Further, we may incur unanticipated additional costs related to disputes with existing tenants during redevelopment projects. These and other factors can result in increased costs of a project or loss of our investment. In addition, we will be subject to normal lease-up risks relating to newly constructed projects. Projects with long lead times may increase leasing risk due to changes in market conditions.

Our real estate development strategies may not be successful.

From time to time, we engage in various development and redevelopment activities to the extent attractive projects become available. When we engage in development activities, we are subject to risks associated with those activities that could adversely affect our financial condition, results of operations, cash flows and ability to pay distributions on, and the market price of, our common stock, including, but not limited to:

- development projects in which we have invested may be abandoned and the related investment will be impaired;
- we may not be able to obtain, or may experience delays in obtaining, all necessary zoning, land-use, building, occupancy and other governmental permits and authorizations;
- we may not be able to obtain land on which to develop;
- we may not be able to obtain financing for development projects, or obtain financing on favorable terms;
- construction costs of a project may exceed the original estimates or construction may not be concluded on schedule, making the project less profitable than originally estimated or not profitable at all (including the possibility of errors or omissions in the project's design, contract default, contractor or subcontractor default, performance bond surety default, the effects of local weather conditions, the possibility of local or national strikes and the possibility of shortages in materials, building supplies or energy and fuel for equipment);
- tenants which pre-lease space or contract with us for a build-to-suit project may default prior to occupying the project;
- upon completion of construction, we may not be able to obtain, or obtain on advantageous terms, permanent financing for activities that we financed through construction loans; and
- we may not achieve sufficient occupancy levels and/or obtain sufficient rents to ensure the profitability of a completed project.

Moreover, substantial renovation and development activities, regardless of their ultimate success, typically require a significant amount of management's time and attention, diverting their attention from our other operations.

Future terrorist attacks in the major metropolitan areas in which we own properties could significantly impact the demand for, and value of, our properties.

Our portfolio of properties is primarily located in eight major metropolitan areas: Atlanta, Boston, Chicago, Dallas, Minneapolis, New York, Orlando, and Washington, D.C., any of which could be, and some of which have been, the target of terrorist attacks. Future terrorist attacks and other acts of terrorism or war would severely impact the demand for, and value of, our properties. Terrorist attacks in and around any of the major metropolitan areas in which we own properties also could directly impact the value of our properties through damage, destruction, loss, or increased security costs, and could thereafter materially impact the availability or cost of insurance to protect against such acts. A decrease in demand could make it difficult to renew or re-lease our properties at lease rates equal to or above historical rates. To the extent that any future terrorist attacks otherwise disrupt our tenants' businesses, it may impair our tenants' ability to make timely payments under their existing leases with us, which would harm our operating results.

We face risks related to the occurrence of cyber incidents, or a deficiency in our cyber-security, which could negatively impact our business by causing a disruption to our operations, a compromise or corruption of our confidential information, and/or damage to our business relationships, all of which could negatively impact our financial results.

A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity, functionality, or availability of our information resources and systems. More specifically, a cyber incident is an intentional attack or an unintentional event that can include gaining unauthorized access to systems to disrupt building or corporate operations, corrupt data, or steal confidential information. While we have not experienced any material cyber incidents in the past, the risk of a security breach or disruption, particularly through cyber attacks or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. As our reliance on technology has increased, so have the risks posed to our systems, both internal and those we have outsourced. Risks that could directly result from the occurrence of a cyber incident include physical harm to occupants of our buildings, physical damage to our buildings, actual cash loss, operational interruption, damage to our relationship with our tenants, potential errors from misstated financial reports, violations of loan covenants, missed reporting deadlines, and private data exposure, among others. Any or all of the preceding risks could have a material adverse effect on our results of operations, financial condition and cash flows.

Insider or employee cyber and security threats are increasingly a concern for all companies, including ours. In addition, social engineering and phishing are a particular concern for companies with employees. We are continuously working to install new, and to upgrade our existing, network, building operating, and information technology systems and to provide employee awareness training around phishing, malware and other cyber risks to ensure that we are protected, to the greatest extent possible, against cyber risks and security breaches. However, such upgrades, new technology and training may not be sufficient to protect us from all risks.

We are continuously developing and enhancing our controls, processes, and practices designed to protect our systems, computers, software, data, and networks from attack, damage, or unauthorized access. This continued development and enhancement will require us to expend additional resources, including to investigate and remediate any information security vulnerabilities that may be detected. Although we make efforts to maintain the security and integrity of these types of information technology networks, building systems, and related systems, and we have implemented various measures to manage the risk of a security breach or disruption, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well protected information, networks, systems and facilities remain potentially vulnerable because the techniques used in such attempted security breaches evolve and generally are not recognized until launched against a target, and in some cases are designed to not be detected and, in fact, may not be detected. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is impossible for us to entirely mitigate this risk.

Further, one or more of our tenants could experience a cyber incident which could impact their operations and ability to perform under the terms of their lease with us. We are not aware of any of our tenants experiencing a cyber incident, and if any such cyber incident has occurred among our tenants, it has not given rise to a default under such tenant's lease with us.

Uninsured losses or losses in excess of our insurance coverage could adversely affect our financial condition and our cash flow, and there can be no assurance as to future costs and the scope of coverage that may be available under insurance policies.

We carry comprehensive general liability, fire, rental loss, environmental, cyber-security, and umbrella liability coverage on all of our properties and earthquake, wind, and flood coverage on properties in areas where such coverage is warranted. We believe the policy specifications and insured limits of these policies are adequate and appropriate given the relative risk of loss, the cost of the coverage, and industry practice. However, we may be subject to certain types of losses, those that are generally catastrophic in nature, such as losses due to wars, conventional or cyber terrorism, chemical, biological, nuclear and radiation ("CBNR") acts of terrorism and, in some cases, earthquakes, hurricanes, and flooding, either because such coverage is not available or is not available at commercially reasonable rates. If we experience a loss that is uninsured or that exceeds policy limits, we could lose a significant portion of the capital we have invested in the damaged property, as well as the anticipated future revenue from the property. Inflation, changes in building codes and ordinances, environmental considerations, and other factors also might make it impractical or undesirable to use insurance proceeds to replace a property after it has been damaged or destroyed. In addition, if the damaged properties are subject to recourse indebtedness, we would continue to be liable for the indebtedness, even if these properties were irreparably damaged. Furthermore, we may not be able to obtain adequate insurance coverage at reasonable costs in the future, as the costs associated with property and casualty renewals may be higher than anticipated.

In addition, insurance risks associated with potential terrorist acts could sharply increase the premiums we pay for coverage against property and casualty claims. Under the Terrorism Risk Insurance Act ("TRIA"), which is effective through 2020, United States insurers cannot exclude conventional (non-CBNR) terrorism losses. These insurers must make terrorism insurance available under their property and casualty insurance policies; however, this legislation does not regulate the pricing of such insurance. In some cases, mortgage lenders may insist that commercial property owners purchase coverage against terrorism as a condition of providing mortgage loans. Such insurance policies may not be available at a reasonable cost, which could inhibit our ability to finance or refinance our properties. In such instances, we may be required to provide other financial support, either through financial assurances or self-insurance, to cover potential losses. We may not have adequate coverage for such losses.

Table of Contents
Index to Financial Statements

Should one of our insurance carriers become insolvent, we would be adversely affected.

We carry several different lines of insurance, placed with several large insurance carriers. If any one of these large insurance carriers were to become insolvent, we would be forced to replace the existing insurance coverage with another suitable carrier, and any outstanding claims would be at risk for collection. In such an event, we cannot be certain that we would be able to replace the coverage at similar or otherwise favorable terms. Replacing insurance coverage at unfavorable rates and the potential of uncollectible claims due to carrier insolvency could adversely impact our results of operations and cash flows.

Our joint venture investments could be adversely affected by a lack of sole decision-making authority and our reliance on joint venture partners' financial condition.

From time to time we enter into strategic joint ventures with institutional investors to acquire, develop, improve, or dispose of properties, thereby reducing the amount of capital required by us to make investments and diversifying our capital sources for growth. Such joint venture investments involve risks not otherwise present in a wholly-owned property, development, or redevelopment project, including but not limited to the following:

- in these investments, we may not have exclusive control over the development, financing, leasing, management, and other aspects of the project, which may prevent us from taking actions that are opposed by our joint venture partners;
- joint venture agreements often restrict the transfer of a co-venturer's interest or may otherwise restrict our ability to sell the interest when we desire or on advantageous terms;
- we may not be in a position to exercise sole decision-making authority regarding the property or joint venture, which could create the potential risk of creating impasses on decisions, such as acquisitions or sales;
- such co-venturer may, at any time, have economic or business interests or goals that are, or that may become, inconsistent with our business interests or goals;
- such co-venturer may be in a position to take action contrary to our instructions, requests, policies or objectives, including our current policy with respect to maintaining our qualification as a REIT;
- the possibility that our co-venturer in an investment might become bankrupt, which would mean that we and any other remaining co-venturers would generally remain liable for the joint venture's liabilities;
- our relationships with our co-venturers are contractual in nature and may be terminated or dissolved under the terms of the applicable joint venture agreements and, in such event, we may not continue to own or operate the interests or assets underlying such relationship or may need to purchase such interests or assets at a premium to the market price to continue ownership;
- disputes between us and our co-venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and directors from focusing their time and efforts on our business and could result in subjecting the properties owned by the applicable joint venture to additional risk; or
- we may, in certain circumstances, be liable for the actions of our co-venturers, and the activities of a joint venture could adversely affect our ability to qualify as a REIT, even though we do not control the joint venture.

Any of the above might subject a property to liabilities in excess of those contemplated and thus reduce the returns to our investors.

Costs of complying with governmental laws and regulations may reduce our net income and the cash available for distributions to our stockholders.

All real property and the operations conducted on real property are subject to federal, state, and local laws and regulations relating to environmental protection and human health and safety. Tenants' ability to operate and to generate income to pay their lease obligations may be affected by permitting and compliance obligations arising under such laws and regulations. Some of these laws and regulations may impose joint and several liability on tenants, owners, or operators for the costs to investigate or remediate contaminated properties, regardless of fault or whether the acts causing the contamination were legal. In addition, the presence of hazardous substances, or the failure to properly remediate these substances, may hinder our ability to sell, rent, or pledge such property as collateral for future borrowings.

Compliance with new laws or regulations or stricter interpretation of existing laws by agencies or the courts may require us to incur material expenditures or may impose additional liabilities on us, including environmental liabilities. In addition, there are various local, state, and federal fire, health, life-safety, and similar regulations with which we may be required to comply, and which may subject us to liability in the form of fines or damages for noncompliance. Any material expenditures, liabilities, fines, or damages we must pay will reduce our cash flows and ability to make distributions and may reduce the value of our stockholders’ investment.

As the present or former owner or operator of real property, we could become subject to liability for environmental contamination, regardless of whether we caused such contamination.

Under various federal, state, and local environmental laws, ordinances, and regulations, a current or former owner or operator of real property may be liable for the cost to remove or remediate hazardous or toxic substances, wastes, or petroleum products on, under, from, or in such property. These costs could be substantial and liability under these laws may attach whether or not the owner or operator knew of, or was responsible for, the presence of such contamination. As a result our tenants' operations, the existing condition of land when we buy it, operations in the vicinity of our properties such as the presence of underground storage tanks or activities of unrelated third parties may affect our properties. Even if more than one party may have been responsible for the contamination, each liable party may be held entirely responsible for all of the clean-up costs incurred. In addition, third parties may sue the owner or operator of a property for damages based on personal injury, natural resources, or property damage and/or for other costs, including investigation and clean-up costs, resulting from the environmental contamination. The presence of contamination on one of our properties, or the failure to properly remediate a contaminated property, could give rise to a lien in favor of the government for costs it may incur to address the contamination, or otherwise adversely affect our ability to sell or lease the property or borrow using the property as collateral. In addition, if contamination is discovered on our properties, environmental laws may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require substantial expenditures or prevent us from entering into leases with prospective tenants.

Some of our properties are adjacent to or near other properties that have contained or currently contain underground storage tanks used to store petroleum products or other hazardous or toxic substances. In addition, certain of our properties are on, adjacent to, or near sites upon which others, including former owners or tenants of our properties, have engaged, or may in the future engage, in activities that have released or may have released petroleum products or other hazardous or toxic substances.

The cost of defending against claims of liability, of remediating any contaminated property, or of paying personal injury claims could reduce the amounts available for distribution to our stockholders.

As the owner of real property, we could become subject to liability for adverse environmental conditions in the buildings on our property.

Some of our properties have building materials that contain asbestos. Environmental laws require that owners or operators of buildings containing asbestos properly manage and maintain the asbestos, adequately inform or train those who may come into contact with asbestos, and undertake special precautions, including removal or other abatement, in the event that asbestos is disturbed during building renovation or demolition. These laws may impose fines and penalties on building owners or operators who fail to comply with these requirements. In addition, environmental laws and the common law may allow third parties to seek recovery from owners or operators for personal injury associated with exposure to asbestos.

The properties also may contain or develop harmful mold or suffer from other air quality issues. Any of these materials or conditions could result in liability for personal injury and costs of remediating adverse conditions, which could have an adverse effect on our cash flows and ability to make distributions to our stockholders.

As the owner of real property, we could become subject to liability for a tenant's failure to comply with environmental requirements regarding the handling and disposal of regulated substances and wastes or for non-compliance with health and safety requirements, which requirements are subject to change.

Some of our tenants may handle regulated substances and wastes as part of their operations at our properties. Environmental laws regulate the handling, use, and disposal of these materials and subject our tenants, and potentially us, to liability resulting from non-compliance with these requirements. The properties in our portfolio also are subject to various federal, state, and local health and safety requirements, such as state and local fire requirements. If we or our tenants fail to comply with these various requirements, we might incur governmental fines or private damage awards. Moreover, we do not know whether or the extent to which existing requirements or their enforcement will change or whether future requirements will require us to make significant unanticipated expenditures, either of which could materially and adversely impact our financial condition, results of operations, cash flows, cash available for distribution to stockholders, the market price of our common stock, and our ability to satisfy our debt service obligations. If our tenants become subject to liability for noncompliance, it could affect their ability to make rental payments to us.

We depend on key personnel, each of whom would be difficult to replace.

Our continued success depends to a significant degree upon the continued contributions of certain key personnel, each of whom would be difficult to replace. Our ability to retain our management team, or to attract suitable replacements should any member of the management team leave, is dependent on the competitive nature of the employment market. The loss of services of one or more key members of our management team could adversely affect our results of operations and slow our future growth. While we have planned for the succession of each of the key members of our management team, our succession plans may not effectively prevent any adverse effects from the loss of any member of our management team. We have not obtained and do not expect to obtain “key person” life insurance on any of our key personnel.

We may be subject to litigation, which could have a material adverse effect on our financial condition.

From time to time, we may be subject to legal action arising in the ordinary course of our business or otherwise. Such action could result in additional expenses which, if uninsured, could adversely impact our earnings and cash flows, thereby impacting our ability to service our debt and make quarterly distributions to our stockholders. There can be no assurance that our insurance policies will fully cover any payments or legal costs associated with any potential legal action. Further, the ultimate resolution of such action could impact the availability or cost of some of our insurance coverage, which could adversely impact our results of operations and cash flows, expose us to increased risks that would be uninsured, and/or adversely impact our ability to attract officers and directors.

If our disclosure controls or internal controls over financial reporting are not effective, investors could lose confidence in our reported financial information.

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. Although management will continue to review the effectiveness of our disclosure controls and procedures and our internal control over financial reporting, there can be no guarantee that these processes will be effective in accomplishing all control objectives all of the time. Deficiencies, including any material weakness, in our internal control over financial reporting which may occur in the future could result in misstatements of our results of operations, restatements of our financial statements, a decline in the trading price of our common stock, or otherwise materially adversely affect our business, reputation, results of operations, financial condition, or liquidity.

Compliance or failure to comply with the Americans with Disabilities Act and other similar regulations could result in substantial costs.

Under the Americans with Disabilities Act, places of public accommodation must meet certain federal requirements related to access and use by disabled persons. Noncompliance could result in the imposition of fines by the federal government or the award of damages to private litigants. If we are required to make unanticipated expenditures to comply with the Americans with Disabilities Act, including removing access barriers, then our cash flows and the amounts available for distributions to our stockholders may be adversely affected. Although we believe that our properties are currently in material compliance with these regulatory requirements, we have not conducted an audit or investigation of all of our properties to determine our compliance, and we cannot predict the ultimate cost of compliance with the Americans with Disabilities Act or other legislation. If one or more of our properties is not in compliance with the Americans with Disabilities Act or other legislation, then we would be required to incur additional costs to achieve compliance. If we incur substantial costs to comply with the Americans with Disabilities Act or other legislation, our financial condition, results of operations, the market price of our common stock, cash flows, and our ability to satisfy our debt obligations and to make distributions to our stockholders could be adversely affected.

Risks Related to Our Organization and Structure

Our organizational documents contain provisions that may have an anti-takeover effect, which may discourage third parties from conducting a tender offer or seeking other change of control transactions that could involve a premium price for our common stock or otherwise benefit our stockholders.

Our charter and bylaws contain provisions that may have the effect of delaying, deferring, or preventing a change in control of our company (including an extraordinary transaction such as a merger, tender offer, or sale of all or substantially all of our assets) that might provide a premium price for our common stock or otherwise be in the best interest of our stockholders. These provisions include, among other things, restrictions on the ownership and transfer of our stock, advance notice requirements for stockholder nominations for directors and other business proposals, and our board of directors' power to classify or reclassify unissued shares of common or preferred stock and issue additional shares of common or preferred stock.

In order to preserve our REIT status, our charter limits the number of shares a person may own, which may discourage a takeover that could result in a premium price for our common stock or otherwise benefit our stockholders.

Our charter, with certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT for federal income tax purposes. Unless exempted by our board of directors, no person may actually or constructively own more than 9.8% (by value or number of shares, whichever is more restrictive) of the outstanding shares of our common stock or the outstanding shares of any class or series of our preferred stock, which may inhibit large investors from desiring to purchase our stock. This restriction may have the effect of delaying, deferring, or preventing a change in control, including an extraordinary transaction (such as a merger, tender offer, or sale of all or substantially all of our assets) that might provide a premium price for our common stock or otherwise be in the best interest of our stockholders.

Our board of directors can take many actions without stockholder approval.

Our board of directors has overall authority to oversee our operations and determine our major corporate policies. This authority includes significant flexibility. For example, our board of directors can do the following:

- within the limits provided in our charter, prevent the ownership, transfer, and/or accumulation of stock in order to protect our status as a REIT or for any other reason deemed to be in our best interest and the interest of our stockholders;
- issue additional shares of stock without obtaining stockholder approval, which could dilute the ownership of our then-current stockholders;
- amend our charter to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue, without obtaining stockholder approval;
- classify or reclassify any unissued shares of our common or preferred stock and set the preferences, rights and other terms of such classified or reclassified shares, without obtaining stockholder approval;
- employ and compensate affiliates;
- direct our resources toward investments, which ultimately may not appreciate over time;
- change creditworthiness standards with respect to our tenants;
- change our investment or borrowing policies;
- determine that it is no longer in our best interest to attempt to qualify, or to continue to qualify, as a REIT; and
- suspend, modify or terminate the dividend reinvestment plan.

Any of these actions could increase our operating expenses, impact our ability to make distributions, or reduce the value of our assets without giving our stockholders the right to vote.

Our charter permits our board of directors to issue stock with terms that may subordinate the rights of our common stockholders, which may discourage a third party from acquiring us in a manner that could result in a premium price for our common stock or otherwise benefit our stockholders.

Our board of directors may, without stockholder approval, issue authorized but unissued shares of our common or preferred stock and amend our charter to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue. In addition, our board of directors may, without stockholder approval, classify or reclassify any unissued shares of our common or preferred stock and set the preferences, rights and other terms of such classified or reclassified shares. Thus, our board of directors could authorize the issuance of preferred stock with terms and conditions that could have priority with respect to distributions and amounts payable upon liquidation over the rights of the holders of our common stock. Such preferred stock also could have the effect of delaying, deferring, or preventing a change in control, including an extraordinary transaction (such as a merger, tender offer, or sale of all or substantially all of our assets) that might provide a premium price for our common stock, or otherwise be in the best interest of our stockholders.

Our board of directors could elect for us to be subject to certain Maryland law limitations on changes in control that could have the effect of preventing transactions in the best interest of our stockholders.

Certain provisions of Maryland law may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change of control under certain circumstances that otherwise could provide the holders of shares of our common stock with the opportunity to realize a premium over the then-prevailing market price of such shares, including:

- "business combination" provisions that, subject to limitations, prohibit certain business combinations between us and an "interested stockholder" (defined generally as any person who beneficially owns 10% or more of the voting power of our outstanding voting stock or any affiliate or associate of ours who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of our then outstanding stock) or an

Table of Contents
Index to Financial Statements

affiliate thereof for five years after the most recent date on which the stockholder becomes an interested stockholder and thereafter impose supermajority voting requirements on these combinations; and

- "control share" provisions that provide that "control shares" of our company (defined as shares which, when aggregated with other shares controlled by the stockholder, except solely by virtue of a revocable proxy, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a "control share acquisition" (defined as the direct or indirect acquisition of ownership or control of "control shares") have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

Our bylaws contain a provision exempting any acquisition by any person of shares of our stock from the control share acquisition statute, and our board of directors has adopted a resolution exempting any business combination with any person from the business combination statute. As a result, these provisions currently will not apply to a business combination or control share acquisition involving our company. However, our board of directors may opt into the business combination provisions and the control share provisions of Maryland law in the future.

Our charter, our bylaws, the limited partnership agreement of our operating partnership, and Maryland law also contain other provisions that may delay, defer, or prevent a transaction or a change of control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders. In addition, the employment agreements with certain of our executive officers contain, and grants under our incentive plan also may contain, change-in-control provisions that might similarly have an anti-takeover effect, inhibit a change of our management, or inhibit in certain circumstances tender offers for our common stock or proxy contests to change our board.

Our rights and the rights of our stockholders to recover claims against our directors and officers are limited, which could reduce our recovery and our stockholders' recovery against them if they negligently cause us to incur losses.

Maryland law provides that a director or officer has no liability in that capacity if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interest and with the care that an ordinarily prudent person in a like position would use under similar circumstances. Our charter eliminates our directors' and officers' liability to us and our stockholders for money damages except for liability resulting from actual receipt of an improper benefit or profit in money, property, or services or active and deliberate dishonesty established by a final judgment and which is material to the cause of action. Our charter and bylaws require us to indemnify our directors and officers to the maximum extent permitted by Maryland law for any claim or liability to which they may become subject or which they may incur by reason of their service as directors or officers, except to the extent that the act or omission of the director or officer was material to the matter giving rise to the proceeding and was committed in bad faith or was the result of active and deliberate dishonesty, the director or officer actually received an improper personal benefit in money, property, or services, or, in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist under common law, which could reduce our and our stockholders' recovery from these persons if they act in a negligent manner. In addition, we may be obligated to fund the defense costs incurred by our directors and officers (as well as by our employees and agents) in some cases.

Risks Related to Our Common Stock

Any change in our dividend policy could have a material adverse effect on the market price of our common stock.

Distributions are authorized and determined by our board of directors in its sole discretion and depend upon a number of factors, including:

- cash available for distribution;
- our results of operations and anticipated future results of operations;
- our financial condition, especially in relation to our anticipated future capital needs of our properties;
- the level of reserves we establish for future capital expenditures;
- the distribution requirements for REITs under the Code;
- the level of distributions paid by comparable listed REITs;
- our operating expenses; and
- other factors our board of directors deems relevant.

We expect to continue to pay quarterly distributions to our stockholders; however, we bear all expenses incurred by our operations, and our funds generated by operations, after deducting these expenses, may not be sufficient to cover desired levels of distributions to our stockholders. Any change in our distribution policy could have a material adverse effect on the market price of our common stock.

There are significant price and volume fluctuations in the public markets, including on the exchange which we listed our common stock.

The U.S. stock markets, including the NYSE on which our common stock is listed, have historically experienced significant price and volume fluctuations. The market price of our common stock may be highly volatile and could be subject to wide fluctuations and investors in our common stock may experience a decrease in the value of their shares, including decreases unrelated to our operating performance or prospects. If the market price of our common stock declines significantly, stockholders may be unable to resell their shares at or above their purchase price. We cannot assure stockholders that the market price of our common stock will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect our stock price or result in fluctuations in the price or trading volume of our common stock include, but are not limited to, the following:

- actual or anticipated variations in our quarterly operating results;
- changes in our earnings estimates or publication of research reports about us or the real estate industry, although no assurance can be given that any research reports about us will be published or the accuracy of such reports;
- changes in our dividend policy;
- future sales of substantial amounts of our common stock by our existing or future stockholders;
- increases in market interest rates, which may lead purchasers of our stock to demand a higher yield;
- changes in market valuations of similar companies;
- adverse market reaction to any increased indebtedness we incur in the future;
- additions or departures of key personnel;
- actions by institutional stockholders;
- material, adverse litigation judgments;
- speculation in the press or investment community; and
- general market and economic conditions.

Future offerings of debt securities, which would be senior to our common stock upon liquidation, or equity securities, which would dilute our existing stockholders and may be senior to our common stock for the purposes of distributions, may adversely affect the market price of our common stock.

We may attempt to increase our capital resources by making additional offerings of debt or equity securities, including medium term notes, senior or subordinated notes and classes of preferred or common stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our common stock or both. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our common stock and diluting their proportionate ownership.

Market interest rates may have an effect on the value of our common stock.

One of the factors that investors may consider in deciding whether to buy or sell our common stock is our distribution rate as a percentage of our share price, relative to market interest rates. If market interest rates increase, prospective investors may desire a higher yield on our common stock or seek securities paying higher dividends or yields. It is likely that the public valuation of our common stock will be based primarily on our earnings and cash flows and not from the underlying appraised value of the properties themselves. As a result, interest rate fluctuations and capital market conditions can affect the market value of our common stock. For instance, if interest rates rise, it is possible that the market price of our common stock will decrease, because potential investors may require a higher dividend yield on our common stock as market rates on interest-bearing securities, such as bonds, rise.

If securities analysts do not publish research or reports about our business or if they downgrade our common stock or our sector, the price of our common stock could decline.

The trading market for our common stock relies in part on the research and reports that industry or financial analysts publish about us or our business. We do not control these analysts. Furthermore, if one or more of the analysts who do cover us downgrades our shares or our industry, or the stock of any of our competitors, the price of our shares could decline. If one or more of these analysts ceases coverage of our company, we could lose attention in the market, which in turn could cause the price of our common stock to decline.

Table of Contents
Index to Financial Statements

Federal Income Tax Risks

Our failure to qualify as a REIT could adversely affect our operations and our ability to make distributions.

We are owned and operated in a manner intended to qualify us as a REIT for U.S. federal income tax purposes; however, we do not have a ruling from the IRS as to our REIT status. In addition, we own all of the common stock of a subsidiary that has elected to be treated as a REIT, and if our subsidiary REIT were to fail to qualify as a REIT, it is possible that we also would fail to qualify as a REIT unless we (or the subsidiary REIT) could qualify for certain relief provisions. Our qualification and the qualification of our subsidiary REIT as a REIT will depend on satisfaction, on an annual or quarterly basis, of numerous requirements set forth in highly technical and complex provisions of the Code for which there are only limited judicial or administrative interpretations. A determination as to whether such requirements are satisfied involves various factual matters and circumstances not entirely within our control. The fact that we hold substantially all of our assets through our operating partnership and its subsidiaries further complicates the application of the REIT requirements for us. No assurance can be given that we, or our subsidiary REIT, will qualify as a REIT for any particular year.

If we, or our subsidiary REIT, were to fail to qualify as a REIT in any taxable year for which a REIT election has been made, the non-qualifying REIT would not be allowed a deduction for dividends paid to its stockholders in computing our taxable income and would be subject to U.S. federal income tax on its taxable income at corporate rates. Moreover, unless the non-qualifying REIT were to obtain relief under certain statutory provisions, the non-qualifying REIT also would be disqualified from treatment as a REIT for the four taxable years following the year during which qualification is lost. This treatment would reduce our net earnings available for investment or distribution to our stockholders because of the additional tax liability to us for the years involved. As a result of such additional tax liability, we might need to borrow funds or liquidate certain investments on terms that may be disadvantageous to us in order to pay the applicable tax.

Changes in tax laws may eliminate the benefits of REIT status, prevent us from maintaining our qualification as a REIT, or otherwise adversely affect our stockholders.

New legislation, regulations, administrative interpretations or court decisions could change the tax laws or interpretations of the tax laws regarding qualification as a REIT, or the federal income tax consequences of that qualification, in a manner that is materially adverse to our stockholders. In particular, the Tax Cuts and Jobs Act ("H.R. 1"), which was effective for us for tax year 2018, made many significant changes to the U.S. federal income tax laws. A number of the changes that affected noncorporate taxpayers will expire at the end of 2025 unless Congress acts to extend them. These changes impacted us, our stockholders, and our tenants in various ways and the IRS continues to issue clarifying guidance with respect to certain of the provisions of H.R. 1, any of which may be adverse or potentially adverse compared to prior law. Additional changes to tax laws are likely to continue to occur in the future. Accordingly, there is no assurance that we can continue to operate with the current benefits of our REIT status or that a change to the tax laws will not adversely affect the taxation of our stockholders. If there is a change in the tax laws that prevents us from qualifying as a REIT, that eliminates REIT status generally, or that requires REITs generally to pay corporate level income taxes, our results of operations may be adversely affected and we may not be able to make the same level of distributions to our stockholders, and changes to the taxation of our stockholders could have an adverse effect on an investment in our common stock.

Even if we qualify as a REIT, we may incur certain tax liabilities that would reduce our cash flow and impair our ability to make distributions.

Even if we maintain our status as a REIT, we may be subject to U.S. federal income taxes or state taxes, which would reduce our cash available for distribution to our stockholders. For example, we will be subject to federal income tax on any undistributed taxable income. Further, if we fail to distribute during each calendar year at least the sum of (a) 85% of our ordinary income for such year, (b) 95% of our net capital gain income for such year, and (c) any undistributed taxable income from prior periods, we will be subject to a 4% excise tax on the excess of the required distribution over the sum of (i) the amounts actually distributed by us, plus (ii) retained amounts on which we pay income tax at the corporate level. If we realize net income from foreclosure properties that we hold primarily for sale to customers in the ordinary course of business, we must pay tax thereon at the highest corporate income tax rate, and if we sell a property, other than foreclosure property, that we are determined to have held for sale to customers in the ordinary course of business, any gain realized would be subject to a 100% “prohibited transaction” tax. The determination as to whether or not a particular sale is a prohibited transaction depends on the facts and circumstances related to that sale. We cannot guarantee that sales of our properties would not be prohibited transactions unless we comply with certain safe-harbor provisions. The need to avoid prohibited transactions could cause us to forgo or defer sales of properties that might otherwise be in our best interest to sell. In addition, we own interests in certain taxable REIT subsidiaries that are subject to federal income taxation and we and our subsidiaries may be subject to state and local taxes on our income or property.

Differences between the recognition of taxable income and the actual receipt of cash could require us to sell assets or borrow funds on a short-term or long-term basis to meet the distribution requirements of the Code.

We intend to make distributions to our stockholders to comply with the requirements of the Code for REITs and to minimize or eliminate our corporate tax obligations; however, differences between the recognition of taxable income and the actual receipt of cash could require us to sell assets or borrow funds on a short-term or long-term basis to meet the distribution requirements of the Code. Certain types of assets generate substantial disparity between taxable income and available cash, such as real estate that has been financed through financing structures which require some or all of available cash flows to be used to service borrowings. As a result, the requirement to distribute a substantial portion of our taxable income could cause us to: (1) sell assets in adverse market conditions, (2) borrow on unfavorable terms, or (3) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures, or repayment of debt, in order to comply with REIT requirements. Any such actions could increase our costs and reduce the value of our common stock. Further, we may be required to make distributions to our stockholders when it would be more advantageous to reinvest cash in our business or when we do not have funds readily available for distribution. Compliance with REIT qualification requirements may, therefore, hinder our ability to operate solely on the basis of maximizing profits.

Distributions made by REITs do not qualify for the reduced tax rates that apply to certain other corporate distributions.

The maximum income tax rate for dividends paid by corporations to individuals, trusts and estates is generally 20%. Dividends paid by REITs, however, (other than distributions we properly designate as capital gain dividends or as qualified dividend income) are taxed at the normal income tax rate applicable to the individual recipient (currently a maximum rate of 37%) rather than the 20% preferential rate, subject to a deduction equal to 20% of the amount of certain “qualified REIT dividends” that is available to noncorporate taxpayers through 2025, which has the effect of reducing the maximum effective income tax rate on qualified REIT dividends to 29.6%. The more favorable rates applicable to regular corporate dividends could cause investors who are individuals to perceive investments in REITs to be relatively less attractive than investments in non-REIT corporations that make distributions, particularly after the scheduled expiration of the 20% deduction applicable to qualified REIT dividends on December 31, 2025.

A recharacterization of transactions undertaken by our operating partnership may result in lost tax benefits or prohibited transactions, which would diminish cash distributions to our stockholders, or even cause us to lose REIT status.

The IRS could recharacterize transactions consummated by our operating partnership, which could result in the income realized on certain transactions being treated as gain realized from the sale of property that is held as inventory or otherwise held primarily for the sale to customers in the ordinary course of business. In such event, the gain would constitute income from a prohibited transaction and would be subject to a 100% tax. If this were to occur, our ability to make cash distributions to our stockholders would be adversely affected. Moreover, our operating partnership may purchase properties and lease them back to the sellers of such properties. While we will use our best efforts to structure any such sale-leaseback transaction such that the lease will be characterized as a “true lease,” thereby allowing us to be treated as the owner of the property for federal income tax purposes, we can give stockholders no assurance that the IRS will not attempt to challenge such characterization. In the event that any such sale-leaseback transaction is challenged and recharacterized as a financing transaction or loan for U.S. federal income tax purposes, deductions for depreciation and cost recovery relating to such property would be disallowed. If a sale-leaseback transaction were so recharacterized, the amount of our adjusted REIT taxable income could be recalculated, which might cause us to fail to meet the distribution requirement for a taxable year. We also might fail to satisfy the REIT qualification asset tests or income tests and, consequently, lose our REIT status. Even if we maintain our status as a REIT, an increase in our adjusted REIT taxable income could cause us to be subject to additional federal and state income and excise taxes. Any federal or state taxes we pay will reduce our cash available for distribution to our stockholders.

We face possible adverse changes in state and local tax laws regarding the treatment of REITs and their stockholders, which may result in an increase in our tax liability.

From time to time, changes in state and local tax laws or regulations are enacted, including changes to a state’s treatment of REITs and their stockholders, which may result in an increase in our tax liability. Any shortfall in tax revenues for states and municipalities may lead to an increase in the frequency and size of such changes. If such changes occur, we may be required to pay additional taxes on our assets or income. These increased tax costs could adversely affect our financial condition and results of operations and the amount of cash available for payment of dividends.

Risks Associated with Debt Financing

We have incurred and are likely to continue to incur mortgage and other indebtedness, which may increase our business risks.

As of December 31, 2018, we had total outstanding indebtedness of approximately $1.7 billion and a total debt to gross assets ratio of 36.2%. Although the instruments governing our unsecured and secured indebtedness limit our ability to incur additional indebtedness, these restrictions are subject to a number of qualifications and exceptions and, under certain circumstances, debt incurred in compliance with these restrictions could be substantial. We may incur additional indebtedness to acquire properties or other real estate-related investments, to fund property improvements, and other capital expenditures or for other corporate purposes, such as to repurchase shares of our common stock through repurchase programs that our board of directors have authorized or to fund future distributions to our stockholders.

Significant borrowings by us increase the risks of an investment in us. Our ability to make payments on and to refinance our indebtedness and to fund our operations, working capital and capital expenditures, depends on our ability to generate cash in the future. Our cash flow is subject to general economic, industry, financial, competitive, operating, legislative, regulatory and other factors, many of which are beyond our control. If there is a shortfall between the cash flow from properties and the cash flow needed to service our indebtedness, then the amount available for distributions to stockholders may be reduced.

Our failure to pay amounts due with respect to any of our indebtedness may constitute an event of default under the instrument governing that indebtedness, which could permit the holders of that indebtedness to require the immediate repayment of that indebtedness in full and, in the case of secured indebtedness, could allow them to sell the collateral securing that indebtedness and use the proceeds to repay that indebtedness. For example, defaults on indebtedness secured by a property may result in lenders initiating foreclosure actions. Although we believe no such instances exist as of December 31, 2018, in those cases, we could lose the property securing the loan that is in default. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but we would not receive any cash proceeds.

Moreover, any acceleration of, or default, with respect to any of our indebtedness could, in turn, constitute an event of default under other debt instruments or agreements, thereby resulting in the acceleration and required repayment of that other indebtedness. In addition, while we do not currently anticipate doing so, we may give full or partial guarantees to lenders of mortgage debt on behalf of the entities that own our properties if circumstances warrant that action. If we were to give a guaranty on behalf of an entity that owns one of our properties, we would be responsible to the lender for satisfaction of the debt if it were not paid by such entity. If any mortgages or other indebtedness contain cross-collateralization or cross-default provisions, a default on a single loan could affect multiple properties. If any of our properties are foreclosed on due to a default, our ability to pay cash distributions to our stockholders will be limited.

We cannot give any assurance that our business will generate sufficient cash flow from operations or that future sources of cash will be available to us in an amount sufficient to enable us to pay amounts due on our indebtedness or to fund our other liquidity needs.

We may need to refinance all or a portion of our indebtedness on or before maturity. Our ability to refinance our indebtedness or obtain additional financing will depend on, among other things our financial condition, results of operations and market conditions at the time; and restrictions in the agreements governing our indebtedness.

As a result, we may not be able to refinance our indebtedness on commercially reasonable terms, or at all. If we do not generate sufficient cash flow from operations, and additional borrowings or refinancings or proceeds of assets sales or other sources of cash are not available to us, we may not have sufficient cash to enable us to meet all of our obligations. Accordingly, if we cannot service our indebtedness, we may have to take actions such as seeking additional equity financing, delaying capital expenditures or strategic acquisitions and alliances. Any of these events or circumstances could have a material adverse effect on our financial condition, results of operations, cash flows, the trading price of our securities and our ability to satisfy our debt service obligations.

High mortgage rates may make it difficult for us to finance or refinance properties, which could reduce the number of properties we can acquire, our net income, and the amount of cash distributions we can make.

If mortgage debt is unavailable at reasonable rates, we may not be able to finance the purchase of properties. If we place mortgage debt on properties, we run the risk of being unable to refinance the properties when the loans become due, or of being unable to refinance on favorable terms. If interest rates are higher when we refinance our properties, our income could be reduced. We may be unable to refinance properties. If any of these events occur, our cash flow could be reduced. This, in turn, could reduce cash available for distribution to our stockholders and may hinder our ability to raise more capital by issuing more stock or by borrowing more money.

Agreements governing our existing indebtedness contain, and future financing arrangements will likely contain, restrictive covenants relating to our operations, which could limit our ability to make distributions to our stockholders.

We are subject to certain restrictions pursuant to the restrictive covenants of our outstanding indebtedness, which may affect our distribution and operating policies and our ability to incur additional debt. Loan documents evidencing our existing indebtedness contain, and loan documents entered into in the future will likely contain, certain operating covenants that limit our ability to further mortgage the property or discontinue insurance coverage. In addition, the agreements governing our existing indebtedness contain financial covenants, including certain coverage ratios and limitations on our ability to incur secured and unsecured debt, make dividend payments, sell all or substantially all of our assets, and engage in mergers and consolidations and certain acquisitions. Covenants under our existing indebtedness do, and under any future indebtedness likely will, restrict our ability to pursue certain business initiatives or certain acquisition transactions. In addition, failure to meet any of these covenants, including the financial coverage ratios, could cause an event of default under and/or accelerate some or all of our indebtedness, which would have a material adverse effect on us.

Increases in interest rates would increase the amount of our variable-rate debt payments and could limit our ability to pay dividends to our stockholders.

Currently, the outstanding draws on our $500 Million Unsecured 2018 Line of Credit and $100 million of our $250 Million Unsecured 2018 Term Loan are our only debt instruments that bear interest at a floating rate. All of our other debt is either fixed rate or has been effectively fixed through interest rate swap agreements. In addition, the outstanding draws under the $500 Million Unsecured 2018 Line of Credit, are subject to various length LIBOR locks; however, increases in interest rates could increase our interest costs associated with this variable rate debt to the extent our current locks expire and new balances are drawn under the facility. Such increases would reduce our cash flows and could impact our ability to pay dividends to our stockholders. In addition, if we are required to repay existing debt during periods of higher interest rates, we may need to sell one or more of our investments in order to repay the debt, which might not permit realization of the maximum return on such investments.

Changes in interest rates could have adverse effects on our cash flows as a result of our interest rate derivative contracts.

We have entered into various interest rate derivative agreements to effectively fix our exposure to interest rates under certain of our existing debt facilities. To the extent interest rates are higher than the fixed rate in the respective contract, we would realize cash savings as compared to other market participants. However, to the extent interest rates are below the fixed rate in the respective contract, we would make higher cash payments than other similar market participants, which would have an adverse effect on our cash flows as compared to other market participants.

Additionally, there is counterparty risk associated with entering into interest rate derivative contracts. Should market conditions lead to insolvency or make a merger necessary for one or more of our counterparties, or potential future counterparties, it is possible that the terms of our interest rate derivative contracts will not be honored in their current form with a replacement counterparty. The potential termination or renegotiation of the terms of the interest rate derivative contracts as a result of changing counterparties through insolvency or merger could result in an adverse impact on our results of operations and cash flows.

Changes in the method pursuant to which the LIBOR rates are determined and potential phasing out of LIBOR after 2021 may adversely affect our results of operations.

LIBOR and certain other “benchmarks” are the subject of recent national, international and other regulatory guidance and proposals for reform. These reforms may cause such benchmarks to perform differently than in the past or have other consequences which cannot be predicted. In particular, on July 27, 2017, the United Kingdom’s Financial Conduct Authority, which regulates LIBOR, publicly announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. It is unclear whether, at that time, LIBOR will cease to exist or if new methods of calculating LIBOR will be established.

As of December 31, 2018, approximately $755 million of our outstanding indebtedness had interest rate payments determined directly or indirectly based on LIBOR. As of December 31, 2018, we also had $450 million notional value of floating-to-fixed interest rate swaps that we use to hedge our interest rate exposure on most of this indebtedness. Any uncertainty regarding the continued use and reliability of LIBOR as a benchmark interest rate could adversely affect the performance of LIBOR relative to its historic values. If the methods of calculating LIBOR change from current methods for any reason, or if LIBOR ceases to perform as it has historically, our interest expense associated with the unhedged portion of our outstanding indebtedness or any future indebtedness we incur may increase. Further, if LIBOR ceases to exist, we may be forced to substitute an alternative reference rate, such as a different benchmark interest rate or base rate borrowings, in lieu of LIBOR under our current and future indebtedness and interest rate swaps. At this point, it is not clear what, if any, alternative reference rate may be adopted to replace LIBOR, however, any such alternative reference rate may be calculated differently than LIBOR and may increase the interest expense associated with our existing or future indebtedness.

Finally, the replacement or disappearance of LIBOR may adversely affect the value of and costs associated with our LIBOR-based obligations and the availability, pricing and terms of LIBOR-based interest rate swaps we use to hedge our interest rate risk. Alternative reference rates or modifications to LIBOR may not align for our assets, liabilities, and hedging instruments, which could reduce the effectiveness of certain of our interest rate hedges, and could cause increased volatility in our earnings. We may also incur expenses to amend and adjust our indebtedness and swaps to eliminate any differences between any alternative reference rates used by our interest rate hedges and our outstanding indebtedness.

Any of these occurrences could materially and adversely affect our borrowing costs, business and results of operations.

A downgrade in our credit rating could materially adversely affect our business and financial condition.

The credit ratings assigned to our debt securities could change based upon, among other things, our results of operations and financial condition. If any of the credit rating agencies that have rated our debt securities downgrades or lowers its credit rating, or if any credit rating agency indicates that it has placed any such rating on a so-called “watch list” for a possible downgrading or lowering or otherwise indicates that its outlook for that rating is negative, it could have a material adverse effect on our costs and availability of capital, which could in turn have a material adverse effect on our financial condition, results of operations, cash flows and our ability to satisfy our debt service obligations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

There were no unresolved SEC staff comments as of December 31, 2018.

ITEM 2. PROPERTIES

Overview

As of December 31, 2018, we owned interests in 54 in-service office properties, and 92% of our ALR was generated from select sub-markets located within eight major office markets located in the Eastern-half of the United States: Atlanta, Boston, Chicago, Dallas, Minneapolis, New York, Orlando, and Washington, D.C. As of December 31, 2018 and 2017, our in-service portfolio was 93.3% and 89.7% leased, respectively, with an average lease term remaining as of each period end of approximately seven years and an average lease size of approximately 19,000 square feet. No tenant accounts for more than 5.1% of our ALR, and our five largest tenants are State of New York, U.S. Bancorp, Independence Blue Cross, GE, and the United States Government.

ALR (see Item 1. Business - "Information Regarding Disclosures Presented" above) related to our in-service portfolio was $520.0 million, or $34.37 per leased square foot, as of December 31, 2018 as compared with $561.3 million, or $32.84 per leased square foot, as of December 31, 2017. These rental rates are presented before consideration of the fact that several of our largest tenants self-perform various aspects of their building management; therefore, we do not count those expenses in our gross rent calculations. If the costs of these functions are added to these leases, our average gross rent for our in-service portfolio as of December 31, 2018, increases to $35.83 per leased square foot.

Table of Contents
Index to Financial Statements

Property Statistics

The following table shows the geographic diversification of our in-service portfolio as of December 31, 2018:

Location	Annualized Lease Revenue (in thousands)	Rentable Square Feet (in thousands)	Percentage of Annualized Lease Revenue (%)	Percent Leased (%)
Washington, D.C.	$ 75,939	1,950	14.6	77.6
New York	70,144	1,772	13.5	97.5
Minneapolis	63,620	2,104	12.2	95.5
Atlanta	61,673	2,249	11.9	95.6
Boston	58,083	1,882	11.2	96.7
Dallas	53,805	2,114	10.3	88.2
Orlando	53,128	1,755	10.2	95.6
Chicago	42,202	967	8.1	98.1
Other (1)	41,428	1,415	8.0	100
	$ 520,022	16,208	100.0	93.3

(1) Includes 1901 Market Street in Philadelphia, Pennsylvania; 1430 Enclave Parkway and Enclave Place in Houston, Texas.

The following table shows lease expirations of our in-service office portfolio as of December 31, 2018 during each of the next thirteen years and thereafter, assuming no exercise of renewal options or termination rights:

Year of Lease Expiration	Annualized Lease Revenue (in thousands)	Percentage of Annualized Lease Revenue (%)
Available space	$ —	—
2019	67,179	12.9
2020	40,555	7.8
2021	19,500	3.8
2022	39,133	7.5
2023	44,272	8.5
2024	62,568	12.0
2025	23,001	4.4
2026	28,506	5.5
2027	46,176	8.9
2028	47,119	9.1
2029	22,354	4.3
2030	14,653	2.8
2031	14,236	2.7
Thereafter	50,770	9.8
	$ 520,022	100.0

Certain Restrictions Related to our Properties

As of December 31, 2018, the 5 Wall Street building in Burlington, Massachusetts and the 1901 Market Street building in Philadelphia, Pennsylvania, were held as collateral for debt, and no properties were subject to ground leases. Refer to Schedule III listed in the index of Item 15(a) of this report, for further details regarding the two properties held as collateral for debt facilities as of December 31, 2018.

Table of Contents
Index to Financial Statements

ITEM 3. LEGAL PROCEEDINGS

Piedmont is not subject to any material pending legal proceedings. However, we are subject to routine litigation arising in the ordinary course of owning and operating real estate assets. Our management expects that these ordinary routine legal proceedings will be covered by insurance and does not expect these legal proceedings to have a material adverse effect on our financial condition, results of operations, or liquidity. Additionally, management is not aware of any legal proceedings contemplated by governmental authorities.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents
Index to Financial Statements

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information and Holders

Our common stock is listed on the New York Stock Exchange under the symbol "PDM." As of February 19, 2019, there were 9,877 common stockholders of record of our common stock.

Performance Graph

The following graph compares the cumulative total return of Piedmont's common stock with the FTSE NAREIT Equity Office Index, the FTSE NAREIT Equity REITs Index, and the S&P 500 Index for the period beginning on December 31, 2013 through December 31, 2018. The graph assumes a $100 investment in each of Piedmont and the three indices, and the reinvestment of any dividends.

Comparison of Cumulative Total Return of One or More Companies, Peer Groups, Industry Indices, and/or Broad Markets

	As of the year ended December 31,					
	2013	2014	2015	2016	2017	2018
Piedmont Office Realty Trust, Inc.	$100.00	$119.14	$125.07	$144.60	$144.74	$131.57
FTSE NAREIT Equity Office	$100.00	$125.86	$126.22	$142.84	$150.33	$128.54
FTSE NAREIT Equity REITs	$100.00	$130.14	$134.30	$145.74	$153.36	$146.27
S&P 500	$100.00	$113.69	$115.26	$129.05	$157.22	$150.33

Table of Contents
Index to Financial Statements

The performance graph above is being furnished as part of this Annual Report solely in accordance with the requirement under Rule 14a-3(b)(9) to furnish Piedmont's stockholders with such information and, therefore, is not deemed to be filed, or incorporated by reference in any filing, by Piedmont under the Securities Act of 1933 or the Securities Exchange Act of 1934.

Purchases of Equity Securities By the Issuer and Affiliated Purchasers

During the quarter ended December 31, 2018, we repurchased and retired shares of our common stock as part of our stock repurchase plan as follows:

Period	Total Number of Shares Purchased (in 000's)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (in 000's)[1]	Maximum Approximate Dollar Value of Shares Available That May Yet Be Purchased Under the Program (in 000's)	
October 1, 2018 to October 31, 2018	—	$ —	—	$ 123,464	
November 1, 2018 to November 30, 2018	56	$ 17.86	56	$ 122,461	
December 1, 2018 to December 31, 2018	2,097	$ 17.11	2,097	$ 86,572	(1)
Total	2,153	$ 17.13	2,153		

(1) Amounts available for purchase relate only to our Board-authorized stock repurchase plan under our current authorization to repurchase shares of our common stock through February 21, 2020.

Table of Contents
Index to Financial Statements

ITEM 6. SELECTED FINANCIAL DATA

The following sets forth a summary of our selected financial data as of and for the years ended December 31, 2018, 2017, 2016, 2015, and 2014 (in thousands except for per-share data). Our selected financial data is prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), except as noted below.

	2018	2017	2016	2015	2014
Statement of Income Data:					
Total revenues	**$525,967**	$574,173	$555,715	$584,769	$566,252
Property operating costs	**$209,338**	$222,441	$220,796	$244,090	$241,128
Depreciation and amortization	**$171,251**	$194,655	$202,852	$195,389	$195,175
Impairment loss on real estate assets	**$—**	$46,461	$33,901	$43,301	$—
General and administrative expenses	**$29,713**	$29,319	$27,382	$28,278	$22,128
Interest and other expense	**$(61,065)**	$(63,622)	$(64,477)	$(72,158)	$(67,742)
Gain on sale of real estate assets not classified as discontinued operations	**$75,691**	$115,874	$93,410	$129,683	$870
Income from continuing operations	**$130,291**	$133,549	$99,717	$131,236	$40,949
Per-Share Data:					
Per weighted-average common share data:					
Income from continuing operations per share—basic and diluted	**$1.00**	$0.92	$0.69	$0.87	$0.26
Cash dividends declared per common share	**$0.84**	$1.34	$0.84	$0.84	$0.81
Weighted-average shares outstanding—basic (in thousands)	**130,161**	145,044	145,230	150,538	154,452
Weighted-average shares outstanding—diluted (in thousands)	**130,636**	145,380	145,635	150,880	154,585
Balance Sheet Data (at period end):					
Total assets	**$3,592,429**	$3,999,967	$4,368,168	$4,361,511	$4,756,496
Total stockholders' equity	**$1,712,140**	$1,986,489	$2,097,703	$2,123,420	$2,280,677
Outstanding debt	**$1,685,472**	$1,726,927	$2,020,475	$2,029,510	$2,269,922
NAREIT Funds from Operations Data (1):					
GAAP net income applicable to common stock	**$130,296**	$133,564	$99,732	$131,304	$42,150
Depreciation and amortization	**170,348**	193,904	202,268	194,943	195,345
Impairment loss	**—**	46,461	33,901	43,301	—
Gain on sale- wholly-owned properties and unconsolidated partnerships	**(75,691)**	(119,557)	(93,410)	(129,682)	(963)
NAREIT Funds From Operations applicable to common stock (1)	**$224,953**	$254,372	$242,491	$239,866	$236,532
Acquisition costs	**—**	6	976	919	560
Loss on extinguishment of debt	**1,680**	—	—	38	—
Net loss/(recoveries) of casualty loss and litigation settlements	**—**	—	(34)	278	(6,992)
Core Funds From Operations applicable to common stock (1)	**$226,633**	$254,378	$243,433	$241,101	$230,100
Amortization of debt issuance costs, fair market adjustments on notes payable, and discount on Senior Notes	**2,083**	2,496	2,610	2,547	2,632
Depreciation of non real estate assets	**813**	809	841	755	508
Straight-line effects of lease revenue and net effect of amortization of below-market in-place lease intangibles	**(21,595)**	(28,067)	(26,609)	(20,305)	(33,848)
Stock-based and other non-cash compensation	**7,528**	6,139	5,620	7,090	3,975
Acquisition costs	**—**	(6)	(976)	(919)	(560)
Non-incremental capital expenditures	**(44,004)**	(35,437)	(35,568)	(44,136)	(84,630)
Adjusted Funds From Operations applicable to common stock (1)	**$171,458**	$200,312	$189,351	$186,133	$118,177

(1) Net income calculated in accordance with GAAP is the starting point for calculating Funds from Operations, Core Funds From Operations, and Adjusted Funds From Operations. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Funds from Operations, Core Funds from Operations, and Adjusted Funds From Operations" below for a description and reconciliation of the calculations as presented.

27

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with Item 6, Selected Financial Data, above and our audited consolidated financial statements and notes thereto as of December 31, 2018 and 2017, and for the years ended December 31, 2018, 2017, and 2016, included elsewhere in this Annual Report on Form 10-K. See also "Cautionary Note Regarding Forward-Looking Statements" preceding Part I of this report and "Risk Factors" set forth in Item 1A. of this report.

Liquidity and Capital Resources

Over the last several years, we have actively managed the composition of our portfolio to further concentrate our holdings in selected sub-markets within our eight core markets. During 2018, we substantively completed this strategy by disposing of 15 properties, 14 in a portfolio sale in January and one in November. We used the net sales proceeds from these dispositions to repay debt, to repurchase shares of our common stock pursuant to our stock repurchase plan, and to selectively acquire three assets in our core markets.

We intend to use cash flows generated from the operation of our properties, proceeds from additional selective property dispositions, and proceeds from our $500 Million Unsecured 2018 Line of Credit as our primary sources of immediate liquidity. As of the filing date, we have $258.0 million of unused capacity under our line of credit. When necessary, we may seek secured or unsecured borrowings from third party lenders or issue securities as additional sources of capital. The availability and attractiveness of terms for these additional sources of capital will be highly dependent on market conditions at the time.

Our most consistent use of capital has historically been, and we believe will continue to be, to fund capital expenditures for our existing portfolio of properties. During the years ended December 31, 2018 and 2017, we incurred the following types of capital expenditures (in thousands):

	December 31, 2018	December 31, 2017
Capital expenditures for new development	**$ 78**	$ 6,490
Capital expenditures for redevelopment/ renovations	**9,892**	2,113
Capital expenditures previously credited as part of property acquisition	**—**	10,340
Other capital expenditures, including building and tenant improvements	**62,135**	60,888
Total capital expenditures (1)	**$ 72,105**	$ 79,831

(1) Of the total amounts paid, approximately $2.0 million and $0.3 million related to soft costs such as capitalized interest, payroll, and other general and administrative expenses for the year ended December 31, 2018 and 2017, respectively.

"Capital expenditures for new development" relate to new office development projects. During the two years ended December 31, 2018, such expenditures primarily related to the construction of 500 TownPark, our now complete, approximately 134,000 square foot, 100% leased, four-story office building located adjacent to our existing 400 TownPark building in Lake Mary, Florida.

"Capital expenditures for redevelopment/renovations" during the year ended December 31, 2018 primarily related to a redevelopment project to upgrade common areas, as well as amenities and parking, at our Two Pierce Place building in Itasca, Illinois. Expenditures during the year ended December 31, 2017 related to a now-complete redevelopment project that converted our 3100 Clarendon Boulevard building in Arlington, Virginia from governmental use into Class A private sector office space, as well as work begun on the Two Pierce Place project mentioned previously.

"Other capital expenditures" include all other capital expenditures during the period and are typically comprised of tenant and building improvements necessary to lease, maintain, or provide enhancements to our existing portfolio of office properties.

We classify our tenant and building improvements into two categories: (i) improvements which maintain the building's existing asset value and its revenue generating capacity ("non-incremental capital expenditures") and (ii) improvements which incrementally enhance the building's asset value by expanding its revenue generating capacity ("incremental capital expenditures"). As of December 31, 2018, commitments for funding non-incremental capital expenditures for tenant improvements over the next five years related to our existing lease portfolio totaled approximately $45.6 million. The timing of the funding of these commitments is largely dependent upon tenant requests for reimbursement; however, we anticipate that a significant portion of these improvement allowances may be requested over the next three years based on when the underlying leases commence. In some instances, these obligations may expire with the respective lease, without further recourse to us. Commitments for incremental capital expenditures for tenant improvements associated with executed leases totaled approximately $32.6 million as of December 31, 2018.

Given that our operating model frequently results in leases for large blocks of space to credit-worthy tenants, our leasing success can result in significant capital outlays. For example, for leases executed during the year ended December 31, 2018 and 2017, we committed to spend approximately $5.64 and $4.65 per square foot per year of lease term, respectively, for tenant improvement allowances and lease commissions (net of expiring lease commitments). The increase is primarily due to two significant leases signed during 2018 in our Houston and Washington, D.C. portfolios. In addition to the amounts that we have already committed to as a part of executed leases, we also anticipate continuing to incur similar market-based tenant improvement allowances and leasing commissions in conjunction with procuring future leases for our existing portfolio of properties. Both the timing and magnitude of expenditures related to future leasing activity are highly dependent on the competitive market conditions at the time of lease negotiations of the particular office market within which a given lease is signed. In particular, we are currently in the advanced stages of negotiating the renewal of the lease of our largest tenant, New York State, which expires during 2019 and anticipate expending significant capital for market-based tenant improvement allowances and leasing commissions over the next 3-4 years associated with the renewal.

There are other uses of capital that may arise as part of our typical operations. Subject to the identification and availability of attractive investment opportunities and our ability to consummate such acquisitions on satisfactory terms, acquiring new assets compatible with our investment strategy could also be a significant use of capital. Further, we may continue to use capital resources to repurchase additional shares of our common stock under our stock repurchase program. As of December 31, 2018, we had approximately $86.6 million of board-authorized capacity remaining for future stock repurchases. Finally, although we currently have no scheduled debt maturities until the third quarter of 2021, on a longer term basis we expect to use capital to repay debt obligations when they become due.

The amount and form of payment (cash or stock issuance) of future dividends to be paid to our stockholders will continue to be largely dependent upon (i) the amount of cash generated from our operating activities; (ii) our expectations of future cash flows; (iii) our determination of near-term cash needs for debt repayments, development projects, and selective acquisitions of new properties; (iv) the timing of significant expenditures for tenant improvements, building redevelopment projects, and general property capital improvements; (v) long-term dividend payout ratios for comparable companies; (vi) our ability to continue to access additional sources of capital, including potential sales of our properties; and (vii) the amount required to be distributed to maintain our status as a REIT. With the fluctuating nature of cash flows and expenditures, we may periodically borrow funds on a short-term basis to cover timing differences in cash receipts and cash disbursements.

Table of Contents
Index to Financial Statements

Results of Operations (2018 vs. 2017)

Overview

Net income per diluted share applicable to common stockholders increased from $0.92 for the year ended December 31, 2017 to $1.00 for the year ended December 31, 2018. The year ended December 31, 2018 included approximately $0.58 per diluted share, of gains on sales, whereas the prior year included approximately $0.48 per diluted share, of gains on sales net of an impairment loss. The current year results also reflect the positive impact of higher overall occupancy in the portfolio throughout the year ended December 31, 2018 as compared with the previous year as well as a 14.7 million share decrease in our weighted average shares outstanding as a result of stock repurchases made pursuant to our stock repurchase program during the twelve months ended December 31, 2018.

Comparison of the accompanying consolidated statements of income for the year ended December 31, 2018 vs. the year ended December 31, 2017

The following table sets forth selected data from our consolidated statements of income for the years ended December 31, 2018 and 2017, respectively, as well as each balance as a percentage of total revenues for the years presented (dollars in millions):

	December 31, 2018	% of Revenues	December 31, 2017	% of Revenues	Variance
Revenue:					
Rental income	**$ 411.7**		$ 455.1		$(43.4)
Tenant reimbursements	**92.7**		98.2		(5.5)
Property management fee revenue	**1.5**		1.7		(0.2)
Other property related income	**20.1**		19.2		0.9
Total revenues	**526.0**	100 %	574.2	100 %	(48.2)
Expense:					
Property operating costs	**209.3**	40 %	222.4	39 %	(13.1)
Depreciation	**108.0**	20 %	119.3	21 %	(11.3)
Amortization	**63.3**	12 %	75.4	13 %	(12.1)
Impairment losses on real estate assets	**—**	— %	46.5	8 %	(46.5)
General and administrative	**29.7**	6 %	29.3	5 %	0.4
	115.7	22 %	81.3	14 %	34.4
Other income (expense):					
Interest expense	**(61.0)**	12 %	(68.1)	12 %	7.1
Other income	**1.6**	— %	0.6	— %	1.0
Equity in income of unconsolidated joint ventures	**—**	— %	3.8	1 %	(3.8)
Loss on extinguishment of debt	**(1.7)**	— %	—	— %	(1.7)
Gain on sale of real estate assets	**75.7**	15 %	115.9	20 %	(40.2)
Net income	**$ 130.3**	25 %	$ 133.5	23 %	$(3.2)

Revenue

Rental income decreased approximately $43.4 million for the year ended December 31, 2018 as compared to the same period in the prior year. Substantially all of the decrease is attributable to net property disposition activity subsequent to January 1, 2017. In addition, rental income includes the amortization of approximately $3.0 million and $3.4 million of termination income for the years ended December 31, 2018 and 2017, respectively.

Tenant reimbursements decreased approximately $5.5 million for the year ended December 31, 2018 as compared to the same period in the prior year. Net disposition activity subsequent to January 1, 2017 contributed approximately $10.2 million to the decrease; however, this variance was partially offset due to the expiration of abatements and an increase in recoverable operating expenses at certain of our existing properties due to an increase in overall occupancy.

Table of Contents
Index to Financial Statements

Expense

Property operating costs decreased approximately $13.1 million for the year ended December 31, 2018 as compared to the same period in the prior year. Approximately $21.4 million of the decrease was due to net disposition activity subsequent to January 1, 2017; however, this variance was partially offset by higher recoverable utility, administrative, property tax, and repairs and maintenance costs at certain of our existing properties due to increased overall occupancy.

Depreciation expense decreased approximately $11.3 million for the year ended December 31, 2018 compared to the same period in the prior year. Approximately $15.0 million of the decrease was attributable to net disposition activity subsequent to January 1, 2017; however, this decrease was partially offset by depreciation on additional building and tenant improvements placed in service subsequent to January 1, 2017.

Amortization expense decreased approximately $12.1 million for the year ended December 31, 2018 compared to the same period in the prior year. The decrease is primarily attributable to net disposition activity and to certain lease intangible assets at our existing properties becoming fully amortized subsequent to January 1, 2017.

During the year ended December 31, 2017, we recognized a non-recurring impairment charge totaling approximately $46.5 million related to certain properties included in a sale of 14 non-core assets, which were sold in January 2018 (see Note 7 and Note 12 to the accompanying consolidated financial statements for more details).

Other Income (Expense)

Interest expense decreased approximately $7.1 million for the year ended December 31, 2018 as compared to the same period in the prior year. The decrease is primarily attributable to lower average debt outstanding in the current year, specifically due to the repayments of two of our unsecured term loans totaling $470 million in January 2018 and the repayment of $140 million of secured debt on our 1201 and 1225 Eye Street buildings in Washington, D.C. in August 2017. These repayments were offset partially by a new $250 million, seven-year term loan obtained in March 2018.

Other income increased approximately $1.0 million for the year ended December 31, 2018 as compared to the same period in the prior year due to the sale of solar renewable energy certificates to a third-party, as well as interest and fee income for the administration of certain debt instruments.

Equity in income of unconsolidated joint ventures decreased approximately $3.8 million for the year ended December 31, 2018 as compared to the same period in the prior year. The decrease is due to the sale of our last unconsolidated joint venture property in 2017.

The loss on extinguishment of debt is associated with the early repayment of our $170 Million Unsecured 2015 Term Loan and our $300 Million Unsecured 2013 Term Loan. The loss includes the write-off of unamortized debt issuance costs, discounts, and costs related to the termination of interest rate swap agreements associated with the debt.

Gain on sale of real estate assets during the year ended December 31, 2018 represents the gain recognized on the sale of the 800 North Brand Boulevard building in Glendale, California in November 2018, as well as certain assets included in a sale of 14 non-core assets that closed in January 2018. During the year ended December 31, 2017, gain on sale of real estate assets was comprised of the sale of the Sarasota Commerce Center II building in Sarasota, Florida and the Two Independence Square building in Washington, D.C.

31

Table of Contents
Index to Financial Statements

Results of Operations (2017 vs. 2016)

Overview

Net income per diluted share applicable to common stockholders increased from $0.69 for the year ended December 31, 2016 to $0.92 for the year ended December 31, 2017 due to increased gains on sales of real estate assets, net of impairment losses, in 2017 as compared to 2016 as well as increased rental income during the year ended December 31, 2017 as compared to 2016 as a result of increased occupancy due to new leases commencing during 2016 and 2017 across our portfolio.

Comparison of the accompanying consolidated statements of income for the year ended December 31, 2017 vs. the year ended December 31, 2016

The following table sets forth selected data from our consolidated statements of income for the years ended December 31, 2017 and 2016, respectively, as well as each balance as a percentage of total revenues for the years presented (dollars in millions):

	December 31, 2017	% of Revenues	December 31, 2016	% of Revenues	Variance
Revenue:					
Rental income	**$455.1**		$ 439.9		$ 15.2
Tenant reimbursements	**98.2**		94.9		3.3
Property management fee revenue	**1.7**		1.9		(0.2)
Other property related revenue	**19.2**		19.0		0.2
Total revenues	**574.2**	100 %	555.7	100 %	18.5
Expense:					
Property operating costs	**222.4**	39 %	220.8	40 %	1.6
Depreciation	**119.3**	21 %	127.7	23 %	(8.4)
Amortization	**75.4**	13 %	75.1	13 %	0.3
Impairment loss on real estate assets	**46.5**	8 %	33.9	6 %	12.6
General and administrative expense	**29.3**	5 %	27.4	5 %	1.9
	81.3	14 %	70.8	13 %	10.5
Other income (expense):					
Interest expense	**(68.1)**	12 %	(64.9)	12 %	(3.2)
Other income	**0.6**	— %	—	— %	0.6
Equity in income of unconsolidated joint ventures	**3.8**	1 %	0.4	— %	3.4
Gain on sale of real estate assets, net	**115.9**	20 %	93.4	17 %	22.5
Net income	**$133.5**	23 %	$ 99.7	18 %	$ 33.8

Revenue

Rental income increased approximately $15.2 million for the year ended December 31, 2017 as compared to the same period in the prior year. The increase is primarily attributable to new leases commencing during 2016 and 2017 across our portfolio, partially offset by net property sales activity since January 1, 2016. In addition, rental income includes the amortization of approximately $3.4 million and $2.6 million of termination income for the years ended December 31, 2017 and 2016, respectively.

Tenant reimbursements increased approximately $3.3 million for the year ended December 31, 2017 as compared to the same period in the prior year. The variance was primarily attributable to increased average economic occupancy and the resulting increase in recoverable operating expenses. In addition, tenant reimbursements for the year ended December 31, 2017 include the non-recurring settlement receipt of approximately $0.6 million of prior period reimbursements as a result of a favorable court ruling related to a tenant dispute.

Expense

Property operating costs increased approximately $1.6 million for the year ended December 31, 2017 as compared to the same period in the prior year, primarily due to increased average occupancy and the resulting increase in operating expenses, namely utilities and property tax expense of approximately $2.5 million. This increase was partially offset by a decrease in operating expenses of $0.9 million across our portfolio of properties as compared to the prior period.

Depreciation expense decreased approximately $8.4 million for the year ended December 31, 2017 compared to the same period in the prior year due primarily to the sale of the 606,000 square foot, Two Independence Square building in July 2017.

During the year ended December 31, 2017, we recognized a non-recurring impairment charge related to certain properties included in a sale of 14 non-core properties totaling approximately $46.5 million, which closed in January 2018. During the year ended December 31, 2016, we recognized non-recurring impairment charges related to our 150 West Jefferson building located in Detroit, Michigan, and our 9200, 9211, and 9221 Corporate Boulevard buildings located in Rockville, Maryland totaling approximately $33.9 million (see Note 7 for details).

General and administrative expenses increased approximately $1.9 million for the year ended December 31, 2017 compared to the same period in the prior year primarily due to increased accruals for potential performance-based stock compensation.

Other Income (Expense)

Interest expense increased approximately $3.2 million for the year ended December 31, 2017 as compared to the same period in the prior year. Approximately $4.4 million of the increase is due to placing our development projects into service in 2017, which caused associated interest to be expensed rather than be capitalized as part of the development. This increase is offset by lower net interest resulting from repayments of debt during 2017, specifically the $140 million of secured debt on our 1201 and 1225 Eye Street buildings.

Equity in income of unconsolidated joint ventures increased approximately $3.4 million for the year ended December 31, 2017 as compared to the same period in the prior year. The increase is primarily due to the recognition of our portion of the gain on the sale of our last unconsolidated joint venture property.

Gain on sale of real estate assets during the year ended December 31, 2017 represents the gain recognized on the sale of the Sarasota Commerce Center II building and the Two Independence Square building. During the year ended December 31, 2016, gain on sale of real estate assets is comprised of the following sold properties: 1055 East Colorado Boulevard in Pasadena, California; Fairway Center II in Brea, California; 1901 Main Street in Irvine, California; 9221 Corporate Boulevard; 150 West Jefferson; 9200 and 9211 Corporate Boulevard; 11695 Johns Creek Parkway in Johns Creek, Georgia, and Braker Pointe III in Austin, Texas.

Funds From Operations ("FFO"), Core Funds From Operations ("Core FFO"), and Adjusted Funds From Operations ("AFFO")

Net income calculated in accordance with GAAP is the starting point for calculating FFO, Core FFO, and AFFO. These metrics are non-GAAP financial measures and should not be viewed as an alternative measurement of our operating performance to net income. Management believes that accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by themselves. As a result, we believe that the additive use of FFO, Core FFO, and AFFO, together with the required GAAP presentation, provides a more complete understanding of our performance relative to our competitors and a more informed and appropriate basis on which to make decisions involving operating, financing, and investing activities.

We calculate FFO in accordance with the current National Association of Real Estate Investment Trusts ("NAREIT") definition. NAREIT currently defines FFO as follows: Net income (computed in accordance with GAAP), excluding gains or losses from sales of property and impairment charges (including our proportionate share of any impairment charges and/or gains or losses from sales of property related to investments in unconsolidated joint ventures), plus depreciation and amortization on real estate assets (including our proportionate share of depreciation and amortization related to investments in unconsolidated joint ventures). Other REITs may not define FFO in accordance with the NAREIT definition, or may interpret the current NAREIT definition differently than we do; therefore, our computation of FFO may not be comparable to such other REITs.

Table of Contents
Index to Financial Statements

We calculate Core FFO by starting with FFO, as defined by NAREIT, and adjusting for gains or losses on the extinguishment of swaps and/or debt, acquisition-related expenses, and any significant non-recurring or infrequent items. Core FFO is a non-GAAP financial measure and should not be viewed as an alternative to net income calculated in accordance with GAAP as a measurement of our operating performance. We believe that Core FFO is helpful to investors as a supplemental performance measure because it excludes the effects of certain items which can create significant earnings volatility, but which do not directly relate to our core recurring business operations. As a result, we believe that Core FFO can help facilitate comparisons of operating performance between periods and provides a more meaningful predictor of future earnings potential. Other REITs may not define Core FFO in the same manner as us; therefore, our computation of Core FFO may not be comparable to that of other REITs.

We calculate AFFO by starting with Core FFO and adjusting for non-incremental capital expenditures and acquisition-related costs and then adding back non-cash items including: non-real estate depreciation, straight-line rent adjustments and fair value lease adjustments, non-cash components of interest expense and compensation expense, and by making similar adjustments for unconsolidated joint ventures. AFFO is a non-GAAP financial measure and should not be viewed as an alternative to net income calculated in accordance with GAAP as a measurement of our operating performance. We believe that AFFO is helpful to investors as a meaningful supplemental comparative performance measure of our ability to make incremental capital investments. Other REITs may not define AFFO in the same manner as us; therefore, our computation of AFFO may not be comparable to that of other REITs.

Reconciliations of net income to FFO, Core FFO, and AFFO are presented below (in thousands except per share amounts):

	2018	**Per Share** (1)	**2017**	**Per Share**(1)	**2016**	**Per Share**(1)
GAAP net income applicable to common stock	**$130,296**	**$1.00**	$133,564	$0.92	$99,732	$0.69
Depreciation of real assets (2)	**107,113**	**0.82**	118,577	0.82	127,129	0.87
Amortization of lease-related costs (2)	**63,235**	**0.48**	75,327	0.52	75,139	0.52
Impairment loss on real estate assets	**—**	**—**	46,461	0.32	33,901	0.23
Gain on sale- wholly-owned properties	**(75,691)**	**(0.58)**	(115,874)	(0.80)	(93,410)	(0.64)
Gain on sale- unconsolidated partnerships	**—**	**—**	(3,683)	(0.03)	—	—
NAREIT Funds From Operations applicable to common stock	**$224,953**	**$1.72**	$254,372	$1.75	$242,491	$1.67
Adjustments:						
Acquisition costs	**—**	**—**	6	—	976	—
Loss on extinguishment of debt	**1,680**	**0.01**	—	—	—	—
Net recoveries from casualty events	**—**	**—**	—	—	(34)	—
Core Funds From Operations applicable to common stock	**$226,633**	**$1.73**	$254,378	$1.75	$243,433	$1.67
Adjustments:						
Amortization of debt issuance costs, fair market adjustments on notes payable, and discount on Unsecured Senior Notes	**2,083**		2,496		2,610	
Depreciation of non real estate assets	**813**		809		841	
Straight-line effects of lease revenue (2)	**(13,980)**		(21,492)		(21,544)	
Stock-based and other non-cash compensation	**7,528**		6,139		5,620	
Net effect of amortization of below-market in-place lease intangibles	**(7,615)**		(6,575)		(5,065)	
Acquisition costs	**—**		(6)		(976)	
Non-incremental capital expenditures (3)	**(44,004)**		(35,437)		(35,568)	
	$171,458		$200,312		$189,351	

Adjusted Funds From Operations applicable to common stock			
Weighted-average shares outstanding – diluted	**130,636**	145,380	145,635

(1) Based on weighted-average shares outstanding—diluted.

(2) Includes adjustments for wholly-owned properties, as well as such adjustments for our proportionate ownership in unconsolidated joint ventures.

(3) Piedmont defines non-incremental capital expenditures as capital expenditures of a recurring nature related to tenant improvements, leasing commissions, and building capital that do not incrementally enhance the underlying assets' income generating capacity. Tenant improvements, leasing commissions, building capital and deferred lease incentives incurred to lease space that was vacant at acquisition, leasing costs for spaces vacant for greater than one year, leasing costs for spaces at newly acquired properties for which in-place leases expire shortly after acquisition, improvements associated with the expansion of a building, and renovations that either enhance the rental rates of a building or change the property's underlying classification, such as from a Class B to a Class A property, are excluded from this measure.

Property and Same Store Net Operating Income

Property Net Operating Income ("Property NOI") is a non-GAAP measure which we use to assess our operating results. We calculate Property NOI beginning with Net income (computed in accordance with GAAP) before interest, taxes, depreciation and amortization and removing any impairment losses, gains or losses from sales of any property and other significant infrequent items that create volatility within our earnings and make it difficult to determine the earnings generated by our core ongoing business. Furthermore, we adjust for general and administrative expense, income associated with property management performed by us for other organizations, and other income or expense items such as interest income from loan investments or costs from the pursuit of non-consummated transactions. For Property NOI (cash basis), the effects of straight-lined rents and fair value lease revenue are also eliminated; while such effects are not adjusted in calculating Property NOI (accrual basis). Property NOI is a non-GAAP financial measure and should not be viewed as an alternative to net income calculated in accordance with GAAP as a measurement of our operating performance. We believe that Property NOI, on either a cash or accrual basis, is helpful to investors as a supplemental comparative performance measure of income generated by our properties alone without our administrative overhead. Other REITs may not define Property NOI in the same manner as we do; therefore, our computation of Property NOI may not be comparable to that of other REITs.

We calculate Same Store Net Operating Income ("Same Store NOI") as Property NOI applicable to the properties owned or placed in service during the entire span of the current and prior year reporting periods. Same Store NOI also excludes amounts applicable to unconsolidated joint venture assets. Same Store NOI is a non-GAAP financial measure and should not be viewed as an alternative to net income calculated in accordance with GAAP as a measurement of our operating performance. We believe that Same Store NOI, on either a cash or accrual basis is helpful to investors as a supplemental comparative performance measure of the income generated from the same group of properties from one period to the next. Other REITs may not define Same Store NOI in the same manner as we do; therefore, our computation of Same Store NOI may not be comparable to that of other REITs.

Table of Contents
Index to Financial Statements

The following table sets forth a reconciliation from net income calculated in accordance with GAAP to Property NOI, on both a cash and accrual basis, and Same Store NOI, on both a cash and accrual basis, for the years ended December 31, 2018 and December 31, 2017, respectively (in thousands):

	Cash Basis		Accrual Basis	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Net income applicable to Piedmont (GAAP basis)	**$130,296**	$133,564	**$130,296**	$133,564
Net income applicable to noncontrolling interest	**(5)**	(15)	**(5)**	(15)
Interest expense	**61,023**	68,124	**61,023**	68,124
Loss on extinguishment of debt	**1,680**	—	**1,680**	—
Depreciation (1)	**107,927**	119,386	**107,927**	119,386
Amortization (1)	**63,235**	75,327	**63,235**	75,327
Acquisition costs	**—**	6	**—**	6
Impairment loss on real estate assets (1)	**—**	46,461	**—**	46,461
Gain on sale of real estate assets, net (1)	**(75,691)**	(119,557)	**(75,691)**	(119,557)
General & administrative expenses(1)	**29,713**	29,374	**29,713**	29,374
Management fee revenue	**(712)**	(922)	**(712)**	(922)
Other income(1)	**(418)**	(303)	**(418)**	(303)
Straight-line rent effects of lease revenue(1)	**(13,980)**	(21,492)		
Amortization of lease-related intangibles(1)	**(7,615)**	(6,575)		
Property NOI	**$295,453**	$323,378	**$317,048**	$351,445
Net operating income from:				
Acquisitions(2)	**(4,718)**	(23)	**(5,993)**	(27)
Dispositions(3)	**(13,841)**	(58,177)	**(11,396)**	(54,650)
Other investments(4)	**(3,730)**	(8,718)	**(4,021)**	(9,418)
Same Store NOI	**$273,164**	$256,460	**$295,638**	$287,350
Change period over period in Same Store NOI	***6.5 %***	*N/A*	***2.9 %***	*N/A*

(1) Includes amounts attributable to consolidated properties and our proportionate share of amounts attributable to unconsolidated joint ventures.

(2) Acquisitions consist of Norman Pointe I in Bloomington, Minnesota, purchased on December 28, 2017; 501 West Church Street in Orlando, Florida, purchased on February 23, 2018; 9320 Excelsior Boulevard in Hopkins, Minnesota, purchased on October 25, 2018; and 25 Burlington Mall Road in Burlington, Massachusetts, purchased on December 12, 2018.

(3) Dispositions consist of Sarasota Commerce Center II in Sarasota, Florida, sold on June 16, 2017; Two Independence Square in Washington, D.C., sold on July 5, 2017; a 14-property portfolio sold on January 4, 2018 (comprised of 2300 Cabot Drive in Lisle, Illinois; Windy Point I and II in Schaumburg, Illinois; Suwanee Gateway One and land in Suwanee, Georgia; 1200 Crown Colony Drive in Quincy, Massachusetts; Piedmont Pointe I and II in Bethesda, Maryland; 1075 West Entrance Drive and Auburn Hills Corporate Center in Auburn Hills, Michigan; 5601 Hiatus Road in Tamarac, Florida; 2001 NW 64th Street in Ft. Lauderdale, Florida; Desert Canyon 300 in Phoenix, Arizona; 5301 Maryland Way in Brentwood, Tennessee; and 2120 West End Avenue in Nashville, Tennessee); and 800 North Brand Boulevard in Glendale, California, sold on November 29, 2018.

(4) Other investments consist of our investments in unconsolidated joint ventures, active redevelopment and development projects, land, and recently completed redevelopment and development projects for which some portion of operating expenses were capitalized during the current and/or prior year reporting periods. The operating results from 500 TownPark in Lake Mary, Florida, and Two Pierce Place in Itasca, Illinois, are included in this line item.

Overview

Our portfolio is a diverse geographical portfolio primarily located in select sub-markets within eight major office markets located in the Eastern-half of the United States. We typically lease space to large, credit-worthy corporate or governmental tenants on a long-term basis. As of December 31, 2018, our average lease was approximately 19,000 square feet with approximately seven years of lease term remaining. Consequently, leased percentage, as well as rent roll ups and roll downs, which we experience as a result of re-leasing, can fluctuate widely between buildings and between tenants, depending on when a particular lease is scheduled to commence or expire.

Leased Percentage

As of December 31, 2018, our in-service portfolio of 54 office properties was 93.3% leased, up from 89.7% leased as of December 31, 2017, and scheduled lease expirations for the portfolio as a whole for the year ended December 31, 2019 are 12.9% of our ALR. To the extent new leases for currently vacant space outweigh or fall short of scheduled expirations, net of any renewals, such activity would increase or decrease our leased percentage, respectively. Our leased percentage may also fluctuate from the impact of occupancy levels associated with our net acquisition and disposition activity and existing properties placed in or taken out of service for redevelopment.

Impact of Downtime, Abatement Periods, and Rental Rate Changes

Commencement of new leases typically occurs 6-18 months after the lease execution date, after refurbishment of the space is completed. The downtime between a lease expiration and the new lease's commencement can negatively impact Property NOI and Same Store NOI comparisons (both accrual and cash basis). In addition, office leases, both new and lease renewals, often contain upfront rental and/or operating expense abatement periods which delay the cash flow benefits of the lease even after the new lease or renewal has commenced and will continue to negatively impact Property NOI and Same Store NOI on a cash basis until such abatements expire. As of December 31, 2018, we had approximately 465,000 square feet of executed leases related to currently vacant space that had not yet commenced and approximately 667,000 square feet of commenced leases that were in some form of rental and/or operating expense abatement.

If we are unable to replace expiring leases with new or renewal leases at rental rates equal to or greater than the expiring rates, rental rate roll downs could occur and negatively impact Property NOI and Same Store NOI comparisons. Given our geographically diverse portfolio and the magnitude of some of our tenant's leased square footage, rent roll ups and roll downs can fluctuate widely on a building-by-building and year-over-year basis. For the portfolio in general during the year ended December 31, 2018, we experienced a 2.4% and 9.1% roll up in our cash and accrual rents, respectively, from new leases and renewals for space that was vacant one year or less. In particular, leases representing 12.9% of our ALR are scheduled to expire during 2019. Of the leases scheduled to expire in 2019, approximately 40% of the corresponding ALR relates to the State of New York lease (totaling 481,000 square feet) at our 60 Broad Street building, located in New York City, New York, which is scheduled to expire during first quarter of 2019. We are currently in advanced stages of the lease renewal process with this tenant and the anticipated outcome is a lease renewal with a slight roll down in starting cash rents and increased GAAP-based rents with a modest square footage contraction.

Same Store NOI increased 6.5% and 2.9% on a cash and accrual basis, respectively, during the year ended December 31, 2018, as compared to the same period in the prior year. In addition to general increases in occupancy levels and improved rental rates, Same Store NOI (cash basis) was favorably impacted by the expiration of several large lease abatements at certain properties and Same Store NOI (accrual basis) was favorably impacted by the commencement of several large leases throughout the portfolio. Property NOI and Same Store NOI comparisons for any given period may still fluctuate as a result of the mix of net leasing activity in individual properties during the respective period.

Election as a REIT

We have elected to be taxed as a REIT under the Code and have operated as such beginning with our taxable year ended December 31, 1998. To qualify as a REIT, we must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of our adjusted REIT taxable income, computed without regard to the dividends-paid deduction and by excluding net capital gains attributable to our stockholders, as defined by the Code. As a REIT, we generally will not be subject to federal income tax on income that we distribute to our stockholders. If we fail to qualify as a REIT in any taxable year, we may be subject to federal income taxes on our taxable income for that year and for the four years following the year during which qualification is lost and/or penalties, unless the IRS grants us relief under certain statutory provisions. Such an event could materially adversely affect our net income and net cash available for distribution to our stockholders. However, we believe that we are organized and operate in such a manner as to qualify for treatment as a REIT and intend to continue to operate in the foreseeable future in such a manner that we will remain qualified as a REIT for federal income tax purposes. We have elected to treat POH, a wholly-owned subsidiary of Piedmont, as a taxable REIT subsidiary. POH performs non-customary services for tenants of buildings that we own, including solar power generation and real estate and non-real estate related-services. Any earnings related to such services performed by our taxable REIT subsidiary are subject to federal and state income taxes. In addition, for us to continue to qualify as a REIT, our investments in taxable REIT subsidiaries cannot exceed 20% of the value of our total assets.

Inflation

We are exposed to inflation risk, as income from long-term leases is the primary source of our cash flows from operations. There are provisions in the majority of our tenant leases that are intended to protect us from, and mitigate the risk of, the impact of inflation. These provisions include rent steps, reimbursement billings for operating expense pass-through charges, real estate tax, and insurance on a per square-foot basis, or in some cases, annual reimbursement of operating expenses above certain per square-foot allowances. However, due to the long-term nature of the leases, the leases may not readjust their reimbursement rates frequently enough to fully cover inflation.

Off-Balance Sheet Arrangements

We are not dependent on off-balance sheet financing arrangements for liquidity, and do not currently have any off-balance sheet arrangements. For further information regarding our commitments under operating lease obligations, see the notes of our accompanying consolidated financial statements, as well as the table found in *Contractual Obligations* below.

Application of Critical Accounting Policies

Our accounting policies have been established to conform with GAAP. The preparation of financial statements in conformity with GAAP requires management to use judgment in the application of accounting policies, including making estimates and assumptions. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, it is possible that different accounting policies would have been applied, thus, resulting in a different presentation of the financial statements. Additionally, other companies may utilize different estimates that may impact comparability of our results of operations to those of companies in similar businesses. The critical accounting policies outlined below have been discussed with members of the Audit Committee of the Board of Directors.

Valuation of Real Estate Assets

We continually monitor events and changes in circumstances that could indicate that the carrying amounts of the real estate and related intangible assets, both operating properties and properties under construction, in which we have an ownership interest, either directly or through investments in joint ventures, may not be recoverable. When indicators of potential impairment are present, we assess whether the respective carrying values will be recovered from the undiscounted future operating cash flows expected from the use of the asset and its eventual disposition for assets held for use, or from the estimated fair value, less costs to sell, for assets held for sale. In the event that the expected undiscounted future cash flows for assets held for use or the estimated fair value, less costs to sell, for assets held for sale do not exceed the respective asset carrying value, we adjust such assets to the respective estimated fair values and recognize an impairment loss.

Projections of expected future cash flows require that we estimate future market rental income amounts subsequent to the expiration of current lease agreements, property operating expenses, the number of months it takes to re-lease the property, and the number of years the property is held for investment, among other factors. The subjectivity of assumptions used in the future cash flow analysis, including capitalization and discount rates, could result in an incorrect assessment of the property's estimated fair value and, therefore, could result in the misstatement of the carrying value of our real estate and related intangible assets and our reported net income attributable to Piedmont.

Rental Revenue Recognition

Rental income for office properties is our principal source of revenue. The timing of rental revenue recognition is largely dependent on our conclusion as to whether we, or our tenant, are the owner for accounting purposes of tenant improvements at the leased property. When we conclude that we are the owner of tenant improvements, we record the cost to construct the tenant improvements as an asset and commence rental revenue recognition when the tenant takes possession of or controls the finished space, which is typically when the improvements being recorded as our asset are substantially complete and our landlord obligation has been materially satisfied. When we conclude that our tenant is the owner of certain tenant improvements, we record our contribution towards those improvements as a lease incentive, which is amortized as a reduction to rental revenue on a straight-line basis over the term of the related lease, and the recognition of rental revenue begins when the tenant takes possession of or controls the space.

The determination of whether we, or our tenant, are the owner of tenant improvements for accounting purposes is subject to significant judgment. In making that determination, we consider numerous factors and perform an evaluation of each individual lease. No one factor is determinative in reaching a conclusion. The factors we evaluate include but are not limited to the following:

- whether the lease agreement requires landlord approval of how the tenant improvement allowance is spent prior to installation of the tenant improvements;
- whether the lease agreement requires the tenant to provide evidence to the landlord supporting the cost and what the tenant improvement allowance was spent on prior to payment by the landlord for such tenant improvements;
- whether the tenant improvements are unique to the tenant or reusable by other tenants;
- whether the tenant is permitted to alter or remove the tenant improvements without the consent of the landlord or without compensating the landlord for any lost utility or diminution in fair value; and
- whether the ownership of the tenant improvements remains with the landlord or remains with the tenant at the end of the lease term.

In addition, we also record the cost of certain tenant improvements paid for or reimbursed by tenants when we conclude that we are the owner of such tenant improvements using the factors discussed above. For these tenant-funded tenant improvements, we record the amount funded or reimbursed by tenants as deferred revenue, which is amortized and recognized as rental revenue over the term of the related lease beginning upon substantial completion of the leased premises.

Consequently, our determination as to whether we, or our tenant, are the owner of tenant improvements for accounting purposes has a significant impact on both the amount and timing of rental revenue that we record related to tenant-funded tenant improvements.

Accounting Pronouncements Adopted during the Year Ended December 31, 2018

Revenue Recognition

On January 1, 2018, we adopted Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* ("ASC 606") which changed the criteria for the recognition of certain revenue streams to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services using a five-step determination process.

Our revenues which are included in the scope of ASC 606 include our property management fee revenue, the majority of our parking revenue, as well as certain license agreements which allow third-parties to place their antennas or fiber-optic cabling on or inside our buildings. Lease contracts are specifically excluded from ASC 606 and, we intend to utilize a leasing practical expedient (see further discussion below) to group certain non-lease components related to operating expense reimbursements with other leasing components, provided they meet certain criteria. Because the timing and pattern of transfer of our non-lease related revenue already followed the prescribed method of ASC 606, we were able to effectively adopt ASC 606 on a full retrospective basis, with no impact to the historical timing of recognition of the related revenue; however, such non-lease revenues are now being presented as "Other property related income" in our accompanying consolidated statements of income. Further, for comparative purposes, we reclassified approximately $19.2 million and $19.0 million for the years ended December 31, 2017 and 2016, respectively, of parking, antennae license, and fiber income that was previously included in rental income into other property related income, as well as certain other miscellaneous revenue into tenant reimbursements and/or property management fee revenue. We did not elect to adopt any practical expedients provided by ASC 606.

Gain/(loss) on Sale of Real Estate Assets

On January 1, 2018, we adopted Accounting Standards Update No. 2017-05, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets* ("ASU 2017-05") concurrently with ASC 606 mentioned above. We elected to apply the amendments of ASU 2017-05 on a full retrospective basis; however, there were no adjustments to previously recorded gains/(losses) on sale of real estate as a result of the transition.

Equity Investments Held in Non-qualified Deferred Compensation Plan

On January 1, 2018, we adopted Accounting Standards Update No. 2016-01, *Financial Instruments - Overall (Subtopic 825-10),* *Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"), as well as Accounting Standards Update No. 2018-03 *Technical Corrections and Improvements to Financial Instruments-Overall (Subtopic 825-10)* ("ASU 2018-03"). These amendments require equity investments, except those accounted for under the equity method of accounting, to be measured at estimated fair value with changes in fair value recognized in net income. Investments in trading securities held in a "rabbi trust" by us are the only securities affected by ASU 2016-01 and ASU 2018-03. As such, we have made a cumulative-effect adjustment to our consolidated balance sheet and consolidated statements of stockholders' equity of approximately $0.1 million from other comprehensive income to cumulative distributions in excess of earnings, and have recorded changes in fair value in net income for the year ended December 31, 2018 related to these investment securities.

Interest Rate Derivatives

On January 1, 2018, we early adopted Accounting Standards Update No. 2017-12, *Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities* ("ASU 2017-12").We adopted ASU 2017-12 using the modified retrospective transition method; however, no adjustment was necessary to account for the cumulative effect of the change on the opening balance of each affected component of equity in the consolidated balance sheet as of the date of adoption because there was no cumulative ineffectiveness that had been recorded on our existing interest rate swaps as of December 31, 2017, and all trades were highly effective. The amended presentation and disclosure guidance which is required to be presented prospectively is provided in Note 5 to our accompanying consolidated financial statements.

Other Recent Accounting Pronouncements

The FASB has issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"), which fundamentally changes the definition of a lease, as well as the accounting for operating leases by requiring lessees to recognize assets and liabilities which arise from the lease, consisting of a liability to make lease payments (the lease liability) and a right-of-use asset, representing the right to use the leased asset over the term of the lease. Accounting for leases by lessors is substantially unchanged from prior practice as lessors will continue to recognize lease revenue on a straight-line basis.

Table of Contents
Index to Financial Statements

Additionally, the FASB has subsequently issued a number of clarifying and technical corrections to ASU 2016-02 through several Accounting Standards Updates ("ASU") as follows:

ASU	**Title**	**Summary**	**Anticipated Impact on Our Consolidated Financial Statements Based on Management's Assessment to Date**
ASU 2018-01	*Leases (Topic 842) Land Easement Practical Expedient for Transition to Topic 842*	Clarifies that a land easement is required to be evaluated to determine whether it should be accounted for as a lease upon adoption of ASU 2016-02; also provides an optional practical transition expedient allowing entities not currently assessing land easements under existing leasing guidance prior to adoption of ASU 2016-02 to not apply the new guidance to land easements existing at the date of initial adoption of ASU 2016-02.	No material impact.
ASU 2018-10	*Codification Improvements to Topic 842, Leases*	Clarifications and technical corrections to ASU 2016-02.	No material impact.
ASU 2018-11	*Leases (Topic 842) Targeted Improvements*	Allows certain non-lease operating expense reimbursements which are included in the underlying stated lease rate to be accounted for as part of the lease provided certain criteria are met under an optional practical expedient.	All of our operating expense reimbursements qualify to be accounted for as a part of the underlying lease.
ASU 2018-20	*Leases (Topic 842) Narrow-Scope Improvements for Lessors*	Allows lessors to exclude sales taxes collected from lessees from revenue; also stipulates certain requirements related to variable consideration; and also requires the lessor to allocate, rather than recognize, certain variable payments to lease and non-lease components when changes to the facts and circumstances of the basis of the payments occurs.	No material impact.

In addition to the practical expedients mentioned above, as part of ASU 2018-01 and ASU 2018-11, we intend to adopt the other following practical expedients and transition amendments collectively allowed by the FASB relative to the new guidance for lease accounting:

- a package of practical expedients, applied together, which do not require the reassessment of (1) any expired or existing contracts to determine if they contain a lease; (2) lease classification for any expired or existing leases, and (3) initial direct costs for any existing leases;
- the presentation of comparative periods in the year of adoption under ASC 840 (the former leasing guidance), which effectively allows for an initial adoption of ASC 842 (the new leasing guidance) on January 1, 2019.

Other than recording an immaterial right-to-use asset and offsetting lease liability under lessee accounting on our balance sheet of approximately $0.3 million, and no longer capitalizing internal direct payroll costs associated with negotiating and executing leases (only accounting for approximately $0.3 million for the year ended December 31, 2018), the adoption of ASU 2016-02 on January 1, 2019 did not have any material impact on our consolidated financial statements.

The FASB has issued Accounting Standards Update No. 2018-07, *Stock Compensation (Topic 718),* Improvements to Nonemployee Share-Based Payment Accounting ("ASU 2018-07"). The provisions of ASU 2018-07 align accounting for stock based compensation for non-employees for goods and services with existing accounting for similar compensation for employees. The amendments supersede previous guidance on accounting for share-based payments to non-employees codified in the FASB's Accounting Standards Codification ("ASC") 505-50. ASU 2018-07 is effective in the first quarter of 2019, with early adoption permitted at any time provided that the entity has already adopted the provisions of ASC 606. The adoption of ASU 2018-07 did not have any material impact on our consolidated financial statements.

Table of Contents
Index to Financial Statements

The FASB has issued Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). The provisions of ASU 2016-13 replace the "incurred loss" approach with an "expected loss" model for impairing trade and other receivables, held-to-maturity debt securities, net investment in leases, and off-balance-sheet credit exposures, which will generally result in earlier recognition of allowances for credit losses. Additionally, the provisions change the classification of credit losses related to available-for-sale securities to an allowance, rather than a direct reduction of the amortized cost of the securities. Additionally, the FASB issued Accounting Standards Update No. 2018-19 *Codification Improvements to Topic 326, Financial Instruments - Credit Losses* which is effective concurrently, with ASU 2016-13, and excludes receivable arising from operating leases from the scope of ASU 2016-13. ASU 2016-13 is effective in the first quarter of 2020, with early adoption permitted as of January 1, 2019. We are currently evaluating the potential impact of adoption; however, substantially all of our receivables are operating lease receivables and as such, we do not anticipate any material impact to our consolidated financial statements as a result of adoption.

Related-Party Transactions and Agreements

There were no related-party transactions during the three years ended December 31, 2018, other than a consulting agreement with our former Chief Investment Officer ("CIO"), Raymond L. Owens. Mr. Owens retired effective June 30, 2017, but will remain a consultant for us until June 30, 2020 and will earn $18,500 per month. During the year ended December 31, 2018, we incurred approximately $277,578 related to this consulting agreement.

Contractual Obligations

Our contractual obligations as of December 31, 2018 were as follows (in thousands):

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long-term debt (1) (2)	$1,694,706	$ 932	$328,774 (3)	$715,000 (4)	$650,000 (5)

(1) Amounts include principal payments only and balances outstanding as of December 31, 2018, not including unamortized issuance discounts, debt issuance costs paid to lenders, or estimated fair value adjustments. We made interest payments, including payments under our interest rate swaps, of approximately $63.1 million during the year ended December 31, 2018, and expect to pay interest in future periods on outstanding debt obligations based on the rates and terms disclosed herein and in Note 4 of our accompanying consolidated financial statements.

(2) Piedmont does not have any ground leases, nor does Piedmont have any material obligations as lessee under operating lease agreements as of December 31, 2018. See Note 8 to our accompanying consolidated financial statements for amounts committed to tenants for improvements, the timing of which may fluctuate.

(3) Includes the Amended and Restated $300 Million Unsecured 2011 Term Loan which has a stated variable rate; however, we have entered into interest rate swap agreements which effectively fix, exclusive of changes to our credit rating, the rate on this facility to 3.20% through January 15, 2020. As such, we estimate incurring, exclusive of changes to our credit rating, approximately $9.6 million per annum in total interest (comprised of combination of variable contractual rate and settlements under interest rate swap agreements) through January 2020.

(4) Includes the balance outstanding as of December 31, 2018 of the $500 Million Unsecured 2018 Line of Credit. However, we may extend the term for up to one additional year (through two available six month extensions to a final extended maturity date of September 29, 2023) provided we are not then in default and upon payment of extension fees.

(5) Includes the $250 Million Unsecured 2018 Term Loan, which has a stated variable rate; however, we entered into $100 million in notional amount of seven-year interest rate swap agreements and $50 million in notional amount of two-year interest rate swap agreements, resulting in an effectively fixed interest rate on $150 million of the term loan at 4.11% through March 29, 2020 and on $100 million of the term loan at 4.21% from March 30, 2020 through the loan's maturity date of March 31, 2025, assuming no change in our credit rating. As such, we estimate incurring, exclusive of changes to our credit rating, approximately $6.2 million per annum in total hedged interest (comprised of combination of variable contractual rate and settlements under interest rate swap agreements) through March 2020, and $4.2 million per annum in total hedged interest from March 2020 through March 2025. For the portion of the $250 Million Unsecured 2018 Term Loan that continues to have a variable interest rate, we may select from multiple interest rate options, including the prime rate and various length

LIBOR locks. All LIBOR selections are subject to an additional spread (1.60% as of December 31, 2018) over the selected interest rate based on our then current credit rating.

Table of Contents
Index to Financial Statements

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Our future income, cash flows, and estimated fair values of our financial instruments depend in part upon prevailing market interest rates. Market risk is the exposure to loss resulting from changes in interest rates, foreign currency, exchange rates, commodity prices, and equity prices. Our potential for exposure to market risk includes interest rate fluctuations in connection with borrowings under our $500 Million Unsecured 2018 Line of Credit, our Amended and Restated $300 Million Unsecured 2011 Term Loan, and the $250 Million Unsecured 2018 Term Loan. As a result, the primary market risk to which we believe we are exposed is interest rate risk. Many factors, including governmental monetary and tax policies, domestic and international economic and political considerations, and other factors that are beyond our control contribute to interest rate risk, including changes in the method pursuant to which the LIBOR rates are determined and the potential phasing out of LIBOR after 2021 (see Item 1A. Risk Factors for further discussion of the risks associated with LIBOR). Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flow primarily through a low-to-moderate level of overall borrowings, as well as managing the variability in rate fluctuations on our outstanding debt. As such, all of our debt other than the $500 Million Unsecured 2018 Line of Credit and $100 million of our $250 Million Unsecured 2018 Term Loan is currently based on fixed or effectively-fixed interest rates to hedge against volatility in the credit markets. We do not enter into derivative or interest rate transactions for speculative purposes, as such all of our debt and derivative instruments were entered into for other than trading purposes.

Our financial instruments consist of both fixed and variable-rate debt. As of December 31, 2018, our consolidated principal outstanding for aggregate debt maturities consisted of the following (in thousands):

	2019	2020	2021	2022	2023	Thereafter	Total
Maturing debt:							
Variable rate repayments	$—	$—	$—	$205,000 (3)	$—	$100,000 (4)	$305,000
Variable rate average interest rate (1)	— %	— %	— %	3.35 %	— %	4.12 %	3.60 %
Fixed rate repayments	$932	$1,072	$327,702 (2)	$160,000	$350,000	$550,000 (4)	$1,389,706
Fixed rate average interest rate (1)	5.55 %	5.55 %	3.40 %	3.48 %	3.40 %	4.36 %	3.79 %

(1) See Note 4 to our accompanying consolidated financial statements for further details on our debt structure.

(2) Includes the Amended and Restated $300 Million Unsecured 2011 Term Loan which has a stated variable rate; however, we have entered into interest rate swap agreements which effectively fix, exclusive of changes to our credit rating, the rate on this facility to 3.20% through January 15, 2020.

(3) Includes the balance of our $500 Million Unsecured 2018 Line of Credit. However, we may extend the term for up to one additional year (through two available six month extensions to a final extended maturity date of September 29, 2023) provided we are not then in default and upon payment of extension fees.

(4) During the year ended December 31, 2018, Piedmont entered into a $250 million unsecured term loan facility (the “$250 Million Unsecured 2018 Term Loan”) with a consortium of lenders. The facility has a stated variable rate; however, Piedmont has entered into interest rate swap agreements which effectively fix, exclusive of changes to Piedmont's credit rating, $150 million of the principal balance to 4.11% through March 2020 leaving the remaining $100 million principal at the variable rate. Fixed rate payments also includes $400 million of Unsecured Senior Notes.

Table of Contents
Index to Financial Statements

As of December 31, 2017, our consolidated principal outstanding for aggregate debt maturities consisted of the following (in thousands):

	2018	2019	2020	2021	2022	Thereafter	Total
Maturing debt:							
Variable rate repayments	$170,000 [2]	$23,000 [3]	$—	$—	$—	$—	$193,000
Variable rate average interest rate [1]	2.54 %	2.57 %	— %	— %	— %	— %	2.54 %
Fixed rate repayments	$882	$301,014 [4]	$301,072 [5]	$27,702	$160,000	$750,000	$1,540,670
Fixed rate average interest rate [1]	5.55 %	2.79 %	3.36 %	5.55 %	3.48 %	3.96 %	3.59 %

(1) See Note 4 to our accompanying consolidated financial statements for further details on our debt structure.

(2) Includes the balance of the $170 Million Unsecured 2015 Term Loan as of December 31, 2017; however, on January 4, 2018, Piedmont fully repaid the balance of this facility without penalty.

(3) Includes the balance on our $500 Million Unsecured 2015 Line of Credit which was repaid on September 28, 2018, and the balance was transferred to the $500 Million Unsecured 2018 Line of Credit. The $500 Million Unsecured 2018 Line of Credit has a maturity of September 30, 2022. However, we may extend the term for up to one additional year (through two available six month extensions to a final extended maturity date of September 29, 2023) provided we are not then in default and upon payment of extension fees.

(4) Includes the balance of the $300 Million Unsecured 2013 Term Loan as of December 31, 2017; however, on January 4, 2018, Piedmont fully repaid the balance of this facility without penalty.

(5) The amount includes the $300 Million Unsecured 2011 Term Loan which was Amended and Restated on September 28, 2018, amending, among other things, the maturity date from January 2020 to November 30, 2021. The Amended and Restated $300 Million Unsecured 2011 Term Loan has a stated variable rate; however, we have entered into interest rate swap agreements which effectively fix, exclusive of changes to our credit rating, the rate on this facility to 3.20% through January 15, 2020.

As of December 31, 2018 and December 31, 2017, the estimated fair value of our debt above was approximately $1.7 billion and $1.8 billion, respectively. Our interest rate swap agreements in place at December 31, 2018 and December 31, 2017 carried a notional amount totaling $450 million and $600 million, respectively, with a weighted-average fixed interest rate (not including the corporate credit spread) of 2.30% and 1.89%, respectively.

As of December 31, 2018, our total outstanding debt subject to fixed, or effectively fixed, interest rates has an average effective interest rate of approximately 3.79% per annum with expirations ranging from 2021 to 2025. A change in the market interest rate impacts the net financial instrument position of our fixed-rate debt portfolio but has no impact on interest incurred or cash flows.

As of December 31, 2018, we had $205 million outstanding on our $500 Million Unsecured 2018 Line of Credit. Our $500 Million Unsecured 2018 Line of Credit currently has a stated rate of LIBOR plus 0.90% per annum (based on our current corporate credit rating) or the prime rate, at our discretion, resulting in an total interest rate of 3.35%. The current stated interest rate spread on $100 million of the $250 Million Unsecured 2018 Term Loan that is not effectively fixed through interest rate swaps is LIBOR plus 1.60% (based on our current corporate credit rating), which, as of December 31, 2018, results in a total interest rate of 4.12%. To the extent that we borrow additional funds in the future under the $500 Million Unsecured 2018 Line of Credit or potential future variable-rate lines of credit, we would have exposure to increases in interest rates, which would potentially increase our cost of debt. Additionally, a 1.0% increase in variable interest rates on our existing outstanding borrowings as of December 31, 2018 would increase interest expense approximately $3.1 million on a per annum basis.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data filed as part of this report are set forth on page F-1 of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There were no disagreements with our independent registered public accountants during the years ended December 31, 2018 or 2017.

ITEM 9A. CONTROLS AND PROCEDURES

Management’s Conclusions Regarding the Effectiveness of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of management, including our Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act") as of the end of the period covered by this report. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report in providing a reasonable level of assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods in SEC rules and forms, including providing a reasonable level of assurance that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our Principal Executive Officer and our Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Report of Management on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining effective internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, as a process designed by, or under the supervision of, the principal executive and principal financial officers, or persons performing similar functions, and effected by the board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and disposition of our assets;
- provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of management and/or members of the board of directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of human error and the circumvention or overriding of controls, material misstatements may not be prevented or detected on a timely basis. In addition, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes and conditions or that the degree of compliance with policies or procedures may deteriorate. Accordingly, even internal controls determined to be effective can provide only reasonable assurance that the information required to be disclosed in reports filed under the Exchange Act is recorded, processed, summarized, and represented within the time periods required.

Our management has assessed the effectiveness of our internal control over financial reporting at December 31, 2018. To make this assessment, we used the criteria for effective internal control over financial reporting described in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway

Commission (COSO). Based on this assessment, our management believes that, as of December 31, 2018, our system of internal control over financial reporting was effective.

Piedmont's independent registered public accounting firm has issued an attestation report on the effectiveness of Piedmont's internal control over financial reporting, which appears in this Annual Report.

Changes in Internal Control Over Financial Reporting

There have been no significant changes in our internal control over financial reporting during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents
Index to Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Piedmont Office Realty Trust, Inc.:

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Piedmont Office Realty Trust, Inc. and subsidiaries (the “Company”) as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2018, of the Company and our report dated February 20, 2019, expressed an unqualified opinion on those financial statements.

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’s Report on 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/ Deloitte & Touche LLP

Atlanta, Georgia
February 20, 2019

Table of Contents
Index to Financial Statements

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Pursuant to Paragraph G(3) of the General Instructions to Form 10-K, the information required by Part III (Items 10, 11, 12, 13, and 14) is being incorporated by reference herein from our definitive proxy statement to be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2018 in connection with our 2019 Annual Meeting of Stockholders.

We have adopted a Code of Ethics, which is available on Piedmont's website at http://www.piedmontreit.com under the "Investor Relations" section. Any amendments to, or waivers of, the Code of Ethics will be disclosed on our website promptly following the date of such amendment or waiver.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 will be set forth in our definitive proxy statement to be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2018, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 will be set forth in our definitive proxy statement to be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2018, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by Item 13 will be set forth in our definitive proxy statement to be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2018, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 14 will be set forth in our definitive proxy statement to be filed with the SEC within 120 days of the end of the fiscal year ended December 31, 2018, and is incorporated herein by reference.

Table of Contents
Index to Financial Statements

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1. The financial statements begin on page F-4 of this Annual Report on Form 10-K, and the list of the financial statements contained herein is set forth on page F-1, which is hereby incorporated by reference.
(a) 2. Schedule III—Real Estate Assets and Accumulated Depreciation.

Information with respect to this item begins on page S-1 of this Annual Report on Form 10-K. Other schedules are omitted because of the absence of conditions under which they are required or because the required information is given in the financial statements or notes thereto.

(b) The Exhibits filed in response to Item 601 of Regulation S-K are listed on the Exhibit Index attached hereto.
(c) See (a) 2. above.

SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized this 20th day of February, 2019.

Piedmont Office Realty Trust, Inc.
(Registrant)

By: /s/ DONALD A. MILLER, CFA
Donald A. Miller, CFA
Chief Executive Officer, Principal Executive Officer, and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacity as and on the date indicated.

Signature	Title	Date
/s/ FRANK C. MCDOWELL **Frank C. McDowell**	Chairman, and Director	February 20, 2019
/s/ WESLEY E. CANTRELL **Wesley E. Cantrell**	Director	February 20, 2019
/s/ BARBARA B. LANG **Barbara B. Lang**	Director	February 20, 2019
/s/ RAYMOND G. MILNES, JR. **Raymond G. Milnes, Jr.**	Director	February 20, 2019
/s/ JEFFREY L. SWOPE **Jeffrey L. Swope**	Director	February 20, 2019
/s/ DALE H. TAYSOM **Dale H. Taysom**	Director	February 20, 2019
/s/ KELLY H. BARRETT **Kelly H. Barrett**	Director	February 20, 2019
/s/ DONALD A. MILLER, CFA **Donald A. Miller, CFA**	Chief Executive Officer and Director (Principal Executive Officer)	February 20, 2019
/s/ ROBERT E. BOWERS **Robert E. Bowers**	Chief Financial Officer and Executive Vice-President (Principal Financial Officer)	February 20, 2019
/s/ LAURA P. MOON **Laura P. Moon**	Chief Accounting Officer (Principal Accounting Officer)	February 20, 2019

Table of Contents
Index to Financial Statements

**EXHIBIT INDEX
TO
2018 FORM 10-K
OF
PIEDMONT OFFICE REALTY TRUST, INC.**

Exhibit Number	Description of Document
3.1	Third Articles of Amendment and Restatement of Piedmont Office Realty Trust, Inc. (f/k/a Wells Real Estate Investment Trust, Inc.) (the "Company") (incorporated by reference to Exhibit 3.1 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2009, filed on March 16, 2010)
3.2	Articles of Amendment of the Company effective June 30, 2011 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on July 6, 2011)
3.3	Articles Supplementary of the Company effective June 30, 2011 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on July 6, 2011)
3.4	Articles Supplementary to the Third Articles of Amendment and Restatement of Piedmont Office Realty Trust, Inc., as supplemented and amended (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on November 14, 2016)
3.5	Articles of Amendment to the Third Articles of Amendment and Restatement of Piedmont Office Realty Trust, Inc., as supplemented and amended (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on May 23, 2018)
3.6	Amended and Restated Bylaws of Piedmont Office Realty Trust, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on May 9, 2017)
4.1	Indenture, dated May 9, 2013, by and among Piedmont Operating Partnership, LP (the "Operating Partnership"), the Company and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on May 13, 2013)
4.2	Form of 3.40% Senior Notes due 2023 (included in Exhibit 4.1 hereto)
4.3	Indenture, dated March 6, 2014, by and among the Operating Partnership, Piedmont Office Realty Trust, Inc. and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on March 6, 2014)
4.4	Supplemental Indenture, dated March 6, 2014, by and among the Operating Partnership, Piedmont Office Realty Trust, Inc. and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, filed on March 6, 2014)
4.5	Form of 4.450% Senior Notes due 2024 (included in Exhibit 4.2 hereto)
10.1	Amended and Restated Agreement of Limited Partnership of the Operating Partnership, dated January 1, 2000 (incorporated by reference to Exhibit 10.64 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, filed on March 28, 2001)

10.2	Amendment to Agreement of Limited Partnership of the Operating Partnership, as Amended and Restated as of January 1, 2000, dated April 16, 2007 (incorporated by reference to Exhibit 99.8 to the Company’s Current Report on Form 8-K, filed on April 20, 2007)
10.3	Amendment to Second Amended and Restated Agreement of Limited Partnership of the Operating Partnership, as Amended and Restated as of January 1, 2000, dated August 8, 2007 (incorporated by reference to Exhibit 99.1 to the Company’s Current Report on Form 8-K, filed on August 10, 2007)
10.4	Amended and Restated Dividend Reinvestment Plan of the Company adopted February 24, 2011 (incorporated by reference to Exhibit 99.1 to the Company’s Current Report on Form 8-K, filed on February 24, 2011)
10.5*	Long-Term Incentive Program (as amended and restated effective April 27, 2016) (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2016, filed on August 3, 2016)
10.6*	Long-Term Incentive Program Award Agreement (incorporated by reference to Exhibit 10.3 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2011, filed on November 3, 2011)

10.7*	The Piedmont Office Realty Trust, Inc. Executive Nonqualified Deferred Compensation Plan dated December 5, 2013 (incorporated by reference to Exhibit 10.39 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013, filed on February 18, 2014)
10.8*	The Piedmont Office Realty Trust, Inc. Executive Nonqualified Deferred Compensation Plan Adoption Agreement dated December 5, 2013 (incorporated by reference to Exhibit 10.40 to the Company's Annual Report on Form 10-K for the year ended December 31, 2013, filed on February 18, 2014)
10.9*	Form of Employee Deferred Stock Award Agreement for 2007 Omnibus Incentive Plan of the Company effective May 18, 2007 (incorporated by reference to Exhibit 10.82 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2007, filed on August 7, 2007)
10.10*	Form of Employee Deferred Stock Award Agreement for 2007 Omnibus Incentive Plan of the Company effective April 28, 2015 (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015, filed on July 29, 2015)
10.11*	Employment Agreement dated February 2, 2007, by and between the Company and Donald A. Miller, CFA (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K, filed on February 5, 2007)
10.12*	Amendment Number One to Employment Agreement dated February 2, 2007, by and between the Company and Donald A. Miller, CFA (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on September 14, 2011)
10.13*	Employment Agreement dated April 16, 2007, by and between the Company and Robert E. Bowers (incorporated by reference to Exhibit 99.9 to the Company’s Current Report on Form 8-K, filed on April 20, 2007)
10.14*	Employment Agreement dated May 14, 2007, by and between the Company and Carroll A. “Bo” Reddic, IV (incorporated by reference to Exhibit 99.1 to the Company’s Current Report on Form 8-K, filed on May 14, 2007)
10.15*	Employment Agreement dated May 14, 2007, by and between the Company and Laura P. Moon (incorporated by reference to Exhibit 99.3 to the Company’s Current Report on Form 8-K, filed on May 14, 2007)
10.16*	Offer Letter Dated October 17, 2012 among the Company and Robert K. Wiberg (incorporated by reference to Exhibit 10.41 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012, filed on February 27, 2013)
10.17*	Consulting Agreement, dated as of November 28, 2016, by and between the Company and Raymond L. Owens (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed on February 21, 2017)
10.18*	Confidential Retirement Agreement and General Release, dated as of November 28, 2016, by and between the Company and Raymond L. Owens (incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, filed on February 21, 2017)
10.19	

	Amended and Restated Term Loan Agreement Dated as Of September 28, 2018 by and among Piedmont Operating Partnership, LP, as Borrower, Piedmont Office Realty Trust, Inc., as Parent, JPMorgan Chase Bank, N.A., and SunTrust Robinson Humphrey, Inc., as Co-Lead Arrangers and Book Managers, JPMorgan Chase Bank, N.A., as Administrative Agent, SunTrust Bank as Syndication Agent, and the other financial institutions initially signatory thereto and their assignees (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 2, 2018)
10.20	Term Loan Agreement, dated as of December 18, 2013, among Piedmont Operating Partnership, LP, as Borrower, Piedmont Office Realty Trust, Inc., as Parent, U.S. Bank, N.A., and SunTrust Robinson Humphrey, Inc., as Joint Book Runners and Joint Lead Arrangers, U.S. Bank, N.A., as Agent, SunTrust Bank as Syndication Agent, the other banks signatory thereto as Lenders (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on December 19, 2013)
10.21	Term Loan Agreement, dated as of March 27, 2015, among Piedmont Operating Partnership, LP, as Borrower, Piedmont Office Realty Trust, Inc., as Parent, JP Morgan Securities, LLC, U.S. Bank National Association and SunTrust Robinson Humphrey, Inc., as Co-Lead Arrangers and Book Managers; JPMorgan Chase Bank, as Agent; U.S. Bank National Association, as Syndication Agent; SunTrust Bank, as Documentation Agent; and the financial institutions initially signatory thereto and their assignees, as Lenders (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 2, 2015)
10.22	Loan Agreement dated as of June 23, 2015 between Piedmont 1901 Market LLC, as Borrower and The Prudential Insurance Company of America, as Lender (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on June 24, 2015)

10.23	First Amendment to the Loan Agreement between Piedmont 1901 Market LLC, as Borrower and The Prudential Insurance Company of America, as Lender (incorporated by reference to Exhibit 10.42 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017, filed on February 21, 2018)
10.24	Open-End Mortgage and Security Agreement (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on June 24, 2015)
10.25*	Piedmont Office Realty Trust, Inc. Amended and Restated 2007 Omnibus Incentive Plan (incorporated by reference to Appendix A to the Company's Proxy Statement for its 2017 Annual Meeting of Stockholders filed with the Commission on March 22, 2017)
10.26*	Amendment Number Three to the Piedmont Office Realty Trust, Inc. Long-Term Incentive Program effective May 2, 2017 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2017, filed on August 2, 2017)
10.27*	Form of Employee Deferred Stock Award Agreement for Amended and Restated 2007 Omnibus Incentive Plan of the Company effective May 2, 2017 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2017, filed on August 2, 2017)
10.28	Term Loan Agreement, dated as of March 29, 2018, by and among Piedmont Operating Partnership, LP, as Borrower, Piedmont Office Realty Trust, Inc., as Parent, U.S. Bank National Association, PNC Capital Markets LLC, and SunTrust Robinson Humphrey, Inc., as Joint Lead Arrangers and Joint Book Runners, U.S. Bank National Association, as Administrative Agent, PNC Bank, National Association and SunTrust Bank as Syndication Agents, and the other banks signatory thereto as Lenders (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed April 3, 2018)
10.29	Amendment No. 1, dated as of September 28, 2018, to the Term Loan Agreement between Piedmont Operating Partnership, LP, as Borrower and U.S. Bank National Association as Administrative Agent dated as of March 29, 2018 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2018, filed on October 30, 2018)
10.30	Revolving Credit Agreement Dated as of September 28, 2018 by and among Piedmont Operating Partnership, LP, as Borrower, Piedmont Office Realty Trust, Inc., as Parent, JPMorgan Chase Bank, N.A., SunTrust Robinson Humphrey, Inc., U.S. Bank National Association and PNC Capital Markets LLC, as Joint Lead Arrangers and Joint Bookrunners, JPMorgan Chase Bank, N.A., as Administrative Agent, SunTrust Bank, U.S. Bank National Association and PNC Bank, National Association, as Syndication Agents, Bank Of America, N.A., BMO Harris Bank, N.A., Branch Banking and Trust Company, Morgan Stanley Senior Funding, Inc., TD Bank, N.A., The Bank Of Nova Scotia and Wells Fargo Bank, N.A. as Documentation Agents, and the other financial institutions initially signatory thereto and their assignees (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed October 2, 2018)
10.31*	Employment Agreement dated January 1, 2019, by and between the Company and Christopher Kollme
21.1	List of Subsidiaries of the Company
23.1	Consent of Deloitte & Touche LLP

23.2	Consent of Ernst & Young LLP
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

* Identifies each management contract or compensatory plan required to be filed.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents
Index to Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Piedmont Office Realty Trust, Inc.:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Piedmont Office Realty Trust, Inc. and subsidiaries (the "Company") as of December 31, 2018, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows, for the year ended December 31, 2018, and the related notes and the schedule listed in the Index at Item 15(a) (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the results of its operations and its cash flows for the year ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also 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, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 20, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.

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 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 the financial statements are free of material misstatement, whether due to error or fraud. Our audit 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 audit 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 audit provides a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Atlanta, Georgia
February 20, 2019

We have served as the Company's auditor since 2018.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Board of Directors and Stockholders of Piedmont Office Realty Trust, Inc.
Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Piedmont Office Realty Trust, Inc. as of December 31, 2017, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years ended December 31, 2017 and 2016, and the related notes and financial statement schedule listed in the Index at Item 15(a) for the years ended December 31, 2017 and 2016 (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 Piedmont Office Realty Trust, Inc. at December 31, 2017, and the results of its operations and its cash flows for years ended December 31, 2017 and 2016, in conformity with U.S. generally accepted accounting principles.

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.

/s/ Ernst & Young LLP

Atlanta, Georgia

February 21, 2018, except for the reclassifications discussed in Note 2 under Reclassifications and Accounting Pronouncements Adopted during the Year Ended December 31, 2018, specifically Revenue Recognition and Gain/(Loss) on Sale of Real Estate Assets and Assets Held for Sale at December 31, 2017 presented in Note 12, as to which the date is February 20, 2019.

Table of Contents
Index to Financial Statements

PIEDMONT OFFICE REALTY TRUST, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per-share amounts)

	December 31, 2018	December 31, 2017
Assets:		
Real estate assets, at cost:		
Land	**$507,422**	$490,625
Buildings and improvements, less accumulated depreciation of $772,093 and $683,770 as of December 31, 2018 and December 31, 2017, respectively	**2,305,096**	2,243,519
Intangible lease assets, less accumulated amortization of $87,391 and $99,145 as of December 31, 2018 and December 31, 2017, respectively	**77,676**	77,805
Construction in progress	**15,848**	11,344
Real estate assets held for sale, net	**110,552**	561,449
Total real estate assets	**3,016,594**	3,384,742
Investment in and amounts due from unconsolidated joint venture	**—**	10
Cash and cash equivalents	**4,571**	7,382
Tenant receivables, net of allowance for doubtful accounts of $504 and $539 as of December 31, 2018 and December 31, 2017, respectively	**10,800**	12,139
Straight-line rent receivables	**162,589**	144,469
Restricted cash and escrows	**1,463**	1,373
Prepaid expenses and other assets	**25,356**	20,778
Goodwill	**98,918**	98,918
Interest rate swaps	**1,199**	688
Deferred lease costs, less accumulated amortization of $183,611 and $180,120 as of December 31, 2018 and December 31, 2017, respectively	**250,148**	245,175
Other assets held for sale, net	**20,791**	84,293
Total assets	**$3,592,429**	$3,999,967
Liabilities:		
Unsecured debt, net of discount and unamortized debt issuance costs of $9,879 and $7,689 as of December 31, 2018 and December 31, 2017, respectively	**$1,495,121**	$1,535,311
Secured debt, net of premiums and unamortized debt issuance costs of $645 and $946 as of December 31, 2018 and December 31, 2017, respectively	**190,351**	191,616
Accounts payable, accrued expenses, and accrued capital expenditures	**102,519**	114,853
Dividends payable	**26,972**	101,800
Deferred income	**28,779**	29,582
Intangible lease liabilities, less accumulated amortization of $59,144 and $55,847 as of December 31, 2018 and December 31, 2017, respectively	**35,708**	38,458
Interest rate swaps	**839**	1,478
Other liabilities held for sale, net	**—**	380
Total liabilities	**1,880,289**	2,013,478
Commitments and Contingencies (Note 8)	**—**	—
Stockholders' Equity:		
Shares-in-trust, 150,000,000 shares authorized, none outstanding as of December 31, 2018 or December 31, 2017	**—**	—
Preferred stock, no par value, 100,000,000 shares authorized, none outstanding as of December 31, 2018 or December 31, 2017	**—**	—
	1,262	1,424

Common stock, $.01 par value; 750,000,000 shares authorized, 126,218,554 shares issued and outstanding as of December 31, 2018; and 142,358,940 shares issued and outstanding at December 31, 2017		
Additional paid-in capital	**3,683,186**	3,677,360
Cumulative distributions in excess of earnings	**(1,982,542)**	(1,702,281)
Other comprehensive income	**8,462**	8,164
Piedmont stockholders' equity	**1,710,368**	1,984,667
Noncontrolling interest	**1,772**	1,822
Total stockholders' equity	**1,712,140**	1,986,489
Total liabilities and stockholders' equity	**$3,592,429**	$3,999,967

See accompanying notes.

Table of Contents
Index to Financial Statements

PIEDMONT OFFICE REALTY TRUST, INC.
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except share and per-share amounts)

	Years Ended December 31,		
	2018	2017	2016
Revenues:			
Rental income	**$411,667**	$ 455,125	$ 439,918
Tenant reimbursements	**92,743**	98,139	94,901
Property management fee revenue	**1,450**	1,735	1,914
Other property related income	**20,107**	19,174	18,982
	525,967	574,173	555,715
Expenses:			
Property operating costs	**209,338**	222,441	220,796
Depreciation	**107,956**	119,288	127,733
Amortization	**63,295**	75,367	75,119
Impairment loss on real estate assets	**—**	46,461	33,901
General and administrative	**29,713**	29,319	27,382
	410,302	492,876	484,931
	115,665	81,297	70,784
Other income (expense):			
Interest expense	**(61,023)**	(68,124)	(64,860)
Other income/(expense)	**1,638**	657	(13)
Net recoveries from casualty events	**—**	—	34
Equity in income of unconsolidated joint ventures	**—**	3,845	362
Loss on extinguishment of debt	**(1,680)**	—	—
Gain on sale of real estate assets, net	**75,691**	115,874	93,410
	14,626	52,252	28,933
Net income	**130,291**	133,549	99,717
Net loss applicable to noncontrolling interest	**5**	15	15
Net income applicable to Piedmont	**$130,296**	$ 133,564	$ 99,732
Per share information— basic and diluted:			
Net income applicable to common stockholders	**$1.00**	$ 0.92	$ 0.69
Weighted-average shares outstanding—basic	**130,161,202**	145,043,503	145,230,382
Weighted-average shares outstanding—diluted	**130,635,650**	145,379,994	145,634,953

See accompanying notes.

Table of Contents
Index to Financial Statements

PIEDMONT OFFICE REALTY TRUST, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Years Ended December 31,		
	2018	2017	2016
Net income applicable to Piedmont	**$130,296**	$133,564	$99,732
Other comprehensive income:			
Effective portion of gain/(loss) on derivative instruments that are designated and qualify as cash flow hedges (See Note 5)	**692**	2,479	(4,126)
Plus: Reclassification of net (gain)/loss included in net income (See Note 5)	**(300)**	3,502	4,548
Gain on investment in available for sale securities	**—**	79	21
Other comprehensive income	**392**	6,060	443
Comprehensive income applicable to Piedmont	**$130,688**	$139,624	$100,175

See accompanying notes.

Table of Contents
Index to Financial Statements

PIEDMONT OFFICE REALTY TRUST, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except per-share amounts)

	Common Stock		Additional Paid-In Capital	Cumulative Distributions in Excess of Earnings	Other Comprehensive Income/(Loss)	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount					
Balance, December 31, 2015	145,512	$1,455	$3,669,977	$ (1,550,698)	$ 1,661	$ 1,025	$2,123,420
Share repurchases as part of announced plan	(462)	(5)	—	(7,938)	—	—	(7,943)
Offering costs	—	—	(342)	—	—	—	(342)
Noncontrolling interest in consolidated joint venture	—	—	—	—	—	888	888
Dividends to common stockholders ($0.84 per share), stockholders of subsidiaries, and dividends reinvested	—	—	(173)	(121,959)	—	(16)	(122,148)
Shares issued and amortized under the 2007 Omnibus Incentive Plan, net of tax	185	2	3,666	—	—	—	3,668
Net loss applicable to noncontrolling interest	—	—	—	—	—	(15)	(15)
Net income applicable to Piedmont	—	—	—	99,732	—	—	99,732
Other comprehensive income	—	—	—	—	443	—	443
Balance, December 31, 2016	145,235	1,452	3,673,128	(1,580,863)	2,104	1,882	2,097,703
Share repurchases as part of an announced plan	(3,133)	(31)	—	(61,719)	—	—	(61,750)
Offering costs	—	—	(182)	—	—	—	(182)
Dividends to common stockholders ($1.34 per share), stockholders of subsidiaries, and dividends reinvested	—	—	(233)	(193,263)	—	(45)	(193,541)
Shares issued and amortized under the 2007 Omnibus Incentive Plan, net of tax	257	3	4,647	—	—	—	4,650
Net loss applicable to noncontrolling interest	—	—	—	—	—	(15)	(15)
Net income applicable to Piedmont	—	—	—	133,564	—	—	133,564
Other comprehensive income	—	—	—	—	6,060	—	6,060
Balance, December 31, 2017	142,359	1,424	3,677,360	(1,702,281)	8,164	1,822	1,986,489
Cumulative effect of accounting change (adoption of ASU 2016-01)	**—**	**—**	**—**	**94**	**(94)**	**—**	**—**
Share repurchases as part of an announced plan	**(16,495)**	**(165)**	**—**	**(301,513)**	**—**	**—**	**(301,678)**
Offering costs	**—**	**—**	**(85)**	**—**	**—**	**—**	**(85)**
Dividends to common stockholders ($0.84 per share), stockholders of subsidiaries, and dividends reinvested	**—**	**—**	**(82)**	**(109,138)**	**—**	**(45)**	**(109,265)**
Shares issued and amortized under the 2007 Omnibus Incentive Plan, net of tax	**355**	**3**	**5,993**	**—**	**—**	**—**	**5,996**
Net loss applicable to noncontrolling interest	**—**	**—**	**—**	**—**	**—**	**(5)**	**(5)**
Net income applicable to Piedmont	**—**	**—**	**—**	**130,296**	**—**	**—**	**130,296**
Other comprehensive income	**—**	**—**	**—**	**—**	**392**	**—**	**392**
Balance, December 31, 2018	**126,219**	**$1,262**	**$3,683,186**	**$ (1,982,542)**	**$ 8,462**	**$ 1,772**	**$1,712,140**

See accompanying notes.

Table of Contents
Index to Financial Statements

PIEDMONT OFFICE REALTY TRUST, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31,		
	2018	2017	2016
Cash Flows from Operating Activities:			
Net income	**$130,291**	$133,549	$99,717
Operating distributions received from unconsolidated joint ventures	**10**	11	579
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**107,956**	119,288	127,733
Amortization of debt issuance costs net of favorable settlement of interest rate swaps	**(250)**	1,588	1,702
Other amortization	**58,330**	73,944	74,373
Impairment loss on real estate assets	**—**	46,461	33,901
Loss on extinguishment of debt	**1,665**	—	—
Stock compensation expense	**9,737**	9,196	7,928
Equity in income of unconsolidated joint ventures	**—**	(3,845)	(362)
Gain on sale of real estate assets	**(75,691)**	(115,874)	(93,410)
Changes in assets and liabilities:			
Increase in tenant and straight-line rent receivables, net	**(16,094)**	(21,392)	(26,747)
Decrease/(increase) in prepaid expenses and other assets	**(3,095)**	384	1,437
Increase/(decrease) in accounts payable and accrued expenses	**(9,092)**	(1,521)	3,555
Increase/(decrease) in deferred income	**(898)**	1,016	1,441
Net cash provided by operating activities	**202,869**	242,805	231,847
Cash Flows from Investing Activities:			
Acquisition of real estate assets and intangibles	**(151,914)**	(35,262)	(349,668)
Capitalized expenditures	**(72,105)**	(79,831)	(110,228)
Net sale proceeds from wholly-owned properties	**575,227**	375,518	365,918
Net sale proceeds received from unconsolidated joint ventures	**—**	12,334	—
Investments in unconsolidated joint ventures	**—**	(1,162)	—
Note receivable issuance	**(3,200)**	—	—
Note receivable repayment	**3,200**	—	—
Deferred lease costs paid	**(27,430)**	(30,985)	(25,896)
Net cash provided by/(used in) investing activities	**323,778**	240,612	(119,874)
Cash Flows from Financing Activities:			
Debt issuance and other costs paid	**(1,040)**	(132)	(264)
Proceeds from debt	**977,062**	180,000	695,000
Repayments of debt	**(1,020,455)**	(476,401)	(706,875)
Costs of issuance of common stock	**(85)**	(182)	(342)
Value of shares withheld for payment of taxes related to employee stock compensation	**(2,219)**	(3,403)	(2,344)
Repurchases of common stock as part of announced plan	**(298,538)**	(60,474)	(7,943)
Dividends paid and discount on dividend reinvestments	**(184,093)**	(122,274)	(91,616)
Net cash used in financing activities	**(529,368)**	(482,866)	(114,384)
Net increase/(decrease) in cash, cash equivalents, and restricted cash and escrows	**(2,721)**	551	(2,411)
Cash, cash equivalents, and restricted cash and escrows, beginning of year	**8,755**	8,204	10,615
Cash, cash equivalents, and restricted cash and escrows, end of year	**$6,034**	$8,755	$8,204

See accompanying notes.

Table of Contents
Index to Financial Statements

PIEDMONT OFFICE REALTY TRUST, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018, 2017, AND 2016

1. Organization

Piedmont Office Realty Trust, Inc. ("Piedmont") (NYSE: PDM) is a Maryland corporation that operates in a manner so as to qualify as a real estate investment trust ("REIT") for federal income tax purposes and engages in the acquisition, development, management, and ownership of commercial real estate properties located primarily in the Eastern-half of the United States, including properties that are under construction, are newly constructed, or have operating histories. Piedmont was incorporated in 1997 and commenced operations in 1998. Piedmont conducts business primarily through Piedmont Operating Partnership, L.P. ("Piedmont OP"), a Delaware limited partnership, as well as performing the management of its buildings through two wholly-owned subsidiaries, Piedmont Government Services, LLC and Piedmont Office Management, LLC. Piedmont owns 99.9% of, and is the sole general partner of, Piedmont OP and as such, possesses full legal control and authority over the operations of Piedmont OP. The remaining 0.1% ownership interest of Piedmont OP is held indirectly by Piedmont through its wholly-owned subsidiary, Piedmont Office Holdings, Inc. ("POH"), the sole limited partner of Piedmont OP. Piedmont OP owns properties directly, through wholly-owned subsidiaries, and through various joint ventures which we control. References to Piedmont herein shall include Piedmont and all of its subsidiaries, including Piedmont OP and its subsidiaries and joint ventures.

As of December 31, 2018, Piedmont owned 54 in-service office properties and one redevelopment asset, comprising approximately 487,000 square feet (unaudited). As of December 31 2018, Piedmont's 54 in-service office properties comprise approximately 16.2 million square feet (unaudited) of primarily Class A commercial office space and were approximately 93.3% leased. As of December 31, 2018, 92% of Piedmont's Annualized Lease Revenue (unaudited) was generated from select sub-markets located within eight major office markets: Atlanta, Boston, Chicago, Dallas, Minneapolis, New York, Orlando, and Washington, D.C.

Piedmont internally evaluates all of its real estate assets as one operating segment, and accordingly does not report segment information.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The consolidated financial statements of Piedmont are prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and include the accounts of Piedmont, Piedmont's wholly-owned subsidiaries, any variable interest entity ("VIE") of which Piedmont or any of its wholly-owned subsidiaries is considered to have the power to direct the activities of the entity and the obligation to absorb losses/right to receive benefits, or any entity in which Piedmont or any of its wholly-owned subsidiaries owns a controlling interest. In determining whether Piedmont or Piedmont OP has a controlling interest, the following factors, among others, are considered: equity ownership, voting rights, protective rights of investors, and participatory rights of investors.

Piedmont owns a majority interest in four properties through three joint ventures. Two of these joint ventures, 1201 and 1225 Eye Street, NW Associates, which own the 1201 and 1225 Eye Street buildings, respectively, in Washington, D.C. are consolidated using the method prescribed in accounting for VIEs. In accordance with the guidance in Accounting Standards Codification ("ASC") 810, *Consolidations*, Piedmont is exempt from providing further disclosures related to its VIEs. The other joint venture, Piedmont-CNL Towers Orlando, LLC, which owns CNL Center I and II, in Orlando, Florida is an investment consolidated under the voting model. Accordingly, Piedmont's consolidated financial statements include the accounts of 1201 Eye Street, NW Associates, LLC, 1225 Eye Street, NW Associates, LLC, and Piedmont-CNL Towers Orlando, LLC.

All inter-company balances and transactions have been eliminated upon consolidation.

Further, Piedmont has formed special purpose entities to acquire and hold real estate. Each special purpose entity is a separate legal entity and consequently the assets of the special purpose entities are not available to all creditors of Piedmont. The assets owned by these special purpose entities are being reported on a consolidated basis with Piedmont's assets for financial reporting purposes only.

Use of Estimates

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

Real Estate Assets

Piedmont classifies its real estate assets as long-lived assets held for use or as long-lived assets held for sale. Held for use assets are stated at cost, as adjusted for any impairment loss, less accumulated depreciation. Held for sale assets are carried at lower of depreciated cost or estimated fair value, less estimated costs to sell. Piedmont generally reclassifies assets as held for sale once a sales contract has been executed and earnest money has become non-refundable.

Amounts capitalized to real estate assets consist of the cost of acquisition or construction, any tenant improvements or major improvements, betterments that extend the useful life of the related asset, and transaction costs associated with the acquisition of an individual asset that does not qualify as a business combination. All repairs and maintenance are expensed as incurred. Additionally, Piedmont capitalizes interest while the development, or redevelopment, of a real estate asset is in progress. Approximately $1.4 million, $0.2 million, and $4.6 million of interest was capitalized for the years ended December 31, 2018, 2017, and 2016, respectively.

Piedmont's real estate assets are depreciated or amortized using the straight-line method over the following useful lives:

Buildings	40 years
Building improvements	5-25 years
Land improvements	20-25 years
Tenant allowances	Lease term
Furniture, fixtures, and equipment	3-5 years
Intangible lease assets	Lease term

Piedmont continually monitors events and changes in circumstances that could indicate that the carrying amounts of the real estate and related intangible assets of either operating properties or properties under construction in which Piedmont has an ownership interest, either directly or through investments in joint ventures, may not be recoverable. When indicators of potential impairment are present, management assesses whether the respective carrying values will be recovered from the undiscounted future operating cash flows expected from the use of the asset and its eventual disposition for assets held for use, or from the estimated fair values, less costs to sell, for assets held for sale. In the event that the expected undiscounted future cash flows for assets held for use or the estimated fair value, less costs to sell, for assets held for sale do not exceed the respective asset carrying value, management adjusts such assets to the respective estimated fair values and recognizes an impairment loss. Estimated fair values are calculated based on the following information, depending upon availability, in order of preference: (i) recently quoted market prices, (ii) market prices for comparable properties, or (iii) the present value of undiscounted cash flows, including estimated sales value (which is based on key assumptions such as estimated market rents, lease-up periods, estimated lease terms, and capitalization and discount rates) less estimated selling costs.

Fair Value of Assets and Liabilities of Acquired Properties

Upon the acquisition of real properties, Piedmont records the fair value of properties (plus any related acquisition costs) allocated based on relative fair value as tangible assets, consisting of land and building, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases and the value of in-place leases, based on their estimated fair values.

The estimated fair values of the tangible assets of an acquired property (which includes land and building) are determined by valuing the property as if it were vacant, and the "as-if-vacant" value is then allocated to land and building based on management's determination of the estimated fair value of these assets. Management relies on a sales comparison approach using closed land sales and listings in determining the land value, and determines the as-if-vacant estimated fair value of a property using methods similar to those used by independent appraisers. Factors considered by management in performing these analyses include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. In estimating carrying costs, management includes real estate taxes, insurance, and other operating expenses and estimates of lost rental revenue during the expected lease-up periods based on current market demand. Management also estimates the cost to execute similar leases including leasing commissions, legal, and other related costs.

Table of Contents
Index to Financial Statements

The estimated fair values of above-market and below-market in-place leases are recorded based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of market rates for the corresponding in-place leases, measured over a period equal to the remaining terms of the leases, taking into consideration the probability of renewals for any below-market leases. The capitalized above-market and below-market lease values are recorded as intangible lease assets or liabilities and amortized as an adjustment to rental revenues over the remaining terms of the respective leases.

The estimated fair values of in-place leases include an estimate of the direct costs associated with obtaining the acquired or "in place" tenant, estimates of opportunity costs associated with lost rentals that are avoided by acquiring an in-place lease. The amount capitalized as direct costs associated with obtaining a tenant include commissions, tenant improvements, and other direct costs and are estimated based on management's consideration of current market costs to execute a similar lease. These direct lease origination costs are included in deferred lease costs in the accompanying consolidated balance sheets and are amortized to expense over the remaining terms of the respective leases. The value of opportunity costs is calculated using the contractual amounts to be paid pursuant to the in-place leases over a market absorption period for a similar lease. These lease intangibles are included in intangible lease assets in the accompanying consolidated balance sheets and are amortized to expense over the remaining terms of the respective leases.

Gross intangible assets and liabilities, inclusive of amounts classified as real estate assets held for sale, recorded at acquisition as of December 31, 2018 and 2017, respectively, are as follows (in thousands):

	December 31, 2018	**December 31, 2017**
Intangible Lease Assets:		
Above-Market In-Place Lease Assets	**$7,620**	$11,935
In-Place Lease Valuation	**$157,447**	$165,015
Intangible Lease Origination Costs (included as component of Deferred Lease Costs)	**$241,516**	$250,539
Intangible Lease Liabilities (Below-Market In-Place Leases)	**$94,852**	$95,620

For the years ended December 31, 2018, 2017, and 2016, respectively, Piedmont recognized amortization of intangible lease costs as follows (in thousands):

	2018	**2017**	**2016**
Amortization of Intangible Lease Origination Costs and In-Place Lease Valuation included in amortization expense	**$48,940**	$58,467	$58,150
Amortization of Above-Market and Below-Market In-Place Lease intangibles as a net increase to rental revenues	**$7,615**	$6,575	$5,066

Table of Contents
Index to Financial Statements

Net intangible assets and liabilities as of December 31, 2018 will be amortized as follows (in thousands):

	Intangible Lease Assets			
	Above-Market In-place Lease Assets	In-Place Lease Valuation	Intangible Lease Origination Costs (1)	Below-Market In-place Lease Liabilities
For the year ending December 31:				
2019	$938	$20,876	$ 29,503	$ 8,273
2020	197	14,540	22,570	6,654
2021	141	12,449	19,818	6,443
2022	121	10,948	17,550	5,878
2023	97	7,370	11,774	4,367
Thereafter	64	9,935	18,952	4,093
	$1,558	$76,118	$ 120,167	$ 35,708
Weighted-Average Amortization Period (in years)	3	5	6	6

(1) Included as a component of Deferred Lease Costs in the accompanying consolidated balance sheets.

Investments in and Amounts Due from Unconsolidated Joint Ventures

During the year ended December 31, 2017, Piedmont sold its investment in its last remaining unconsolidated joint venture. Prior to this disposition, Piedmont had accounted for its unconsolidated joint ventures using the equity method of accounting, whereby original investments were recorded at cost and subsequently adjusted for contributions, distributions, net income/(loss), and "other than temporary" impairment losses, if any, attributable to such joint ventures. All income and distributions were allocated to the joint venture partners in accordance with their respective ownership interests. Any distributions were classified on the accompanying consolidated statements of cash flow using the nature of distribution approach. Any distributions of net cash from operations were classified as cash inflows from operating activities, as they were presumed to be returns on Piedmont’s investment in the joint venture. Any proceeds received as the result of a sale of an asset from an unconsolidated joint venture were considered a return of Piedmont’s investment in the joint venture and classified as cash inflows from investing activities.

Cash and Cash Equivalents

Piedmont considers all highly-liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents include cash and short-term investments. The majority of Piedmont’s cash and cash equivalents are held at major commercial banks and at times may exceed the Federal Deposit Insurance Corporation limit of $250,000. Short-term investments consist of investments in money market accounts stated at cost, which approximates estimated fair value, and available-for-sale securities resulting from Piedmont's non-qualified deferred compensation program carried at estimated fair value.

Tenant Receivables, net and Straight-line Rent Receivables

Tenant receivables are comprised of rental and reimbursement billings due from tenants, and straight-line rent receivables representing the cumulative amount of future adjustments necessary to present rental income on a straight-line basis. Tenant receivables are recorded at the original amount earned, less an allowance for any doubtful accounts, which approximates estimated fair value. Management assesses the collectability of tenant receivables on an ongoing basis and provides for allowances as such balances, or portions thereof, become uncollectible. Piedmont records provisions for bad debts as property operating costs in the accompanying consolidated statements of income, and recognized approximately $91,000, $350,000, and $216,000 of provisions for bad debts during the years ended

December 31, 2018, 2017, and 2016, respectively.

Restricted Cash and Escrows

Restricted cash and escrows principally relate to the following types of items:

- escrow accounts held by lenders to pay future real estate taxes, insurance, debt service, and tenant improvements;
- net sales proceeds from property sales held by qualified intermediary for potential Section 1031 exchange;
- earnest money paid in connection with future acquisitions; and
- security and utility deposits paid by tenants per the terms of their respective leases.

Restricted cash and escrows are generally reclassified to other asset or liability accounts upon being used to purchase assets, satisfy obligations, or settle tenant obligations.

Prepaid Expenses and Other Assets

Prepaid expenses and other assets are primarily comprised of the following items:

- prepaid property taxes, insurance and operating costs;
- receivables which are unrelated to tenants, for example, insurance proceeds receivable from insurers related to casualty losses; and
- equipment, furniture and fixtures, and tenant improvements for Piedmont’s corporate office and property management office space, net of accumulated depreciation.

Prepaid expenses and other assets will be expensed as utilized or depreciated in the case of Piedmont's corporate assets. Balances without a future economic benefit are expensed as they are identified.

Goodwill

Goodwill is the excess of cost of an acquired entity over the amounts specifically assigned to assets acquired and liabilities assumed in purchase accounting for business combinations. Piedmont tests the carrying value of its goodwill for impairment on an annual basis, or on an interim basis if an event occurs or circumstances change that would indicate the carrying amount may be impaired. Such interim circumstances may include, but are not limited to, significant adverse changes in legal factors or in the general business climate, adverse action or assessment by a regulator, unanticipated competition, the loss of key personnel, or persistent declines in an entity’s stock price below carrying value of the entity. Piedmont first assesses qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the estimated fair value of the reporting unit is less than its carrying amount. Piedmont internally evaluates its consolidated financial position and all of its operations as one reporting unit. If Piedmont concludes, after assessing the totality of events and circumstances during the qualitative analysis, that it is more likely than not that the goodwill balance is impaired, then Piedmont will recognize a goodwill impairment loss by the excess of the reporting unit’s carrying amount over its estimated fair value (not to exceed the total goodwill allocated to that reporting unit). There were no changes in the carrying amount of Piedmont's goodwill during the year ended December 31, 2018.

Interest Rate Derivatives

Piedmont periodically enters into interest rate derivative agreements to hedge its exposure to changing interest rates. As of December 31, 2018 and 2017, all of Piedmont's interest rate derivatives were designated as effective cash flow hedges and carried on the balance sheet at estimated fair value. Piedmont reassesses the effectiveness of its derivatives designated as cash flow hedges on a regular basis to determine if they continue to be highly effective and if the forecasted transactions remain highly probable. Piedmont does not use derivatives for trading or speculative purposes.

The changes in estimated fair value of interest rate swap agreements designated as effective cash flow hedges are recorded in other comprehensive income (“OCI”), and subsequently reclassified to earnings when the hedged transactions occur. The estimated fair value of the interest rate derivative agreement is recorded as interest rate derivative asset or as interest rate derivative liability in the accompanying consolidated balance sheets. Amounts received or paid under interest rate derivative agreements are recorded as reductions or additions to interest expense in the consolidated income statements as incurred. Additionally, when Piedmont settles forward starting swap agreements, any gain or loss is recorded as accumulated other comprehensive income and is amortized to interest expense over the term of the respective notes on a straight line basis (which approximates the effective interest method). Further, Piedmont classifies cash flows from the settlement of hedging derivative instruments in the same category as the underlying exposure which is being hedged. Settlements resulting from the hedge of Piedmont's exposure to interest rate changes are classified as operating cash flows in the accompanying consolidated statements of cash flows.

Deferred Lease Costs

Deferred lease costs are comprised of costs and incentives incurred to acquire operating leases. In addition to direct costs, deferred lease costs also include intangible lease origination costs related to in-place leases acquired as part of a property acquisition and direct payroll costs incurred related to negotiating and executing specific leases. For the years ended December 31, 2018, 2017, and 2016, Piedmont capitalized approximately $0.3 million, $0.3 million, and $0.4 million, respectively, of such internal leasing costs.

Deferred lease costs are amortized on a straight-line basis over the terms of the related underlying leases in the accompanying consolidated statements of income as follows:

- Approximately $43.6 million, $50.8 million, and $50.1 million of deferred lease costs for the years ended December 31, 2018, 2017, and 2016, respectively, are included in amortization expense; and
- Approximately $2.6 million, $4.8 million, and $3.9 million, of deferred lease costs related to lease incentives granted to tenants for the years ended December 31, 2018, 2017, and 2016, respectively, was included as an offset to rental income.

Upon receipt of a lease termination notice, Piedmont adjusts the amortization of any unamortized deferred lease costs to be recognized ratably over the revised remaining term of the lease after giving effect to the termination notice. If there is no remaining lease term and no other obligation to provide the tenant space in the property, then any unamortized tenant-specific costs are recognized immediately upon termination.

Debt

When mortgage debt is assumed upon the acquisition of real property, Piedmont adjusts the loan to estimated fair value with a corresponding adjustment to building and other intangible assets assumed as part of the purchase. The fair value adjustment is amortized to interest expense over the term of the loan using the effective interest method. Amortization of such fair value adjustments was approximately $0.5 million for each of the years ended December 31, 2018, 2017, and 2016, respectively.

Additionally, Piedmont records debt issuance premiums/discounts as an increase/decrease to the principal amount of the loan in the accompanying consolidated balance sheets, and amortizes such premiums or discounts as a component of interest expense over the life of the underlying loan facility using the effective interest method. Piedmont recorded discount amortization of approximately $0.2 million for each of the years ended December 31, 2018, 2017, and 2016, respectively.

Piedmont presents all debt issuance costs as a direct deduction from the principal amount of secured and unsecured debt in the accompanying consolidated balance sheets. Piedmont amortizes these costs to interest expense on a straight-line basis (which approximates the effective interest rate method) over the terms of the related financing arrangements. Piedmont recognized amortization of such costs for the years ended December 31, 2018, 2017, and 2016 of approximately $2.4 million, $2.8 million, and $2.9 million, respectively.

Deferred income

Deferred income is primarily comprised of the following items:

- prepaid rent from tenants; and
- tenant reimbursements related to operating expense or property tax expenses which may be due to tenants as part of an annual operating expense reconciliation.

Deferred income related to prepaid rents from tenants will be recognized as income in the period it is earned. Amounts related to operating expense reconciliations or property tax expense are relieved when the tenant's reconciliation is completed in accordance with the underlying lease, and payment is issued to the tenant.

Shares-in-trust

To date, Piedmont has not issued any shares-in-trust; however, under Piedmont’s charter, it has authority to issue a total of 150,000,000 shares-in-trust, which would be issued only in the event that there is a purported transfer of, or other change in or affecting the ownership of, Piedmont's capital stock that would result in a violation of the ownership limits that are included in Piedmont's charter to protect its REIT status.

Preferred Stock

To date, Piedmont has not issued any shares of preferred stock; however, Piedmont is authorized to issue up to 100,000,000 shares of one or more classes or series of preferred stock. Piedmont's board of directors may determine the relative rights, preferences, and privileges of any class or series of preferred stock that may be issued, and can be more beneficial than the rights, preferences, and privileges attributable to Piedmont's common stock.

Common Stock

Under Piedmont’s charter, it has authority to issue a total of 750,000,000 shares of common stock with a par value of $0.01 per share. Each share of common stock is entitled to one vote and participates in distributions equally. During the year ended December 31, 2018, the board of directors of Piedmont re-authorized the stock repurchase program under which Piedmont may repurchase its own shares from time to time, in accordance with applicable securities laws, in the open market or in privately negotiated transactions. The timing of repurchases is dependent upon market conditions and other factors, and repurchases may be commenced or suspended from time to time in Piedmont's discretion, without prior notice. As of December 31, 2018, Piedmont had approximately $86.6 million in remaining capacity under the program which may be used for share repurchases through February 2020.

Dividends

As a REIT, Piedmont is required by the Internal Revenue Code of 1986, as amended (the “Code”), to make distributions to stockholders each taxable year equal to at least 90% of its annual taxable income, computed without regard to the dividends-paid deduction and by excluding net capital gains attributable to stockholders (“REIT taxable income”). Piedmont sponsors a dividend reinvestment plan ("DRP") pursuant to which common stockholders may elect (if their brokerage agreements allow) to reinvest an amount equal to the dividends declared on their common shares into additional shares of Piedmont’s common stock in lieu of receiving cash dividends. Under the DRP, Piedmont has the option to either issue shares purchased in the open market or issue shares directly from Piedmont's authorized but unissued shares, in both cases at a 2% discount for the stockholder. Such election takes place at the settlement of each quarterly and/or special dividend in which there are participants in the DRP, and may change from quarter to quarter based on management's judgment of the best use of proceeds for Piedmont.

Noncontrolling Interest

Noncontrolling interest is the equity interest of consolidated entities that is not owned by Piedmont. Noncontrolling interest is adjusted for the noncontrolling partners' share of contributions, distributions, and earnings (losses) in accordance with the respective partnership agreement. Earnings allocated to such noncontrolling partners are recorded as income applicable to noncontrolling interest in the accompanying consolidated statements of income.

Revenue Recognition

Piedmont's revenues consist of the following:

Rental income - consists of revenue from leases with Piedmont's tenants. All leases of real estate assets held by Piedmont are classified as operating leases, and the related base rental income is recognized on a straight-line basis over the terms of the respective leases. Rental income is recognized beginning on the lease commencement date, defined as when the tenant takes possession of or controls the finished space, which is typically when the improvements being recorded as our asset are substantially complete.

In most lease arrangements, Piedmont finances improvements to leased space and is deemed the owner of the tenant improvements. These tenant improvements are recorded as capital assets by Piedmont and depreciated, typically over the lease term. Payments made by the tenants for tenant improvements owned by Piedmont are treated as deferred revenues, amortized into rental income over the lease term. In some instances, Piedmont may cede control of the leased space to the tenant to be responsible for improvements for the space. In such arrangements, payments made by Piedmont to its tenant are treated as lease incentives, amortized as a reduction to rental income over the lease term.

Lease termination revenues are recognized ratably as rental revenue and the corresponding deferred lease costs are amortized to expense over the revised remaining lease term after giving effect to the termination notice.

Tenant reimbursements - consists of separately billed revenue derived from reimbursements for services prescribed by leases with Piedmont's tenants separate from, but in conjunction with, the revenue generated from leasing office space. Tenant reimbursements are recognized as revenue in the period that the related operating cost is incurred. Rents and tenant reimbursements collected in advance are recorded as deferred income in the accompanying consolidated balance sheets.

Property management fee revenue - consists of revenue earned by Piedmont related to operating and managing office properties owned by other third-parties. Such income is within the scope of Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* ("ASC 606") (see *Accounting Pronouncements Adopted During the Year Ended December 31, 2018* below for further details). Because property management services represent a performance obligation that are satisfied over the length of the contract, not at any specific point in time, and have the same measure of transfer (time elapsed), property management fee revenue is recognized over time. Any variable consideration transferred as part of these management agreements is recognized in the quarter that the underlying cash receipts are collected, consistent with the allocation objective of allocating the transaction price in an amount that depicts the amount of consideration to which Piedmont expects to be entitled in exchange for transferring the promised service to the customer.

Other property related income - consists of all other property related income from Piedmont's customers (tenants) that is not derived from a contract meeting the definition of a lease and is therefore also within the scope of ASC 606. Examples of such income include parking revenue and income from licenses with unrelated third-parties to place antennae and/or fiber optic cables in or on Piedmont's buildings. These services also represent a performance obligation that is satisfied over the length of the contract, not at any specific point in time, and has the same measure of transfer (time elapsed); therefore, revenue related to these licenses is also recognized over time.

Gains on the sale of real estate assets, like all non-lease related revenue, are subject to a five-step model requiring that Piedmont identify the contract with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue upon satisfaction of the performance obligations. In circumstances where Piedmont contracts to sell a property with material post-sale involvement, such involvement must be accounted for as a separate performance obligation in the contract and a portion of the sales price allocated to each performance obligation. When the post-sale involvement performance obligation is satisfied, the portion of the sales price allocated to it will be recognized as gain on sale of real estate assets. Property dispositions with no continuing involvement will continue to be recognized upon closing of the sale.

Stock-based Compensation

Piedmont has issued stock-based compensation in the form of restricted stock to its employees and directors. For employees, such compensation has been issued pursuant to Piedmont's Long-term Incentive Compensation ("LTIC") program. The LTIC program is comprised of an annual restricted stock grant component (the "Restricted Stock Award" program) and a multi-year performance share component (the "Performance Share" program). Awards granted pursuant to the Restricted Stock Award and Performance Share programs, as well as director's awards, are classified as equity awards or liability awards based on the underlying terms of the program agreement. Awards classified as equity awards are expensed straight-line over the vesting period, with issuances recorded as a reduction to additional paid in capital. Forfeitures are recorded when they occur. Awards classified as liability awards are remeasured at each reporting period over the service period, with issuances recorded as a reduction to accrued expense. The compensation expense recognized related to both of these award types is recorded as property operating costs for those employees whose job is related to property operations and as general and administrative expense for all other employees and directors in the accompanying consolidated statements of income.

Non-qualified Deferred Compensation Plan

Piedmont has a non-qualified deferred compensation plan which allows certain employees to elect to defer their receipt of compensation, including both cash and stock-based compensation, until future taxable years. Amounts deferred are invested in trading securities held in a "rabbi trust" and are measured using quoted market prices as of the reporting date, with changes in fair value recognized in net income. As of December 31, 2018, Piedmont held approximately $0.4 million of these trading securities. Such investments are included in cash equivalents due to their short-term, liquid nature, with the corresponding liability included in accounts payable, accrued expenses, and accrued capital expenditures in the accompanying consolidated balance sheets.

Net Income Available to Common Stockholders Per Share

Net income per share-basic is calculated as net income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Net income per share-diluted is calculated as net income available to common stockholders divided by the diluted weighted average number of common shares outstanding during the period, including the dilutive effect of nonvested restricted stock. The dilutive effect of nonvested restricted stock is calculated using the treasury stock method to determine the number of additional common shares that would become outstanding if the remaining unvested restricted stock awards vested.

Income Taxes

Piedmont has elected to be taxed as a REIT under the Code, and has operated as such, beginning with its taxable year ended December 31, 1998. To qualify as a REIT, Piedmont must meet certain organizational and operational requirements, including a requirement to distribute at least 90% of its annual REIT taxable income. As a REIT, Piedmont is generally not subject to federal income taxes, subject to fulfilling, among other things, its taxable income distribution requirement. However, Piedmont is subject to federal income taxes related to the operations conducted by its taxable REIT subsidiary, POH, which have been provided for in the financial statements. Accordingly, the only provision for federal income taxes in the accompanying consolidated financial statements relates to POH. POH does not have significant tax provisions or deferred income tax items. These operations resulted in approximately $97,000, $(13,000), and $(415,000) in income tax recoveries/(expense) for the years ended December 31, 2018, 2017, and 2016, respectively, as a component of other income/(expense) in the accompanying consolidated statements of income. Further, Piedmont is subject to certain state and local taxes related to the operations of properties in certain locations, which have been provided for in general and administrative expenses in the accompanying consolidated financial statements.

Reclassifications

Certain prior period amounts presented in the accompanying consolidated statements of income have been reclassified to conform to the current period financial statement presentation. These amounts included: (i) the reclassification of approximately $19.2 million and $19.0 million for the years ended December 31, 2017 and 2016, respectively, of parking, antennae license and fiber income that was previously included in rental income into other property related income, as well as certain other miscellaneous revenue into tenant reimbursements and/or property management fee revenue in conjunction with the adoption of ASC 606, as further described below; and (ii) the reclassification of $1.8 million and $1.9 million for the years ended December 31, 2017 and 2016, respectively, of expense related to certain regional employees who are primarily engaged in the operation and management of properties that was previously included in general and administrative expense to property operating costs. Further, reclassifications also relate to properties classified as held for sale as of March 31, 2018, June 30, 2018, September 30, 2018, and December 31, 2018 have been reclassified as held for sale as of December 31, 2017 for comparative purposes (see Note 12).

Accounting Pronouncements Adopted during the Year Ended December 31, 2018

Revenue Recognition

On January 1, 2018, Piedmont adopted ASC 606 which changed the criteria for the recognition of certain revenue streams to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services using a five-step determination process.

Piedmont's revenues which are included in the scope of ASC 606 include its property management fee revenue, the majority of its parking revenue, as well as certain license agreements which allow third-parties to place their antennas or fiber-optic cabling on or inside Piedmont's buildings. Lease contracts are specifically excluded from ASC 606 and, Piedmont intends to utilize a leasing practical expedient (see further discussion below) to group certain non-lease components related to operating expense reimbursements with other leasing components, provided they meet certain criteria. Because the timing and pattern of transfer of Piedmont's non-lease related revenue already followed the prescribed method of ASC 606, Piedmont was able to effectively adopt ASC 606 on a full retrospective basis, with no impact to the historical timing of recognition of the related revenue; however, such non-lease revenues are now being presented as "Other property related income" in the accompanying consolidated statements of income. Further, for comparative purposes, Piedmont reclassified approximately $19.2 million and $19.0 million for the years ended

December 31, 2017 and 2016, respectively, of parking, antennae license, and fiber income that was previously included in rental income into other property related income, as well as certain other miscellaneous revenue into tenant reimbursements and/or property management fee revenue. Piedmont did not elect to adopt any practical expedients provided by ASC 606.

Gain/(loss) on Sale of Real Estate Assets

On January 1, 2018, Piedmont adopted Accounting Standards Update No. 2017-05, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets* ("ASU 2017-05") concurrently with ASC 606 mentioned above. Piedmont elected to apply the amendments of ASU 2017-05 on a full retrospective basis; however, there were no adjustments to previously recorded gains/(losses) on sale of real estate as a result of the transition.

Equity Investments Held in Non-qualified Deferred Compensation Plan

On January 1, 2018, Piedmont adopted Accounting Standards Update No. 2016-01, *Financial Instruments - Overall (Subtopic*

Table of Contents
Index to Financial Statements

825-10), Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"), as well as Accounting Standards Update No. 2018-03 *Technical Corrections and Improvements to Financial Instruments-Overall (Subtopic 825-10)* ("ASU 2018-03"). These amendments require equity investments, except those accounted for under the equity method of accounting, to be measured at estimated fair value with changes in fair value recognized in net income. Investments in trading securities held in a "rabbi trust" by Piedmont are the only securities affected by ASU 2016-01 and ASU 2018-03. As such, Piedmont has made a cumulative-effect adjustment to its consolidated balance sheet and consolidated statements of stockholders' equity of approximately $0.1 million from other comprehensive income ("OCI") to cumulative distributions in excess of earnings, and has recorded changes in fair value in net income for the year ended December 31, 2018 related to these investment securities.

Interest Rate Derivatives

On January 1, 2018, Piedmont early adopted Accounting Standards Update No. 2017-12, *Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities* ("ASU 2017-12"). Piedmont adopted ASU 2017-12 using the modified retrospective transition method; however, no adjustment was necessary to account for the cumulative effect of the change on the opening balance of each affected component of equity in the consolidated balance sheet as of the date of adoption because there was no cumulative ineffectiveness that had been recorded on Piedmont's existing interest rate swaps as of December 31, 2017, and all trades were highly effective. The amended presentation and disclosure guidance which is required to be presented prospectively is provided in Note 5.

Other Recent Accounting Pronouncements

The FASB has issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"), which fundamentally changes the definition of a lease, as well as the accounting for operating leases by requiring lessees to recognize assets and liabilities which arise from the lease, consisting of a liability to make lease payments (the lease liability) and a right-of-use asset, representing the right to use the leased asset over the term of the lease. Accounting for leases by lessors is substantially unchanged from prior practice as lessors will continue to recognize lease revenue on a straight-line basis.

Table of Contents
Index to Financial Statements

Additionally, the FASB has subsequently issued a number of clarifying and technical corrections to ASU 2016-02 through several Accounting Standards Updates ("ASU") as follows:

ASU	Title	Summary	Anticipated Impact on Piedmont's Consolidated Financial Statements Based on Management's Assessment to Date
ASU 2018-01	*Leases (Topic 842) Land Easement Practical Expedient for Transition to Topic 842*	Clarifies that a land easement is required to be evaluated to determine whether it should be accounted for as a lease upon adoption of ASU 2016-02; also provides an optional practical transition expedient allowing entities not currently assessing land easements under existing leasing guidance prior to adoption of ASU 2016-02 to not apply the new guidance to land easements existing at the date of initial adoption of ASU 2016-02.	No material impact.
ASU 2018-10	*Codification Improvements to Topic 842, Leases*	Clarifications and technical corrections to ASU 2016-02.	No material impact.
ASU 2018-11	*Leases (Topic 842) Targeted Improvements*	Allows certain non-lease operating expense reimbursements which are included in the underlying stated lease rate to be accounted for as part of the lease provided certain criteria are met under an optional practical expedient.	All of Piedmont's operating expense reimbursements qualify to be accounted for as a part of the underlying lease.
ASU 2018-20	*Leases (Topic 842) Narrow-Scope Improvements for Lessors*	Allows lessors to exclude sales taxes collected from lessees from revenue; also stipulates certain requirements related to variable consideration; and also requires the lessor to allocate, rather than recognize, certain variable payments to lease and non-lease components when changes to the facts and circumstances of the basis of the payments occurs.	No material impact.

In addition to the practical expedients mentioned above, as part of ASU 2018-01 and ASU 2018-11, Piedmont intends to adopt the other following practical expedients and transition amendments collectively allowed by the FASB relative to the new guidance for lease accounting:

- a package of practical expedients, applied together, which do not require the reassessment of (1) any expired or existing contracts to determine if they contain a lease; (2) lease classification for any expired or existing leases, and (3) initial direct costs for any existing leases;
- the presentation of comparative periods in the year of adoption under ASC 840 (the former leasing guidance), which effectively allows for an initial adoption of ASC 842 (the new leasing guidance) on January 1, 2019.

Other than recording an immaterial right-to-use asset and offsetting lease liability under lessee accounting on its balance sheet of approximately $0.3 million, and no longer capitalizing internal direct payroll costs associated with negotiating and executing leases (only accounting for approximately $0.3 million for the year ended December 31, 2018), the adoption of ASU 2016-02 on January 1, 2019 did not have any material impact on Piedmont's consolidated financial statements.

The FASB has issued Accounting Standards Update No. 2018-07, *Stock Compensation (Topic 718),* Improvements to

Nonemployee Share-Based Payment Accounting ("ASU 2018-07"). The provisions of ASU 2018-07 align accounting for stock based compensation for non-employees for goods and services with existing accounting for similar compensation for employees. The amendments supersede previous guidance on accounting for share-based payments to non-employees codified in the FASB's Accounting Standards Codification ("ASC") 505-50. ASU 2018-07 is effective in the first quarter of 2019, with early adoption permitted at any time provided that the entity has already adopted the provisions of ASC 606. The adoption of ASU 2018-07 did not have any material impact on Piedmont's consolidated financial statements.

Table of Contents
Index to Financial Statements

The FASB has issued Accounting Standards Update No. 2016-13, *Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). The provisions of ASU 2016-13 replace the "incurred loss" approach with an "expected loss" model for impairing trade and other receivables, held-to-maturity debt securities, net investment in leases, and off-balance-sheet credit exposures, which will generally result in earlier recognition of allowances for credit losses. Additionally, the provisions change the classification of credit losses related to available-for-sale securities to an allowance, rather than a direct reduction of the amortized cost of the securities. Additionally, the FASB issued Accounting Standards Update No. 2018-19 *Codification Improvements to Topic 326, Financial Instruments - Credit Losses* which is effective concurrently, with ASU 2016-13, and excludes receivable arising from operating leases from the scope of ASU 2016-13. ASU 2016-13 is effective in the first quarter of 2020, with early adoption permitted as of January 1, 2019. Piedmont is currently evaluating the potential impact of adoption; however, substantially all of Piedmont's receivables are operating lease receivables and as such, Piedmont does not anticipate any material impact to its consolidated financial statements as a result of adoption.

3. Acquisitions

During the year ended December 31, 2018, Piedmont acquired three separately identifiable assets using proceeds available as a result of dispositions, (see Note 12) proceeds from the $500 Million Unsecured 2018 Line of Credit, and cash on hand, as noted below:

Property	Metropolitan Statistical Area	Date of Acquisition	Ownership Percentage Acquired	Rentable Square Feet (Unaudited)	Percentage Leased as of Acquisition (Unaudited)	Net Contractual Purchase Price (in millions)
501 West Church Street	Orlando, Florida	February 23, 2018	100 %	182,461	100 %	$ 28.0
9320 Excelsior Boulevard	Minneapolis, Minnesota	October 25, 2018	100 %	267,724	100 %	$ 48.7
25 Burlington Mall Road	Boston, Massachusetts	December 12, 2018	100 %	287,776	89 %	$ 74.0

4. Debt

During the year ended December 31, 2018, Piedmont fully repaid the balances of the $300 Million Unsecured 2013 Term Loan and the $170 Million Unsecured 2015 Term Loan.

Additionally, during the year ended December 31, 2018, Piedmont replaced its $500 Million Unsecured 2015 Line of Credit with a new $500 Million Unsecured Line of Credit (the "$500 Million Unsecured 2018 Line of Credit"). The term of the new $500 Million Unsecured 2018 Line of Credit is four years with a maturity date of September 30, 2022, and Piedmont may extend the term for up to one additional year (through two available six-month extensions) provided Piedmont is not then in default and all representations and warranties are true and correct in all material respects and upon payment of applicable extension fees. Under certain terms of the agreement, Piedmont may increase the new facility by up to an additional $500 million, to an aggregate size of $1.0 billion, provided that no existing bank has any obligation to participate in such increase. Piedmont paid customary arrangement and upfront fees to the lenders in connection with the closing of the new facility.

The $500 Million Unsecured 2018 Line of Credit has the option to bear interest at varying levels (determined with reference to the greater of the credit rating for Piedmont or Piedmont OP) based on the London Interbank Offered Rate (“LIBOR”) or the Base Rate, defined as the greater of the prime rate, the federal funds rate plus 0.5%, or LIBOR for a one-month period plus 0.9%. LIBOR loans are available with interest periods selected by Piedmont of one, two (if available), three, or six months, or to the extent available from all lenders in each case, one year or periods of less than one month. The stated interest rate spread over LIBOR can vary from 0.775% to 1.45% based upon the greater of the then current credit rating of Piedmont.

Further, during the year ended December 31, 2018, Piedmont amended and restated its $300 Million Unsecured 2011 Term Loan (the "Amended and Restated $300 Million Unsecured 2011 Term Loan") to extend its maturity date 22 months, from January 15, 2020 to November 30, 2021. The amendment also decreases the stated interest rate spread over LIBOR from a range of 0.9% to 1.90% to a range of 0.85% to 1.65%. The specific spread in effect from time to time is based upon the greater of the credit rating for Piedmont or Piedmont OP; however, as of December 31, 2018, the spread over LIBOR is 1.0%. All other material terms of the facility remain unchanged.

Finally, during the year ended December 31, 2018, Piedmont entered into a $250 million unsecured term loan facility (the “$250 Million Unsecured 2018 Term Loan”) with a consortium of lenders. The term of the $250 Million Unsecured 2018 Term Loan is seven years with a maturity date of March 31, 2025; however, Piedmont may prepay the $250 Million Unsecured 2018 Term Loan, in whole or in part, at any time after March 29, 2020 without premium or penalty. The $250 Million Unsecured 2018 Term Loan has the option to bear interest at varying levels based on either (i) LIBOR for an interest period selected by Piedmont of one, two, three, or six months, or to the extent available from all lenders in each case, one year or periods of less than one month, or (ii) Base Rate, defined as the greater of the prime rate, the federal funds rate plus 0.5%, or LIBOR for a one-month period plus 1%; plus a stated interest rate spread based on the higher credit rating level issued for either Piedmont or Piedmont OP. The stated interest rate spread over LIBOR can vary from 1.45% to 2.40% based upon the then current credit rating of Piedmont or Piedmont OP, whichever is higher. In conjunction with this new facility, Piedmont also entered into three interest rate swap agreements for a total notional amount of $150 million which effectively fixed $150 million of the $250 Million Unsecured 2018 Term Loan at an interest rate of approximately 4.11%.

The $500 Million Unsecured 2018 Line of Credit, the Amended and Restated $300 Million Unsecured 2011 Term Loan, and the $250 Million Unsecured 2018 Term Loan all have certain financial covenants that require, among other things, the maintenance of an unencumbered interest coverage ratio of at least 1.75, an unencumbered leverage ratio of at least 1.60, a fixed charge coverage ratio of at least 1.50, a leverage ratio of no more than 0.60, and a secured debt ratio of no more than 0.40.

As of December 31, 2018, Piedmont believes it was in compliance with all financial covenants associated with its debt instruments. See Note 6 for a description of Piedmont’s estimated fair value of debt as of December 31, 2018.

The following table summarizes the terms of Piedmont’s indebtedness outstanding as of December 31, 2018 and 2017, including net discounts/premiums and unamortized debt issuance costs (in thousands):

Facility [(1)]	**Stated Rate**		**Effective Rate** [(2)]	**Maturity**	**Amount Outstanding as of 2018**	**2017**
Secured (Fixed)						
$35 Million Fixed-Rate Loan [(3)]	5.55	%	3.75%	9/1/2021	**$29,706**	$30,670
$160 Million Fixed-Rate Loan [(4)]	3.48	%	3.58%	7/5/2022	**160,000**	160,000
Net premium and unamortized debt issuance costs					**645**	946
Subtotal/Weighted Average [(5)]	3.80	%			**190,351**	191,616
Unsecured (Variable and Fixed)						
$170 Million Unsecured 2015 Term Loan	LIBOR + 1.125%		2.54%	5/15/2018	**—**	170,000
$300 Million Unsecured 2013 Term Loan	LIBOR + 1.20%		2.78% [(7)]	1/31/2019	—	300,000
$500 Million Unsecured 2015 Line of Credit [(6)]	LIBOR + 1.00%		3.17%	6/18/2019	**—**	23,000
$500 Million Unsecured 2018 Line of Credit [(6)]	LIBOR + 0.90%		3.35%	9/30/2022 [(8)]	**205,000**	—
Amended and Restated $300 Million Unsecured 2011 Term Loan	LIBOR + 1.00%		3.20% [(7)]	11/30/2021	**300,000**	300,000
$350 Million Unsecured Senior Notes	3.40	%	3.43%	6/01/2023	**350,000**	350,000
$400 Million Unsecured Senior Notes	4.45	%	4.10%	3/15/2024	**400,000**	400,000
$250 Million Unsecured 2018 Term Loan			4.12% [(9)]	3/31/2025	**250,000**	—

	LIBOR + 1.60%			
Discounts and unamortized debt issuance costs			**(9,879)**	(7,689)
Subtotal/Weighted Average [5]	3.75	%	**1,495,121**	1,535,311
Total/Weighted Average [5]	3.76	%	**$1,685,472**	$1,726,927

(1) Other than the $35 Million Fixed-Rate Loan, all of Piedmont's outstanding debt as ofDecember 31, 2018 and 2017 is interest-only.

(2) Effective rate after consideration of settled or in-place interest rate swap agreements, issuance premiums/discounts, and/or fair market value adjustments upon assumption of debt.

(3) Collateralized by the 5 Wall Street building in Burlington, Massachusetts.
(4) Collateralized by the 1901 Market Street building in Philadelphia, Pennsylvania.
(5) Weighted average is based on contractual balance of outstanding debt and the stated or effectively fixed interest rates as of December 31, 2018.
(6) On a periodic basis, Piedmont may select from multiple interest rate options, including the prime rate and various-length LIBOR locks on all or a portion of the principal. All LIBOR selections are subject to an additional spread over the selected rate based on Piedmont's current credit rating.
(7) The facility has a stated variable rate; however, Piedmont has entered into interest rate swap agreements which effectively fix, exclusive of changes in Piedmont's credit rating, the rate to that shown as the effective rate through the maturity date of the interest rate swap agreements (see Note 5 for more detail).
(8) Piedmont may extend the term for up to one additional year (through two available six month extensions to a final extended maturity date of September 29, 2023) provided Piedmont is not then in default and upon payment of extension fees.
(9) The facility has a stated variable rate; however, Piedmont has entered into interest rate swap agreements which effectively fix, exclusive of changes to Piedmont's credit rating, $150 million of the principal balance to 4.11% through March 29, 2020, and $100 million of the principal balance to 4.21% from March 30, 2020 through the maturity date of the loan. For the remaining variable portion of the loan, Piedmont may periodically select from multiple interest rate options, including the prime rate and various-length LIBOR locks on all or a portion of the principal. All LIBOR selections are subject to an additional spread over the selected rate based on Piedmont's current credit rating. The rate presented is the weighted-average rate for the effectively fixed and variable portions of the debt outstanding as of December 31, 2018.

A summary of Piedmont's consolidated principal outstanding for aggregate debt maturities of its indebtedness as of December 31, 2018, is provided below (in thousands):

2019	$932	
2020	1,072	
2021	327,702	
2022	365,000	(1)
2023	350,000	
Thereafter	650,000	
Total	$1,694,706	

(1) Includes the balance outstanding as of December 31, 2018 on the $500 Million Unsecured 2018 Line of Credit of $205 million. However, Piedmont may extend the term for up to one additional year (through two available six month extensions to a final extended maturity date of September 29, 2023) provided Piedmont is not then in default and upon payment of extension fees.

Piedmont's weighted-average interest rate as of December 31, 2018 and 2017, for the aforementioned borrowings was approximately 3.76% and 3.48%, respectively. Piedmont made interest payments on all indebtedness, including interest rate swap cash settlements, of approximately $63.1 million, $67.6 million, and $69.0 million during the years ended December 31, 2018, 2017, and 2016, respectively.

5. Derivative Instruments

Risk Management Objective of Using Derivatives

In addition to operational risks which arise in the normal course of business, Piedmont is exposed to economic risks such as interest rate, liquidity, and credit risk. In certain situations, Piedmont has entered into derivative financial instruments such as interest rate swap agreements and other similar agreements to manage interest rate risk exposure arising from current or future variable rate debt transactions. Interest rate swap agreements involve the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. Piedmont's objective in using interest rate derivatives is to add stability to interest expense and to manage its exposure to interest rate movements.

Cash Flow Hedges of Interest Rate Risk

Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for Piedmont making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

Table of Contents
Index to Financial Statements

In January 2018, Piedmont repaid the $300 Million Unsecured 2013 Term Loan in advance of its maturity without penalty (see Note 4 above). In connection with this early debt prepayment, six interest rate swap agreements which were identified as cash flow hedges were also terminated, resulting in a receipt of approximately $0.8 million from Piedmont's counterparties for the settlement of the swaps. These proceeds were recorded in accumulated other comprehensive income/(loss) ("OCI") and will be amortized as an offset to interest expense in the consolidated statement of income over the original term of the terminated interest rate swaps through January 2019. In connection with this termination Piedmont also recognized a non-cash loss of approximately $1.3 million due to it becoming probable that the hedged forecasted transactions would not occur, offset by a mark-to-market gain on these cash flow hedges of approximately $0.1 million for the year ended December 31, 2018.

As of December 31, 2018, Piedmont was party to interest rate swap agreements, all of which are designated as effective cash flow hedges and fully hedge the variable cash flows covering the entire outstanding balances of the Amended and Restated $300 Million Unsecured 2011 Term Loan through January 2020, and $150 million of the $250 Million Unsecured 2018 Term Loan. The maximum length of time over which Piedmont is hedging its exposure to the variability in future cash flows for forecasted transactions is 75 months.

A detail of Piedmont's interest rate derivatives outstanding as of December 31, 2018 is as follows:

Interest Rate Derivatives:	Number of Swap Agreements	Associated Debt Instrument	Notional Amount (in millions)	Effective Date	Maturity Date
Interest rate swaps	3	Amended and Restated $300 Million Unsecured 2011 Term Loan	$ 300	11/22/2016	1/15/2020
Interest rate swaps	2	$250 Million Unsecured 2018 Term Loan	100	3/29/2018	3/31/2025
Interest rate swaps	1	$250 Million Unsecured 2018 Term Loan	50	3/29/2018	3/29/2020
Total			$ 450		

Piedmont presents its interest rate derivatives on its consolidated balance sheets on a gross basis as interest rate swap assets and interest rate swap liabilities. A detail of Piedmont's interest rate derivatives on a gross and net basis as of December 31, 2018 and 2017, respectively, is as follows (in thousands):

Interest rate swaps classified as:	December 31, 2018	December 31, 2017
Gross derivative assets	**$ 1,199**	$ 688
Gross derivative liabilities	**(839)**	(1,478)
Net derivative asset/(liability)	**$ 360**	$ (790)

The gain/(loss) on Piedmont's interest rate derivatives, including previously settled forward swaps, that was recorded in OCI and the accompanying consolidated statements of income as a component of interest expense for the years ended December 31, 2018, 2017, and 2016, respectively, was as follows (in thousands):

Table of Contents
Index to Financial Statements

Interest Rate Swaps in Cash Flow Hedging Relationships	**2018**	**2017**	**2016**
Amount of gain/(loss) recognized in OCI	**$692**	$2,479	$(4,126)
Amount of previously recorded gain/(loss) reclassified from OCI into Interest Expense	**$1,558**	$(3,502)	$(4,548)
Amount of loss recognized on derivative reclassified from OCI into Loss on Extinguishment of Debt	**$(1,258)**	$—	$—
Total amount of Interest Expense presented in the consolidated statements of income	**$(61,023)**	$(68,124)	$(64,860)
Total amount of Loss on Extinguishment of Debt presented in the consolidated statements of income (1)	**$(1,680)**	$—	$—

(1) Includes the write-off of approximately $0.4 million of discounts and unamortized debt issuance costs associated with the repayment of debt. (see Note 4).

Piedmont estimates that approximately $3.1 million will be reclassified from OCI as a reduction to interest expense over the next twelve months. Piedmont did not recognize any hedge ineffectiveness on its cash flow hedges during the three years ended December 31, 2018.

See Note 6 for fair value disclosures of Piedmont's derivative instruments.

Credit-risk-related Contingent Features

Piedmont has agreements with its derivative counterparties that contain a provision whereby if Piedmont defaults on any of its indebtedness, including a default where repayment of the indebtedness has not been accelerated by the lender, then Piedmont could also be declared in default on its derivative obligations. If Piedmont were to breach any of the contractual provisions of the derivative contracts, it could be required to settle its liability obligations under the agreements at their termination value of the estimated fair values plus accrued interest, or approximately $0.3 million as of December 31, 2018. Additionally, Piedmont has rights of set-off under certain of its derivative agreements related to potential termination fees and amounts payable under the agreements, if a termination were to occur.

6. Fair Value Measurements of Financial Instruments

Piedmont considers its cash and cash equivalents, tenant receivables, notes receivable, restricted cash and escrows, accounts payable and accrued expenses, interest rate swap agreements, and debt to meet the definition of financial instruments. The following table sets forth the carrying and estimated fair value for each of Piedmont's financial instruments, as well as its level within the GAAP fair value hierarchy, as of December 31, 2018 and 2017, respectively (in thousands):

	December 31, 2018			December 31, 2017		
Financial Instrument	Carrying Value	Estimated Fair Value	Level Within Fair Value Hierarchy	Carrying Value	Estimated Fair Value	Level Within Fair Value Hierarchy
Assets:						
Cash and cash equivalents [(1)]	**$4,571**	**$4,571**	**Level 1**	$7,382	$7,382	Level 1
Tenant receivables, net [(1)]	**$10,800**	**$10,800**	**Level 1**	$12,139	$12,139	Level 1
Restricted cash and escrows [(1)]	**$1,463**	**$1,463**	**Level 1**	$1,373	$1,373	Level 1
Interest rate swaps	**$1,199**	**$1,199**	**Level 2**	$688	$688	Level 2
Liabilities:						
Accounts payable and accrued expenses [(1)]	**$47,328**	**$47,328**	**Level 1**	$126,429	$126,429	Level 1
Interest rate swaps	**$839**	**$839**	**Level 2**	$1,478	$1,478	Level 2
Debt, net	**$1,685,472**	**$1,698,213**	**Level 2**	$1,726,927	$1,759,905	Level 2

(1) For the periods presented, the carrying value of these financial instruments approximates estimated fair value due to its short-term maturity.

Piedmont's debt was carried at book value as of December 31, 2018 and 2017; however, Piedmont's estimate of its fair value is disclosed in the table above. Piedmont uses widely accepted valuation techniques including discounted cash flow analysis based on the contractual terms of the debt facilities, including the period to maturity of each instrument, and uses observable market-based inputs for similar debt facilities which have transacted recently in the market. Therefore, the estimated fair values determined are considered to be based on significant other observable inputs (Level 2). Scaling adjustments are made to these inputs to make them applicable to the remaining life of Piedmont's outstanding debt. Piedmont has not changed its valuation technique for estimating the fair value of its debt.

Piedmont's interest rate swap agreements presented above, and as further discussed in Note 5, are classified as "Interest rate swap" assets and liabilities in the accompanying consolidated balance sheets and were carried at estimated fair value as of December 31, 2018 and 2017. The valuation of these derivative instruments was determined using widely accepted valuation techniques including discounted cash flow analysis based on the contractual terms of the derivatives, including the period to maturity of each instrument, and uses observable market-based inputs, including interest rate curves and implied volatilities. Therefore, the estimated fair values determined are considered to be based on significant other observable inputs (Level 2). In addition, Piedmont considered both its own and the respective counterparties' risk of nonperformance in determining the estimated fair value of its derivative financial instruments by estimating the current and potential future exposure under the derivative financial instruments that both Piedmont and the counterparties were at risk for as of the valuation date. The credit risk of Piedmont and its counterparties was factored into the calculation of the estimated fair value of the interest rate swaps; however, as of December 31, 2018 and 2017, this credit valuation adjustment did not comprise a material portion of the estimated fair value. Therefore, Piedmont believes that any unobservable inputs used to determine the estimated fair values of its derivative financial instruments are not significant to the fair value measurements in their entirety, and does not consider any of its derivative financial instruments to be Level 3 assets or liabilities.

F- 25

7. Impairment Loss on Real Estate Assets

Piedmont recorded the following impairment losses on real estate assets for the years ended December 31, 2018, 2017, and 2016 (in thousands):

	2018	2017	2016
150 West Jefferson [(1)]	$ —	$ —	$ 8,259
9221 Corporate Boulevard [(2)]	—	—	2,692
9200 and 9211 Corporate Boulevard [(3)]	—	—	22,950
Disposal Group of 13 Assets [(4)]	—	46,461	—
Total impairment loss on real estate assets [(5)]	$ —	$ 46,461	$ 33,901

(1) Piedmont recognized an impairment loss on real estate assets based upon the difference between the carrying value of the asset including a proportionate amount of goodwill (because the asset met the definition of a disposed "business" at the time of measurement) and the contracted sales price, less estimated selling costs.

(2) Piedmont determined that the carrying value would not be recovered from the undiscounted future operating cash flows expected from the use of the asset and its eventual disposition. As a result, Piedmont recognized a loss on impairment of approximately $2.7 million during the year ended December 31, 2016 calculated as the difference between the carrying value of the asset including a proportionate amount of goodwill and the anticipated contract sales price, less estimated selling costs.

(3) Piedmont elected to sell its remaining two assets and exit the Rockville, Maryland sub-market of Washington, D.C., after selling the 9221 Corporate Boulevard building in July 2016. Upon management's change in its hold period assumption for the assets from a long-term hold to a near-term sale, Piedmont recognized an impairment loss of approximately $23.0 million. The impairment loss was calculated as the difference between the carrying value of the asset including a proportionate amount of goodwill and the anticipated contracted sales price, less estimated selling costs.

(4) The impairment loss was calculated as the difference between the carrying value of the asset and the anticipated contracted sales price, less estimated selling costs.

(5) The fair value measurements used in the evaluation of the non-financial assets above are considered to be Level 1 valuations within the fair value hierarchy as defined by GAAP, as there are direct observations and transactions involving the assets by unrelated, third party purchasers.

8. Commitments and Contingencies

Commitments Under Existing Lease Agreements

Under its existing lease agreements, Piedmont may be required to fund significant tenant improvements, leasing commissions, and building improvements. In addition, certain agreements contain provisions that require Piedmont to issue corporate or property guarantees to provide funding for capital improvements or other financial obligations. Piedmont classifies its capital improvements into two categories: (i) improvements which maintain the building's existing asset value and its revenue generating capacity (“non-incremental capital expenditures”) and (ii) improvements which incrementally enhance the building's asset value by expanding its revenue generating capacity (“incremental capital expenditures”). As of December 31, 2018, commitments related to Piedmont's existing lease portfolio to fund potential non-incremental capital expenditures over the next five years for tenant improvements totaled approximately $45.6 million , the majority of which Piedmont estimates may be required to be funded over the next three years based on when the underlying leases commence. For most of Piedmont’s leases, the timing of the actual funding of these tenant improvements is largely dependent upon tenant requests for reimbursement. In some cases, these obligations may expire with the leases without further recourse to Piedmont. As of December 31, 2018, commitments for incremental capital expenditures for tenant improvements associated with executed leases totaled approximately $32.6 million.

Contingencies Related to Tenant Audits/Disputes

Certain lease agreements include provisions that grant tenants the right to engage independent auditors to audit their annual operating expense reconciliations. Such audits may result in the re-interpretation of language in the lease agreements which could result in the refund of previously recognized tenant reimbursement revenues, resulting in financial loss to Piedmont. Piedmont recorded reductions in reimbursement revenues related to such tenant audits/disputes of approximately $0.5 million, $0.3 million and $1.1 million during the years ended December 31, 2018, 2017, and 2016, respectively.

Litigation

Piedmont is from time to time a party to legal proceedings, which arise in the ordinary course of its business. None of these ordinary course legal proceedings are reasonably likely to have a material adverse effect on results of operations or financial condition. Piedmont is not aware of any such legal proceedings contemplated by governmental authorities.

9. Stock Based Compensation

Deferred Stock Awards

The Compensation Committee of Piedmont's Board of Directors has periodically granted deferred stock awards to all of Piedmont's employees and independent directors. Employee awards typically vest ratably over a multi-year period and independent director awards vest over one year. Certain employees' long-term equity incentive program is split equally between the time-vested awards described above and a multi-year performance share program whereby the actual awards are contingent upon Piedmont's total stockholder return ("TSR") relative to a peer group of office REITs' TSR. The peer group is predetermined by the Board of Directors, advised by an outside compensation consultant. Any shares earned are awarded at the end of the multi-year performance period and vest upon award. The fair values of performance-based awards are estimated using a Monte Carlo valuation method.

A rollforward of Piedmont's equity based award activity for the year ended December 31, 2018 is as follows:

	Shares	Weighted-Average Grant Date Fair Value
Unvested and Potential Stock Awards as of December 31, 2017	868,437	$ 21.69
Deferred Stock Awards Granted	354,236	$ 17.84
Increase in Estimated Potential Future Performance Share Awards, net of forfeitures	506,793	$ 25.20
Performance Stock Awards Vested	(161,005)	$ 18.47
Deferred Stock Awards Vested	(332,019)	$ 19.21
Deferred Stock Awards Forfeited	(8,959)	$ 19.77
Unvested and Potential Stock Awards as of December 31, 2018	1,227,483	$ 23.14

The following table provides additional information regarding stock award activity during the years ended December 31, 2018, 2017, and 2016 (in thousands except for per share data):

	2018	2017	2016
Weighted-Average Grant Date Fair Value of Deferred Stock Granted During the Period (per share)	**$17.84**	$21.38	$19.96
Total Grant Date Fair Value of Deferred Stock Vested During the Period	**$6,378**	$5,899	$4,806
Share-based Liability Awards Paid During the Period (1)	**$2,947**	$2,877	$1,127

(1) Amounts reflect the issuance of performance share awards related to the 2015-17, 2014-16, and 2013-15 Performance Share Plans during the years ended December 31, 2018, 2017, and 2016 respectively.

Table of Contents
Index to Financial Statements

A detail of Piedmont's outstanding employee deferred stock awards as of December 31, 2018 is as follows:

Date of grant	Type of Award	Net Shares Granted (1)	Grant Date Fair Value	Vesting Schedule	Unvested and Potential Shares as of December 31, 2018	
January 3, 2014	Deferred Stock Award	72,969	$16.45	Of the shares granted, 20% vested or will vest on January 3, 2015, 2016, 2017, 2018, and 2019, respectively.	16,416	
May 24, 2016	Deferred Stock Award	208,003	$19.91	Of the shares granted, 25% vested on the date of grant, and 25% of the shares vest on May 24, 2017, 2018, and 2019, respectively.	60,487	
May 24, 2016	Fiscal Year 2016-2018 Performance Share Program	—	$23.02	Shares awarded, if any, will vest immediately upon determination of award in 2019.	139,127	(2)
May 18, 2017	Deferred Stock Award	219,863	$21.38	Of the shares granted, 25% vested on the date of grant, and 25% vested or will vest on May 18, 2018, 2019, and 2020, respectively.	123,343	
May 18, 2017	Fiscal Year 2017-2019 Performance Share Program	—	$30.45	Shares awarded, if any, will vest immediately upon determination of award in 2020.	251,123	(2)
May 17, 2018	Deferred Stock Award-Board of Directors	31,388	$17.84	Of the shares granted, 100% will vest by May 17, 2019.	31,388	
May 17, 2018	Deferred Stock Award	302,706	$17.84	Of the shares granted, 25% vested on the date of grant, and 25% vested or will vest on May 17, 2019, 2020, and 2021, respectively.	239,567	
May 17, 2018	Fiscal Year 2018-2020 Performance Share Program	—	$23.52	Shares awarded, if any, will vest immediately upon determination of award in 2021.	366,032	(2)
Total					1,227,483	

(1) Amounts reflect the total grant to employees and independent directors, net of shares surrendered upon vesting to satisfy required minimum tax withholding obligations through December 31, 2018.

(2) Estimated based on Piedmont's cumulative TSR for the respective performance period through December 31, 2018. Share estimates are subject to change in future periods based upon Piedmont's relative performance compared to its peer group of office REITs' total stockholder return.

During the years ended December 31, 2018, 2017, and 2016, Piedmont recognized approximately $9.7 million, $9.5 million and $8.0 million of compensation expense related to stock awards, of which approximately $8.6 million, $7.7 million and $6.5 million, related to the amortization of nonvested shares, respectively. During the year ended December 31, 2018, a total of 355,055 shares were issued to employees. As of December 31, 2018, approximately $3.9 million of unrecognized compensation cost related to nonvested, annual deferred stock awards remained, which Piedmont will record in its consolidated statements of income over a weighted-average vesting period of approximately one year.

10. Earnings Per Share

There are no adjustments to "Net income applicable to Piedmont" for the diluted earnings per share computations.

Net income per share-basic is calculated as net income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Net income per share-diluted is calculated as net income available to common stockholders divided by the diluted weighted average number of common shares outstanding during the period, including unvested deferred stock awards. Diluted weighted average number of common shares reflects the potential dilution under the treasury stock method that would occur if the remaining unvested deferred stock awards vested and resulted in additional common shares outstanding. Unvested deferred stock awards which are determined to be anti-dilutive are not included in the calculation of diluted weighted average common shares. For each of the years ended December 31, 2018, 2017, and 2016, Piedmont excluded approximately 0.1 million of such anti-dilutive shares.

The following table reconciles the denominator for the basic and diluted earnings per share computations shown on the consolidated statements of income for the years ended December 31, 2018, 2017, and 2016, respectively (in thousands):

	2018	**2017**	**2016**
Weighted-average common shares—basic	**130,161**	145,044	145,230
Plus: Incremental weighted-average shares from time-vested deferred and performance stock awards	**475**	336	405
Weighted-average common shares—diluted	**130,636**	145,380	145,635
Common stock issued and outstanding as of period end	**126,219**	142,359	145,235

11. Operating Leases

Piedmont’s real estate assets are leased to tenants under operating leases for which the terms vary, including certain provisions to extend the lease term, options for early terminations subject to specified penalties, and other terms and conditions as negotiated. Piedmont retains substantially all of the risks and benefits of ownership of the real estate assets leased to tenants. Amounts required as security deposits vary depending upon the terms of the respective leases and the creditworthiness of the tenant; however, generally they are not significant. Exposure to credit risk is limited to the extent that tenant receivables exceed this amount. Security deposits related to tenant leases are included in accounts payable, accrued expenses, and accrued capital expenditures in the accompanying consolidated balance sheets.

The future minimum rental income from Piedmont’s investment in real estate assets under non-cancelable operating leases as of December 31, 2018 is presented below (in thousands):

Years ending December 31:	
2019	$370,495
2020	352,541
2021	337,951
2022	324,960
2023	291,603
Thereafter	1,247,649
Total	$2,925,199

12. Property Dispositions and Assets Held for Sale

Property Dispositions

None of Piedmont's property dispositions during the three years ended December 31, 2018 met the criteria to be reported as discontinued operations. The operational results and gain/(loss) on sale of real estate assets are presented as continuing operations in the accompanying consolidated statements of income, unless otherwise indicated below.

Details of such properties sold are presented below (in thousands):

Table of Contents
Index to Financial Statements

Buildings Sold	Location	Date of Sale	Gain/(Loss) on Sale of Real Estate Assets	Net Sales Proceeds
1055 East Colorado Boulevard	Pasadena, California	April 21, 2016	$29,462	$60,076
Fairway Center II	Brea, California	April 28, 2016	$14,406	$33,062
1901 Main Street	Irvine, California	May 2, 2016	$29,964	$63,149 (1)
9221 Corporate Boulevard	Rockville, Maryland	July 27, 2016	$(192) (2)	$12,035
150 West Jefferson	Detroit, Michigan	July 29, 2016	$(664) (2)	$77,844
9200 and 9211 Corporate Boulevard	Rockville, Maryland	September 28, 2016	$(41) (2)	$12,519
11695 Johns Creek Parkway	Johns Creek, Georgia	December 22, 2016	$1,978	$13,827
Braker Pointe III	Austin, Texas	December 29, 2016	$18,579	$48,006
Sarasota Commerce Center II	Sarasota, Florida			