Section 1: 10-K (10-K)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2017
or
☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from __________to ____________

Commission File Number: 001-37512
TIER REIT, Inc.
(Exact name of registrant as specified in its charter)

Maryland	**68-0509956**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5950 Sherry Lane, Suite 700, Dallas, Texas	**75225**
(Address of principal executive offices)	(Zip Code)

(972) 483-2400
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common stock, $.0001 par value per share	**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 ☒ No ☐

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

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.45 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark 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. ☐

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

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

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

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 30, 2017 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately $878.6 million, computed by reference to the closing price of our common stock on the New York Stock Exchange of $18.48 per share.

As of February 1, 2018, the registrant had 47,793,481 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement, relating to its 2018 Annual Meeting of Stockholders, are incorporated by reference into Part III of this Form 10-K to the extent stated herein. The Registrant intends to file such Definitive Proxy Statement with the Securities and Exchange Commission not later than 120 days after the end of its 2017 fiscal year.

TIER REIT, Inc.
FORM 10-K
Year Ended December 31, 2017

Forward-Looking Statements

Certain statements in this Annual Report on Form 10-K constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements include discussion and analysis of the financial condition of TIER REIT, Inc. and our subsidiaries (which may be referred to herein as the "Company," "we," "us" or "our"), including our ability to rent space on favorable terms, our ability to address debt maturities and fund our capital requirements, our intentions to acquire or sell certain properties, our intentions with respect to development activity, the value of our assets, our anticipated capital expenditures, the amount and timing of any anticipated future cash distributions to our stockholders and other matters. Words such as "may," "will," "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," "outlook," "would," "could," "should," "objectives," "strategies," "opportunities," "goals," "position," "future," "vision," "mission," "strive," "project" and variations of these words and similar expressions are intended to identify forward-looking statements.

These forward-looking statements are not historical facts but reflect the intent, belief, or current expectations of our management based on their knowledge and understanding of the business and industry, the economy, and other future conditions. These statements are not guarantees of future performance, and we caution stockholders not to place undue reliance on forward-looking statements. Actual results may differ materially from those expressed or forecasted due to a variety of risks and uncertainties, including but not limited to the factors listed and described under "Risk Factors" in this Annual Report on Form 10-K and the factors described below:

- market disruptions and economic conditions experienced by the U.S. economy or real estate industry as a whole and the local economic conditions in the markets in which our properties are located;
- our ability to renew expiring leases and lease vacant spaces at favorable rates or at all;
- the inability of tenants to continue paying their rent obligations due to bankruptcy, insolvency, or a general downturn in their businesses;
- the availability of cash flow from operating activities to fund distributions and capital expenditures;
- our ability to raise capital in the future by issuing additional equity or debt securities, selling our assets, or otherwise to fund our future capital needs;
- the availability and terms of financing, including the impact of higher interest rates on the cost and/or availability of financing;
- our ability to strategically acquire, develop, or dispose of assets on favorable terms, or at all;
- our level of debt and the terms and limitations imposed on us by our debt agreements;
- our ability to retain our executive officers and other key personnel;
- unfavorable changes in laws or regulations impacting our business or our assets; and
- factors that could affect our ability to qualify as a real estate investment trust for federal income tax purposes.

Forward-looking statements in this Annual Report on Form 10-K reflect our management's view only as of the date of this Report, and may ultimately prove to be incorrect or false. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events, or changes to future operating results. We intend for these forward-looking statements to be covered by the applicable safe harbor provisions created by Section 27A of the Securities Act and Section 21E of the Exchange Act.

PART I

Item 1. Business.

General

TIER REIT, Inc. is a publicly traded (NYSE: TIER), self-managed, Dallas-based real estate investment trust focused on owning quality, well-managed commercial office properties in dynamic markets throughout the U.S. As used herein, "TIER REIT," the "Company," "we," "us," or "our" refers to TIER REIT, Inc. and its subsidiaries unless the context otherwise requires.

TIER REIT's vision is to be the premier owner and operator of best-in-class office properties in TIER1 submarkets, which are primarily higher density and amenity-rich locations within select, high-growth metropolitan areas that offer a walkable experience to various amenities. TIER REIT was incorporated in June 2002 as a Maryland corporation and has elected to be treated, and currently qualifies, as a real estate investment trust, or REIT, for federal income tax purposes.

As of December 31, 2017, we owned interests in 20 operating office properties, one non-operating property, and two development properties located in eight markets throughout the United States. Our corporate offices are located at 5950 Sherry Lane, Suite 700, Dallas, Texas 75225, and our telephone number is (972) 483-2400.

Substantially all of our business is conducted through Tier Operating Partnership LP ("Tier OP"), a Texas limited partnership. Our wholly-owned subsidiary, Tier GP, Inc., a Delaware corporation, is the sole general partner of Tier OP. Our direct and indirect wholly-owned subsidiaries, Tier Business Trust, a Maryland business trust, and Tier Partners, LLC, a Delaware limited liability company, are limited partners that together with Tier GP, Inc. own all of Tier OP.

Business Strategy

Our strategy is straightforward. Our vision is to be the premier owner and operator of best-in-class office properties in select submarkets within high-growth metropolitan areas. We focus on vibrant cities with local GDP and population growth above the national average and amenity-rich submarkets ("TIER**1** submarkets") that appeal to dynamic corporate users and highly educated, in-demand employees. Our mission is to provide unparalleled, TIER **ONE** Property Services to our tenants and outsized total return through stock price appreciation and dividend growth to our stockholders, although there can be no assurance of any such appreciation or growth.

Our investment efforts are concentrated on our seven target growth markets of Austin, Dallas, Houston, Charlotte, Nashville, Atlanta, and Denver.

2018 Key Objectives

Looking forward, we intend to grow in a prudent manner that reinforces our fundamental strategy of owning and operating best-in-class office properties within TIER**1** submarkets in our seven target growth markets. Provided accommodative market conditions persist, we expect development to comprise a significant portion of our investment activity over the next several years.

As we move into 2018, our business strategy for the upcoming year includes the following four objectives: (1) optimize value in select investments and redeploy capital to create additional value; (2) expand our active development pipeline; (3) extend the portfolio's weighted average in-place lease term and increase occupancy in the Houston market to drive sustained cash flow growth; and (4) reduce leverage and extend our weighted average debt maturity. There can be no assurance regarding our achievement of any of our objectives.

Optimize value in select investments and redeploy capital to create additional value

We will seek to sell remaining properties located outside of our target growth markets and divest of select non-core properties in our target markets as we determine that capital can be more efficiently allocated for long-term value creation. In certain instances, we may reallocate capital between target growth markets to balance relative market concentration.

Expand our active development pipeline

Development will remain an important component of our strategy in 2018; however, we will remain disciplined as we continue our build-to-core development program. Provided certain conditions are met, we would look to proceed with the development of one or more of our remaining land sites in 2018 that are strategically located within our TIER**1** submarkets.

Extend the portfolio's weighted average in-place lease term and increase occupancy in the Houston market to drive sustained cash flow growth

Our weighted average in-place lease term was 6.0 years as of December 31, 2017. Through our recent and active development projects, we intend to extend our weighted average in-place lease term, which we believe provides protection from market and industry concentration as well as drives cash flow growth from both superior yields and lower recurring capital expenditures. Additionally, we will seek to increase occupancy in our Houston portfolio, which was 78.3% occupied as of December 31, 2017, compared to 93.9% for the balance of our portfolio.

Reduce leverage and extend weighted average debt maturity date

We will continue to manage our balance sheet with a goal of reducing our leverage over the intermediate term. We anticipate further reducing our leverage through mark-to-market of in-place leases, delivery of our development properties, and occupancy gains. Additionally, we amended our credit facility in early 2018 to extend the maturity dates and added key new members to our lending group.

Competition

We are subject to significant competition in seeking tenants for our properties. The competition for creditworthy tenants is intense, and we have been required to provide rent concessions, incur charges for tenant improvements, and provide other inducements at a high level. Without these inducements, we may not be able to continue to lease vacant space timely, or at all, which would adversely impact our results of operations. We also compete with sellers of similar properties when we sell properties, which may result in our receiving lower proceeds from the sale, or which may result in our not being able to sell such properties due to the lack of an acceptable investment return. Further, we may compete with other buyers and developers who are interested in properties we may acquire or develop, which may result in an increase in the amount that we would pay for such properties or may result in us ultimately not being able to acquire or develop such properties. Some of our competitors, including larger REITs, have greater financial resources than we do and generally may be able to accept more risk. They also may enjoy competitive advantages that result from, among other things, a lower cost of capital and enhanced operating efficiencies.

Regulations and Environmental Matters

Our properties and operations are subject to various federal, state, and local laws, ordinances and regulations, including, among other things, zoning regulations, land use controls, requirements related to access and use by disabled persons, environmental controls relating to air and water quality, noise pollution, and indirect environmental impacts such as increased motor vehicle activity. We believe that we have all permits and approvals necessary under current law to operate our properties.

As an owner of real estate, we are subject to various environmental laws of federal, state, and local governments. Compliance with existing laws has not had a material adverse effect on our capital expenditures, earnings, or competitive position, and management does not believe it will have such an impact in the future. However, we cannot predict the impact of unforeseen environmental contingencies or new or changed laws or regulations on our properties.

Employees

As of December 31, 2017, we had 94 employees.

Financial Information About Industry Segments

Our current business consists of owning, acquiring, developing, operating, investing in, and selling real estate assets. We internally evaluate operating performance on an individual property level and view each of our real estate assets as one individual operating segment. However, all of our properties are aggregated into one reportable segment as they have similar economic characteristics.

Available Information

We electronically file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, in each case including exhibits, and all amendments to those reports with the Securities and Exchange Commission ("SEC"). Copies of our filings with the SEC may be obtained from our website at *www.tierreit.com* or from the SEC's website at *www.sec.gov*. Access to these filings is free of charge. We are not incorporating any information from our website into this Form 10-K.

SUPPLEMENTAL MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

This summary supplements and updates the discussion contained under the caption "Material United States Federal Income Tax Considerations" in the prospectus contained in our Registration Statement on Form S-3 filed with the SEC on August 24, 2016, as supplemented by the discussion contained under the caption "Supplemental Material U.S. Federal Income Tax Considerations" in our prospectus supplement dated May 10, 2017, should be read in conjunction therewith and is subject to the qualifications set forth therein. This summary is for general information purposes only and is not tax advice. This discussion does not address all aspects of taxation that may be relevant to particular holders of our securities in light of their personal investment or tax circumstances.

On December 22, 2017, H.R. 1, known as the "Tax Cuts and Jobs Act" (the "TCJA") was signed into law. The provisions of the TCJA generally apply to taxable years beginning after December 31, 2017. Significant provisions of the TCJA that investors should be aware of include provisions that:

- lower the corporate income tax rate to 21% and lower Foreign Investment in Real Property Tax Act of 1980 ("FIRPTA") withholding on certain capital gain dividends to 21%;
- provide noncorporate taxpayers with a deduction of up to 20% of certain income earned through partnerships and REITs for taxable years beginning before January 1, 2026;
- apply certain new limitations on net operating losses, which limitations may affect net operating losses generated by us or our taxable REIT subsidiaries ("TRSs");
- expand the ability of businesses to deduct the cost of certain property investments in the year in which the property is purchased;
- impose new accounting rules that generally require us to recognize income items for federal income tax purposes no later than when we take the item into account for financial statement purposes, which may accelerate our recognition of certain income items;
- require a U.S. tax-exempt stockholder that is subject to tax on its unrelated business taxable income ("UBTI") to separately compute its taxable income and loss for each unrelated trade or business activity for purposes of determining its UBTI; and
- generally lower tax rates for individuals and other noncorporate taxpayers for taxable years beginning before January 1, 2026, while limiting deductions such as miscellaneous itemized deductions and state and local tax deductions.

In addition, the TCJA limits the deduction for net interest expense incurred by a business to 30% of the "adjusted taxable income" of the taxpayer. However, the limitation on the interest expense deduction does not apply to electing real property trades or businesses, such as any real property development, redevelopment, construction, reconstruction, acquisition, conversion, rental, operation, management, leasing, or brokerage trade or business. Making the election to be treated as a real property trade or business requires the electing real property trade or business to depreciate non-residential real property, residential rental property, and qualified improvement property over a longer period using the alternative depreciation system. We generally will decide whether to make any available election to treat as a real property trade or business any direct or indirect investment made through an entity that we control.

Stockholders are urged to consult with their own tax advisors with respect to the impact that the TCJA and other legislation may have on their investment and the status of legislative, regulatory or administrative developments and proposals and their potential effect on their investment in our stock.

Item 1A. Risk Factors.

The factors described below represent what we believe are our principal risks. Other factors may exist that we do not consider to be significant based on information that is currently available or that we are not currently able to anticipate. The occurrence of any of the risks discussed below could have a material adverse effect on our business, financial condition, results of operations, and the market price of our common stock and could affect our ability to pay distributions in any future periods. Our stockholders may be referred to as "you" or "your" in this Item 1A, "Risk Factors" section.

Risks Related to Our Business and Operations

Market disruptions may adversely impact many aspects of our operating results and operating condition.

The financial markets have been highly variable, and oil prices have declined dramatically over the past few years. The availability of debt financing secured by commercial real estate is subject to tightened underwriting standards, and interest rates have been increasing, leading to widening credit spreads, all of which may lead to a slowdown in the U.S. economy as a whole, or impact real estate investments in some of the following ways:

- the financial condition of our tenants may be adversely affected, which may result in us having to reduce rental rates in order to retain tenants;
- an increase in the number of bankruptcies or insolvency proceedings of our tenants and lease guarantors could delay our efforts to collect rent and any past due balances under the relevant leases, and ultimately could preclude collection of these sums;
- our ability to borrow on terms and conditions that we find acceptable may be limited, which could result in our investment operations generating lower overall economic returns and a reduced level of cash flow, which could potentially impact our ability to make distributions to our stockholders or pursue acquisition opportunities, among other things, and increase our interest expense;
- the value of certain of our real estate assets may decrease below the amounts we paid for them, which would limit our ability to dispose of assets at attractive prices or to obtain debt financing secured by these assets; and
- the value and liquidity of short-term investments, if any, could be reduced as a result of the dislocation of the markets for our short-term investments and increased volatility in market rates for these investments or other factors.

For these and other reasons, we cannot assure you that we will be profitable or that we will realize growth in the value of our investments.

We cannot predict the impact future actions by regulators or government bodies, including the U.S. Federal Reserve, will have on real estate debt markets or on our business, and any such actions may negatively impact us.

Regulators and U.S. government bodies have a major impact on our business. The U.S. Federal Reserve is a major participant in, and its actions significantly impact, the commercial real estate debt markets. For example, quantitative easing, a program implemented by the U.S. Federal Reserve to keep long-term interest rates low and stimulate the U.S. economy, had the effect of reducing the difference between short-term and long-term interest rates. However, the U.S. Federal Reserve ended the latest round of quantitative easing and has raised interest rates. Rising interest rates increase the cost of borrowing, which could limit our flexibility. This may result in future acquisitions by us generating lower overall economic returns and increasing the costs associated with refinancing current debt, which could potentially reduce future cash flow available for distribution. We cannot predict or control the impact future actions by regulators or government bodies, such as the U.S. Federal Reserve, will have on our business. For example, it is difficult to predict future legislation, regulation, and actions under the current presidential administration.

Economic conditions may adversely affect our income, and we could be subject to risks associated with acquiring real estate assets.

U.S. and international financial markets have been highly variable. The effects of financial market volatility may persist particularly as financial institutions continue to restructure their businesses and capital structures in response to new or enhanced regulatory requirements, all of which could impact the availability of credit and overall economic activity as a whole.

In addition, we are subject to the risks generally incident to the ownership of real estate assets. For example, even though we may purchase assets at a discount from historical cost or market value due to, among other things, substantial deferred maintenance or poorly structured financing of the real estate or debt instruments underlying the assets, or we may currently own properties with similar factors, there is no assurance that we will be able to overcome these factors. All of these factors could further decrease the value of real estate assets.

Further, fluctuations in market conditions make judging the future performance of these assets difficult. The real estate assets we own or may acquire may substantially decline in value, which would, among other things, negatively impact our ability to finance or refinance debt secured by these assets or earn positive returns on these assets, and may require us to write down or impair the value of these assets, which would have a negative impact on our results of operations and ability to pay or sustain distributions.

Our ongoing strategy depends, in part, upon future acquisitions and development, and we may not be successful in identifying and consummating these transactions.

A part of our business strategy contemplates strategic expansion through the acquisition and development of institutional quality office properties. We may not be successful in identifying suitable properties or other assets or in consummating these transactions on satisfactory terms, or at all. We would likely need access to capital in order to fund any of these types of transactions. There is no assurance we would have access to capital on acceptable terms and conditions, or at all.

Further, we face significant competition for attractive investment opportunities from an indeterminate 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 or the purchase price may be significantly elevated.

Development and construction projects are subject to significant risks, including the risks that such projects are more costly than anticipated and that we may not successfully complete and operate developed properties.

We may, from time to time, develop and construct new properties or redevelop existing properties. In doing so, we will be subject to the risks and uncertainties associated with construction and development including the environmental concerns of governmental entities or community groups and our builder’s ability to control construction costs or to build in conformity with plans, specifications, and timetables. The builder’s failure to perform may necessitate legal action by us to rescind the purchase or the construction contract or to compel performance. Performance also may be affected or delayed by conditions beyond the builder’s control. Delays in completion of construction also could give tenants the right to terminate preconstruction leases for space at a newly developed project. We may incur additional risks when we make periodic progress payments or other advances to builders prior to completion of construction. These and other such factors can result in increased costs of a project or loss of our investment. We may expend significant time and money on projects that are never completed, our construction costs, including labor and materials, may be higher than estimated, and we may be unable to obtain financing on favorable terms or at all. In addition, we are subject to normal lease-up risks relating to newly constructed projects or re-developed projects, and occupancy and rental rates at a newly-completed property may not meet our expectations. Furthermore, we must rely upon projections of rental income and expenses and estimates of the fair market value of property upon completion of construction when agreeing upon a price to be paid for the property at the time of acquisition of the property. If our projections are inaccurate, we may pay too much for a property, and our return on our investment could suffer. We may also invest in unimproved real property. Returns from development of unimproved properties also are subject to additional risks and uncertainties such as those associated with rezoning.

Leases representing approximately 4% of the rentable area within our operating office properties (excluding our held for sale properties) are scheduled to expire in 2018. We may be unable to renew leases or lease vacant space at favorable rates or at all.

As of December 31, 2017, leases representing approximately 4% of the rentable area within our operating office properties (excluding our held for sale properties) were scheduled to expire in 2018. We may be unable to extend or renew any of the expiring leases, or we may be able to re-lease these spaces only at rental rates equal to or below the expiring rental rates. We also may not be able to lease space which is currently not occupied on acceptable terms and conditions, if at all. In addition, some of our tenants have leases that include early termination provisions that permit the lessee to terminate all or a portion of its lease with us after a specified date or upon the occurrence of certain events with little or no liability to us. We may be required to offer substantial rent abatements, tenant improvements, early termination rights, or below-market renewal options to retain these tenants or attract new ones. Portions of our properties may remain vacant for extended periods of time. Further, some of our leases currently provide tenants with options to renew the terms of their leases at rates that are less than the current market rate. If we are unable to obtain new rental rates that are on average comparable to our asking rents across our portfolio, then our ability to increase cash flow will be negatively impacted.

We may be required to make significant capital expenditures to improve our properties in order to retain and attract tenants and are uncertain of the sources of, and may be unable to obtain funding for, all of our future capital needs.

We require capital on an ongoing basis to fund tenant improvements, leasing commissions, and capital expenditures. Specifically, we may be required to expend substantial funds to improve or refurbish leasable space either to retain existing tenants or to attract new tenants. We expect that, upon the expiration of leases at our properties, we may be required to make rent or other concessions to tenants; accommodate requests for renovations, build-to-suit remodeling, and other improvements; or provide additional services to our tenants. As a result, we may have to pay for significant leasing costs or tenant improvements in order to retain tenants whose leases are expiring or to attract new tenants. The reserves we have established for capital improvements may not be sufficient, which would require us to seek funds from other sources. Moreover, certain reserves required by lenders are designated for specific uses and may not be available to use for tenant improvements. Our ability to fund future property capital needs may depend on our ability to borrow, to raise capital, including through the disposition of certain of our assets or interests in assets or equity offerings, or to generate additional cash flow from operations. There can be no assurance that any of these sources will be available, and some of these strategies pose additional risks. For example, if we sell assets, it will likely have the effect of reducing cash flow from operating activities. Alternatively, if we decide to raise capital by offering shares of common or preferred stock, or any other securities that are convertible into, exercisable, or exchangeable for our capital stock, the issuance could have the effect of diluting the proportionate equity interest and voting power of our existing stockholders. Ultimately, if we are unable to fund our capital needs, we may be required to, among other things, defer necessary improvements to our properties, which may cause the properties to suffer from a greater risk of obsolescence or a decline in value, or we may experience decreased cash flow as a result of non-renewals by tenants upon expiration of their leases or fewer tenants being attracted to a property. If this happens, we may not be able to maintain expiring rental rates for the affected properties.

We face significant competition in the leasing market, which may decrease or prevent increases in the occupancy and rental rates of our properties.

We own properties located in metropolitan cities and suburban markets in the United States. We compete with numerous developers, owners, and operators of office properties, many of which own properties similar to, and in the same market areas as, our properties. If our competitors offer space at rental rates below current market rates, or below the rental rates we currently charge our tenants, we may lose existing or potential tenants and we may be pressured to reduce our rental rates below those we currently charge in order to attract new tenants and retain existing tenants when their leases expire. Also, as our competitors develop additional office properties in locations near our properties, there will likely be increased competition for creditworthy tenants which may require us to make capital improvements to properties that we would not have otherwise made or further reduce rents.

We depend on tenants for our revenue, and accordingly, lease terminations and tenant defaults could adversely affect the income produced by our properties.

The success of our investments materially depends on the financial stability of our tenants, many of which are financial, legal and other professional firms and many of whom may experience a change in their business at any time. Economic conditions have adversely affected in the past, and could adversely affect in the future, one or more of our tenants. As a result, our tenants 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-leasing our property. Specifically, a bankruptcy filing by, or relating to, one of our tenants or a lease guarantor would bar efforts by us to collect pre-bankruptcy debts from that tenant or lease guarantor unless we receive an order permitting us to do so from the bankruptcy court. In addition, we cannot evict a tenant solely because of bankruptcy. The bankruptcy of a tenant or lease guarantor could delay our efforts to collect past due balances under the relevant leases, and could ultimately preclude collection of these sums. If a lease is assumed by a tenant in bankruptcy, all pre-bankruptcy balances due under the lease must be paid to us in full. If, however, a lease is rejected by a tenant in bankruptcy, we would have only a general, unsecured claim for damages. An unsecured claim would only be paid to the extent that funds are available and only in the same percentage as is paid to all other holders of general, unsecured claims. Restrictions under the bankruptcy laws further limit the amount of any other claims that we can make if a lease is rejected. As a result, it is likely that we would recover substantially less than the full value of the remaining rent during the term.

One of our balance sheet strategies involves the disposition of properties; however, we may be unable to sell a property on acceptable terms and conditions, or at all.

One of our balance sheet strategies is to sell or otherwise dispose of certain properties. We believe it makes economic sense to do so in today's market in certain instances, such as when we believe there is strong investment interest in a market, when we believe the value of the leases in place at a property will significantly decline over the remaining lease term, when we believe we have limited or no equity in a property that secures debt with a near- term maturity, when we do have equity in a property but the projected returns do not justify further investment, or when we believe the equity in a property can be redeployed in the portfolio in order to achieve better returns or strategic goals. However, certain market conditions generally, and property specific issues such as vacancies and lease terminations, could negatively affect the value of our investment properties and therefore reduce our ability to sell or otherwise dispose of these properties on acceptable terms or at all. In addition, the "prohibited transaction" rules (discussed below) may limit our ability to sell properties without adversely affecting returns to our stockholders. Real estate investments generally, and in particular large office properties like those that we own, often cannot be sold quickly, particularly when coupled with a debt assumption. Furthermore, properties that we have owned for a significant period of time may have a low tax basis. If we were to dispose of any of these properties in a taxable transaction, we may be required, under provisions of the Internal Revenue Code of 1986, as amended (the "Code"), applicable to REITs, to distribute a significant amount of the taxable gain, if any, to our stockholders and this could, in turn, impact our cash flow. In addition, purchase options and rights of first refusal held by tenants or partners in joint ventures may also limit our ability to sell certain properties. All of these factors limit our ability to effectuate this particular balance sheet strategy.

If we sell properties and provide financing to purchasers, defaults by the purchasers would decrease our cash flows and limit our ability to make distributions.

In some instances we may sell our properties by providing financing to purchasers. When we provide financing to purchasers, we will bear the risk that the purchaser may default, which could negatively impact our liquidity and results of operations. Even in the absence of a purchaser default, the distribution of the proceeds of sales to our stockholders, or the reinvestment of proceeds in other assets, will be delayed until the promissory notes or other property we may accept upon a sale are actually paid, sold, refinanced, or otherwise disposed.

Our indebtedness may adversely affect our financial health and operating flexibility.

As of December 31, 2017, we had total outstanding indebtedness of approximately $794.5 million, excluding debt of our unconsolidated entities. As a result of our indebtedness, we are required to use a material portion of our cash flow to pay principal and interest on our debt, which limits the cash flow available for other purposes. In addition, we may not generate sufficient cash flow after debt service to, among other things, fund capital expenditures and pay distributions. Our level of debt and the limitations imposed on us by our debt agreements, including our credit facility agreement, could have significant adverse consequences to us, regardless of our ability to refinance or extend our debt, including:

- limiting our ability to borrow additional amounts for, among other things, working capital, capital expenditures, debt service requirements, execution of our business plan, or other purposes;
- limiting our ability to use operating cash flow in other areas of our business or to pay distributions;
- increasing our vulnerability to general adverse economic and industry conditions;

- limiting our ability to capitalize on business opportunities and to react to competitive pressures and adverse changes in governmental regulation;

- limiting our ability to fund capital expenditures, tenant improvements, and leasing commissions; and

- limiting our ability or increasing the costs to refinance our indebtedness.

We have experienced net losses attributable to our common stockholders, and we may experience future losses.

Although we had positive net income attributable to our common stockholders of approximately $84.3 million, primarily as a result of gains on the sale of properties for the year ended December 31, 2017, we had net losses attributable to our common stockholders of approximately $29.4 million and $32.1 million for the years ended December 31, 2016 and 2015, respectively. If we incur net losses in the future or such losses increase, our financial condition, results of operations, cash flow, and our ability to service our indebtedness and pay distributions to our stockholders will be materially and adversely affected.

Economic, regulatory, and socio-economic 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.

If our properties do not generate income sufficient to meet operating expenses, debt service, and capital expenditures, it is unlikely we could continue to pay distributions to our stockholders. 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 even if the income from the property has declined. 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 climates, particularly in markets in which we have a concentration of properties;

- local office submarket conditions such as 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 use due to technological advances which may make telecommuting more prevalent;

- 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-lease space;

- earthquakes, tornadoes, hurricanes, and other natural disasters; civil unrest, terrorist acts, or acts of war; and public health emergencies, including the spread of infectious diseases, such as Ebola, any of which may result in uninsured or underinsured losses;

- changes in, or increased costs of compliance with, governmental regulations, including those governing usage, zoning, the environment, and taxes; and

- changes in accounting standards.

Any of these factors may cause a decrease in the value of our real estate properties.

The geographic concentration of our portfolio may make us particularly susceptible to adverse economic developments in the real estate markets of those areas.

In addition to general, regional, and national economic conditions, our operating results are impacted by the economic conditions of the specific markets in which we have concentrations of properties. Properties located in Austin, Dallas, and Houston, Texas, generated approximately 69.8% of our consolidated rental revenue from continuing operations for the year ended December 31, 2017. For properties located in Austin, Dallas, and Houston, Texas, leases scheduled to expire in 2018 and 2019 represent approximately 5% and 8%, respectively, of our total occupied square feet as of December 31, 2017. Any adverse economic or real estate developments in these markets, such as business layoffs or downsizing, industry slowdowns, relocations of businesses, changing demographics, and other factors, or any decrease in demand for office space resulting from the local business climate, could adversely affect our property revenue, and hence, net operating income.

A significant number of our properties are located in or near energy producing and energy dependent regions, and if energy prices remain depressed, our financial results could be negatively impacted.

We have a substantial number of properties that are located in or near energy producing and energy dependent regions. In particular, we have five operating properties with approximately 2.2 million rentable square feet located in Houston, Texas, that comprised approximately $61.2 million, or 28.3%, of our consolidated rental revenue from continuing operations for the year ended December 31, 2017. The Houston area is heavily dependent upon the energy sector. The prices of oil and gas declined dramatically during 2015 and have been volatile over the past few years. Depressed prices have had a significant adverse impact on the Houston economy, and companies in the oil and gas industries, including our tenants and prospective tenants. If these conditions persist, our tenants and prospective tenants will likely curtail their level of operations, reduce the size of their workforces, and otherwise experience significant adverse impacts. In addition, a decline in the oil and gas industries would likely adversely affect companies, including our tenants and prospective tenants, in businesses that service or supply the oil and gas industries as well as businesses, including our tenants and prospective tenants, in unrelated industries located in areas like Houston that have benefited from the economic expansion generated by previous robust growth driven in part by higher oil prices. A prolonged period of low oil or gas prices or other factors negatively impacting the energy industry could have an adverse impact on our ability to maintain the occupancy of our Houston properties or could cause us to lease space at rates below current in place rents or at rates below the rates at which we have leased space in our Houston properties over the prior year. In addition, a prolonged period of low oil or gas prices or other factors negatively impacting the energy industry could have an adverse impact on the ability of our energy tenants to pay rent or could cause them to vacate their premises prior to, or at the conclusion of, their lease terms. Any such events could have a significant adverse impact on our financial condition and results of operations. In addition, factors negatively impacting the energy industry could reduce the market values of our Houston properties which could reduce our net asset value and adversely affect our financial condition and results of operations.

We may be adversely affected by trends in the office real estate industry.

Some businesses are rapidly evolving to increasingly permit employee telecommuting, flexible work schedules, open workplaces, and teleconferencing. These practices enable businesses to reduce their space requirements. A continuation of the movement towards these practices could over time erode the overall demand for office space and, in turn, place downward pressure on occupancy, rental rates, and property valuations.

An oversupply of space in any of our markets could cause rental rates and occupancies to decline, making it more difficult for us to lease space at attractive rental rates, or at all.

Undeveloped land in some of the markets in which we operate is generally more readily available and less expensive than in higher barrier-to-entry markets such as New York, Chicago, Boston, San Francisco, and Los Angeles. As a result, even during times of positive economic growth, our competitors could construct new buildings that would compete with our properties. Any such increase in supply could result in lower occupancy and rental rates in our portfolio.

A concentration of our investments in any one property class may leave our profitability vulnerable to a downturn in that sector.

Substantially all of our properties are institutional quality office properties. As a result, we are subject to risks inherent in operating a single type of property. Any downturn in the office sector may have a material adverse effect on our financial condition and results of operations.

Adverse market and economic conditions may adversely affect us and could cause us to recognize impairment charges on real estate assets.

We continually monitor events and changes in circumstances that could indicate that the carrying value of our real estate related assets may not be recoverable. When indicators of potential impairment are present which indicate that the carrying value of our real estate related assets may not be recoverable, we assess the recoverability of these assets by determining whether the carrying value will be recovered through the estimated future undiscounted cash flows expected to be generated over the life of the asset including its eventual disposition. In the event that the carrying value exceeds the estimated future undiscounted cash flows and also exceeds the fair value of the asset, we adjust the real estate related assets to fair value and recognize an impairment charge.

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 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.

Adverse market and economic conditions and market volatility may make it difficult to value our real estate assets. As a result of adverse market and economic conditions, there may be significant uncertainty in the valuation, or in the stability of, the cash flows, discount rates, and other factors related to such assets that could result in a substantial decrease in their value. We may be required to recognize additional asset impairment charges in the future.

If we lose or are unable to obtain key personnel, our ability to implement our business and investment strategies and key objectives could be delayed or hindered.

Our ability to achieve our strategies and objectives depends, to a significant degree, upon the continued contributions of our executive officers and our other key personnel. The employment agreements that we have with our executive officers are terminable upon notice, and we cannot guarantee that we will retain our executive officers. We believe that our future success depends, in large part, on our ability to retain and hire highly-skilled managerial and operating personnel. Competition for persons with managerial and operational skills is intense, and we cannot assure you that we will be successful in retaining or attracting skilled personnel. If we lose or are unable to obtain the services of our executive officers and other key personnel, or do not establish or maintain the necessary strategic relationships, our ability to implement our business and investment strategies and key objectives could be delayed or hindered, and our operations and financial results could suffer.

Competition for skilled personnel could increase labor costs.

We compete with various other companies in attracting and retaining qualified and skilled personnel. We depend on our ability to attract and retain skilled management personnel who are responsible for the day-to-day operations of our company. Competitive pressures may require that we enhance our pay and benefits package to compete effectively for such personnel. We may not be able to offset such added costs by increasing the rates we charge our tenants. If there is an increase in these costs or if we fail to attract and retain qualified and skilled personnel, our business and operating results could be harmed.

Compensation awards to our management may not be tied to or correspond with our financial results or the price per share of our common stock.

The compensation committee of our board of directors is responsible for overseeing our compensation and employee benefit plans and practices, including our executive compensation plans and our incentive compensation and equity-based compensation plans. Our compensation committee has significant discretion in structuring compensation packages and may make compensation decisions based on competitive market practices or any number of other factors. As a result, compensation awards may not be tied to or correspond with financial results at our company or the price per share of our common stock.

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

In appropriate circumstances, we intend to acquire, develop, and recapitalize properties in joint ventures with other persons or entities when circumstances warrant the use of these structures. We currently have joint ventures that are not consolidated within our financial statements. Our participation in joint ventures is subject to the risks that:

- we could become engaged in a dispute with any of our joint venture partners that might affect our ability to develop, finance, or operate a property and could lead to the sale of either party's ownership interest or the property;
- we may not have sole decision-making authority with respect to the joint venture which could prevent us from taking actions that are in our best interests;
- our joint ventures may be subject to debt and any refinancing of such debt may require equity capital calls;
- our joint venture partners may default on their obligations necessitating that we fulfill their obligations ourselves;
- our joint venture partners may have different objectives than we have regarding the appropriate timing and terms of the development, sale, or refinancing of a property;
- our joint venture partners may be structured differently than us for tax purposes and this could create conflicts of interest;
- our joint venture partners may take actions that are not within our control, which could jeopardize our qualification as a REIT or the tax status of the joint venture, requiring us to pay taxes or subjecting properties owned by the joint venture to liabilities greater than those contemplated by the terms of the joint venture agreements;
- our joint venture partners may have competing interests in our markets that could create conflicts of interest; and
- our joint ventures may be unable to repay any amounts that we may loan to them.

The failure of any bank in which we deposit our funds could reduce the amount of cash we have available for our operations or to pay distributions or make additional investments.

We have diversified our cash and cash equivalents between several banking institutions in an attempt to minimize exposure to any one of these entities. However, the Federal Deposit Insurance Corporation, or "FDIC," generally only insures limited amounts per depositor per insured bank. We have cash and cash equivalents and restricted cash deposited in interest bearing accounts at certain financial institutions exceeding these federally insured levels. If any of the banking institutions in which we have deposited funds ultimately fails, we may lose the portion of our deposits that exceed the federally insured levels. The loss of our deposits would reduce the amount of cash we have available for our operations, to pay distributions, or to make additional investments.

We face risks associated with short-term liquid investments.

From time to time, we have significant cash balances that we invest in a variety of short-term investments that are intended to preserve principal value and maintain a high degree of liquidity while providing current income. These investments may include (either directly or indirectly):

- direct obligations issued by the U.S. Treasury;
- obligations issued or guaranteed by the U.S. government or its agencies;
- taxable municipal securities;
- obligations (including certificates of deposits) of banks and thrifts;
- commercial paper and other instruments consisting of short-term U.S. dollar denominated obligations issued by corporations and banks;
- repurchase agreements collateralized by corporate and asset-backed obligations;
- both registered and unregistered money market funds; and
- other highly rated short-term securities.

Investments in these securities and funds are not insured against loss of principal. Under certain circumstances we may be required to redeem all or part of our investment or our right to redeem some or all of our investment may be delayed or suspended.

In addition, there is no guarantee that our investments in these securities or funds will be redeemable at par value. A decline in the value of our investment or a delay or suspension of our right to redeem may have a material adverse effect on our results of operations or financial condition.

An increase in real estate taxes may decrease our income from properties.

Generally, from time to time our property taxes will increase as property values or assessment rates change or for other reasons deemed relevant by the assessors. An increase in the assessed valuation of a property for real estate tax purposes results in an increase in the related real estate taxes on that property. Although some tenant leases may permit us to pass the tax increases through to the tenants for payment, there is no assurance that renewal leases or future leases will be negotiated on the same basis. Increases not passed through to tenants will adversely affect our income and our cash available to pay distributions, if any.

We may suffer uninsured losses or losses in excess of insured limits relating to real property or pay excessively expensive premiums for insurance coverage.

Although we attempt to ensure that all of our properties are adequately insured to cover casualty losses, there are certain types of losses, generally catastrophic in nature, such as losses due to wars, acts of terrorism, earthquakes, floods, hurricanes, pollution, or environmental matters, that are uninsurable or not economically insurable, or may be insured subject to limitations, such as large deductibles or co-payments. Insurance risks associated with potential terrorist acts could sharply increase the premiums we pay for coverage against property and casualty claims. Mortgage lenders generally insist that specific coverage against terrorism be purchased by commercial property owners as a condition for providing mortgage, bridge, or mezzanine loans. We cannot be certain that this coverage will continue to be available, or available at reasonable cost, if at all, which could inhibit our ability to finance or refinance our properties. We may be required to provide other financial support, either through financial assurances or self-insurance, to cover potential losses. We cannot assure you that we will have adequate coverage for any losses we may suffer. In addition, other than any capital reserve we may establish, we will have limited sources of funding to repair or reconstruct any uninsured damaged property, and we cannot assure you that those reserves will be sufficient.

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 our large insurance carriers were to become insolvent, any outstanding claims would be at risk for collection. Further, in such an event, we would be forced to replace the existing insurance coverage with another suitable carrier, possibly at unfavorable rates or terms.

Future terrorist attacks, military conflicts, and global unrest could have a material adverse effect on general economic conditions, consumer confidence, and market liquidity.

Terrorist attacks, ongoing and future military conflicts, and the continued global unrest may affect commodity prices and interest rates, among other things. An increase in interest rates may increase our cost of borrowing, leading to a reduction in our earnings. An increase in the price of oil will also cause an increase in our operating costs, which may not be reimbursed by our tenants. Also, terrorist acts could result in significant damages to, or loss of, our properties or the value thereof.

We and the tenants of the properties in which we have an interest may be unable to obtain adequate insurance coverage on acceptable economic terms for losses resulting from acts of terrorism. Our lenders may require that we carry terrorism insurance even if we do not believe this insurance is necessary or cost effective. We may also be prohibited under the applicable lease from passing all or a portion of the cost of such insurance through to our tenants. Should an act of terrorism result in an uninsured loss or a loss in excess of insured limits we could lose capital invested in a property as well as the anticipated future revenues from a property while remaining obligated for any mortgage indebtedness or other financial obligations related to the property.

Actual or threatened terrorist attacks may adversely affect our ability to generate revenues and the value of our properties.

We have significant investments in large metropolitan markets that have been or may be in the future the targets of actual or threatened terrorism attacks. As a result, some tenants in these markets may choose to relocate their businesses to other markets or to lower-profile office buildings within these markets that may be perceived to be less likely targets of future terrorist activity. This could result in an overall decrease in the demand for office space in these markets generally or in our properties in particular, which could increase vacancies in our properties or necessitate that we lease our properties on less favorable terms or both. In addition, future terrorist attacks in these markets could directly or indirectly damage our properties, both physically and financially, or cause losses that materially exceed our insurance coverage. As a result of the foregoing, our ability to generate revenues and the value of our properties could decline materially.

Some of our properties are concentrated in regions that are particularly susceptible to extreme weather or natural disasters.

Certain of our properties are located in geographical areas, such as Florida and Texas, that are regularly impacted by extreme weather and natural disasters, including, but not limited to, earthquakes, winds, floods, hurricanes, and fires. Natural disasters in these areas may cause damage to our properties beyond the scope of our insurance coverage, thus requiring us to make substantial expenditures to repair these properties and resulting in a loss of revenues from these properties. Further, several of these properties are located near the coast and are exposed to more severe weather than our properties located inland. Elements such as salt water and humidity in these areas can increase or accelerate wear on the properties' weatherproofing and mechanical, electrical, and other systems, and cause mold issues over time. As a result, we may incur operating costs and expenditures for capital improvements at these properties in excess of those normally anticipated.

Our Eldridge Properties sustained flood-related damage as a result of Hurricane Harvey and its aftermath, and the impact of such damage could adversely impact our financial condition and results of operations.

During the third quarter of 2017, One & Two Eldridge Place and Three Eldridge Place (collectively known as the "Eldridge Properties") experienced flood-related damage as a result of Hurricane Harvey and its aftermath. From August 28, 2017 through December 31, 2017, we provided rent abatements of approximately $7.0 million to tenants because the properties had not been restored to pre-loss condition. We incurred approximately $8.6 million of restoration costs during the year ended December 31, 2017. By early January 2018, all of the properties were fully operational, but we expect to incur additional costs over a period of time to fully restore the properties to their pre-loss condition.

We carry comprehensive property, casualty, flood and business interruption insurance that we anticipate will cover our losses at the properties, subject to a deductible. Insurance payments to us may be delayed, which could have a material adverse impact on our results prior to our receipt of such payments. In addition, our results of operations may be adversely impacted to the extent that our insurance coverage does not cover all of the losses that we expect or in connection with litigation relating to the property damage, insurance claims or lease disputes arising out of Hurricane Harvey and its aftermath. To the extent that we are unable to sufficiently restore the condition of each of the buildings, primarily comprised of the first floor of each building and mechanical systems, in a timely manner, our tenants at these properties may have a right to terminate their leases, which could materially impact our results of operations, particularly if we are unable to recover potential losses through insurance coverage or we are unable to lease the space to new tenants on a timely basis or at comparable rates. To date, one tenant has delivered a purported notice of termination relating to a significant lease; however, we have contested such notice and discussions between the parties are ongoing. There can be no assurances as to the results of such discussions or whether other tenants might exercise or purport to exercise a termination right.

We face possible risks associated with the physical effects of climate change.

We cannot predict the rate at which climate change will progress. However, the physical effects of climate change could have a material adverse effect on our properties, operations, and business. To the extent that climate change impacts changes in weather patterns, some of our properties could experience increases in storm intensity and rising sea levels. Over time, these conditions could result in declining demand for space at our properties or result in our inability to operate the buildings at all. Climate change may also have indirect effects on our business by increasing the cost of, or availability of, property insurance on terms we find acceptable, increasing the cost of energy, and increasing the cost of snow removal at our properties. There can be no assurance that climate change will not have a material adverse effect on our properties, operations, or business.

Security breaches through cyber-attacks, cyber-intrusions, or otherwise, could disrupt our IT networks and related systems.

Risks associated with security breaches, whether through cyber-attacks or cyber-intrusions over the Internet, malware, computer viruses, attachments to e-mails, or otherwise, against persons inside our organization, persons with access to systems inside our organization, the U.S. government, financial markets or institutions, or major businesses, including tenants, could disrupt or disable networks and related systems, other critical infrastructures, and the normal operation of business. The risk of a security breach or disruption, particularly through cyber-attack 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. Even though we may not be specifically targeted, cyber-attacks on the U.S. government, financial markets, financial institutions, or other major businesses, including tenants, could disrupt our normal business operations and networks, which may in turn have a material adverse impact on our financial condition and results of operations.

IT networks and related systems are essential to the operation of our business and our ability to perform day-to-day operations. They also may be critical to the operations of certain of our tenants. Although we believe we will be able to maintain the security and integrity of these types of networks and related systems, or implement 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 not to be detected and, in fact, may not be detected. While, to date, we are not aware that we have experienced any significant cyber-attacks or cyber-intrusions, we may not be able to anticipate or implement adequate security barriers or other preventive measures. A security breach or other significant disruption involving our IT networks and related systems could:

- disrupt the proper functioning of our networks and systems and therefore our operations and/or those of certain of our tenants;
- result in misstated financial reports, violations of loan covenants, missed reporting deadlines, and/or missed permitting deadlines;
- result in our inability to properly monitor our compliance with the rules and regulations regarding our qualification as a REIT;
- result in the unauthorized access to, and destruction, loss, theft, misappropriation, or release of proprietary, confidential, sensitive, or otherwise valuable information of ours or others, which others could use to compete against us or for disruptive, destructive, or otherwise harmful purposes and outcomes;
- result in our inability to maintain the building systems relied upon by our tenants for the efficient use of their leased space;
- require significant management attention and resources to remedy any damages that result;
- subject us to claims for breach of contract, damages, credits, penalties, or termination of leases or other agreements; or
- damage our reputation among our tenants and stockholders generally.

Any or all of the foregoing could have a material adverse effect on our results of operations, financial condition, and cash flows.

The cost of complying with environmental and other governmental laws and regulations may adversely affect us, and we may become subject to liability relating to environmental matters.

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. These laws and regulations generally govern wastewater discharges, air emissions, the operation and removal of underground and above-ground storage tanks, the use, storage, treatment, transportation, and disposal of solid and hazardous materials, and the remediation of contamination associated with disposals. We also are required to comply with various local, state, and federal fire, health, life-safety, and similar regulations. Some of these laws and regulations may impose joint and several liability on tenants or owners for the costs of investigating or remediating contaminated properties. These laws and regulations often impose liability whether or not the owner knew of, or was responsible for, the presence of the hazardous or toxic substances. The cost of removing or remediating could be substantial. In addition, the presence of these substances, or the failure to properly remediate these substances, may adversely affect our ability to sell or rent a property or to use the property as collateral for borrowing.

Environmental laws and regulations also may impose restrictions on the manner in which properties may be used or businesses may be operated, and these restrictions may require substantial expenditures by us. Environmental laws and regulations provide for sanctions in the event of noncompliance and may be enforced by governmental agencies or, in certain circumstances, by private parties. Third parties may seek recovery from owners of real properties for personal injury or property damage associated with exposure to released hazardous substances. Compliance with new or more stringent laws or regulations or stricter interpretations of existing laws may require material expenditures by us. For example, various federal, state, and local laws and regulations have been implemented or are under consideration to mitigate the effects of climate change caused by greenhouse gas emissions. Among other things, “green” building codes may seek to reduce emissions through the imposition of standards for design, construction materials, water and energy usage and efficiency, and waste management. We are not aware of any such existing requirements that we believe will have a material impact on our current operations. However, future requirements could increase the costs of maintaining or improving our existing properties or developing new properties.

Our costs associated with complying with the Americans with Disabilities Act may affect cash available for our operations, to pay distributions, or to make additional investments.

Our real properties are generally subject to the Americans with Disabilities Act of 1990, as amended (the "Act"). Under the Act, all places of public accommodation are required to comply with federal requirements related to access and use by disabled persons. The Act has separate compliance requirements for "public accommodations" and "commercial facilities" generally requiring that buildings and services be made accessible and available to people with disabilities. The Act's requirements could require removal of access barriers and could result in the imposition of injunctive relief, monetary penalties or, in some cases, an award of damages. We attempt to acquire properties that comply with the Act or any relevant law or regulation of a foreign jurisdiction or place the burden on the seller or other third party, such as a tenant, to ensure compliance with those laws or regulations. However, we cannot assure you that we will be able to acquire properties or allocate responsibilities in this manner.

We may from time to time be subject to litigation that may negatively impact our cash flow, financial condition, results of operations and market price of our common stock.

We may from time to time be a defendant in lawsuits and regulatory proceedings relating to our business. Such litigation and proceedings may result in defense costs, settlements, fines, or judgments against us, some of which may not be covered by insurance. Due to the inherent uncertainties of litigation and regulatory proceedings, we cannot accurately predict the ultimate outcome of any such litigation or proceedings. An unfavorable outcome could negatively impact our cash flow, financial condition, results of operations, and trading price of our common stock. In addition, certain litigation or the resolution of certain litigation may affect the availability or cost of some of our insurance coverage, which could adversely impact our results of operations and cash flow, expose us to increased risks that would be uninsured, and/or adversely impact our ability to attract officers and directors.

We may be subject to other possible liabilities.

Our properties may be subject to other risks related to current or future laws, including laws benefiting disabled persons, state or local laws relating to zoning, construction, fire and life safety requirements, and other matters. These laws may require significant property modifications in the future and could result in the levy of fines against us. In addition, although we believe that we adequately insure our properties, we are subject to the risk that our insurance may not cover all of the costs to restore a property that is damaged by a fire or other catastrophic events, including acts of war or, as mentioned above, terrorism.

Our failure to maintain effective internal control over financial reporting could have a material adverse effect on our business and our operating results.

Section 404 of the Sarbanes-Oxley Act of 2002 requires annual management assessments of the effectiveness of our internal control over financial reporting. If we fail to maintain the adequacy of our internal control over financial reporting, as such standards may be modified, supplemented or amended from time to time, we may be required to disclose such failure and our financial reporting may not be relied on by most stockholders. Moreover, effective internal control, particularly related to revenue recognition, is necessary for us to produce reliable financial reports and to maintain our qualification as a REIT and is important in helping prevent financial fraud. If we cannot provide reliable financial reports or prevent fraud, our business and operating results could be harmed, our REIT qualification could be jeopardized, and stockholders could lose confidence in our reported financial information.

Risks Related to Financing

Our borrowings may increase our business risks.

Principal and interest payments reduce cash that would otherwise be available for other purposes. Further, incurring mortgage debt increases the risk of loss because (1) loss in investment value is generally borne entirely by the borrower until such time as the investment value declines below the principal balance of the associated debt and (2) defaults on indebtedness secured by a property may result in foreclosure actions initiated by lenders and our loss of the property securing the loan that is in default. We have experienced defaults resulting in our having to transfer properties to the respective lenders, and may do so again if our asset values do not support the underlying loans. For federal income tax purposes, a foreclosure generally is 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 would not receive any cash proceeds. From time to time, we provide full or partial guarantees to lenders of mortgage debt to our indirect subsidiaries that own our properties. When we guarantee debt on behalf of an entity that owns one of our properties, we are thus responsible to the lender for satisfaction of the debt if it is not paid by the entity. To date, we have not been required to fund any of the guarantees that we have provided. If any mortgages contain cross-collateralization or cross-default provisions there is a risk that more than one real property may be affected by a default.

We may not be able to refinance or repay our indebtedness.

We may not be able to refinance or repay our existing indebtedness. Previously, we have faced significant challenges refinancing our debt due to (1) the reduced value of our real estate assets; (2) limited cash flow from operating activities; (3) our debt level; (4) the cost and terms of new or refinanced indebtedness; and (5) material changes in lending parameters, including lower loan-to-value ratios.

Failure to refinance or extend our debt as it comes due or a failure to satisfy the conditions and requirements of that debt would likely result in an event of default and potentially the loss of the property or properties securing the debt. We have experienced defaults or events of default on previous indebtedness, which has required us to either restructure the debt in a way that is supported by the underlying values of the property or properties collateralizing the debt or to purchase or pay off the debt at a discount. In certain instances, we were unable to repay or restructure our indebtedness, or to purchase or pay it off at a discount, and the lender accelerated the debt and/or foreclosed on the property or properties securing the debt. We have experienced this result with several properties where we ultimately allowed the lender to foreclose or transferred the underlying properties to the lender pursuant to deeds-in-lieu of foreclosure, thus losing our entire investment in these properties.

Existing loan agreements contain, and future financing arrangements will likely contain, restrictive covenants relating to our operations.

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. Our credit facility, for example, restricts us from paying any distributions, other than as required to maintain our REIT qualification, in excess of 95% of funds from operations as defined by National Association of Real Estate Investment Trusts (“NAREIT”). In addition, a breach of the financial and operating covenants in our debt agreements, including our credit facility agreement, could cause a default and accelerate payment under these agreements which could have a material adverse effect on our results of operations and financial condition. Specifically, violating the covenants contained in our credit facility agreement would likely result in us incurring higher finance costs and fees or an acceleration of the maturity date of advances under the credit facility agreement.

Interest-only indebtedness may increase our risk of default.

We have obtained, and continue to incur interest on interest-only mortgage indebtedness. As of December 31, 2017, approximately $676.0 million of our outstanding debt requires interest-only payments. During the interest-only period the amount of each scheduled payment is less than that of a traditional amortizing mortgage loan, and the principal balance of the mortgage loan is not being reduced (except in the case of prepayments) because there are no scheduled monthly payments of principal during this period. After the interest-only period we will be required either to make scheduled payments of principal and interest or to make a lump-sum or “balloon” payment at maturity. These required monthly or balloon principal payments will increase the amount of our scheduled payments and may increase our risk of default under the related mortgage loan and will otherwise reduce the funds available for other purposes, including funding capital expenditures or any future distributions to our stockholders.

Increases in interest rates could increase the amount of our debt payments.

As of December 31, 2017, we had approximately $610.0 million of debt that bears interest at a variable rate. Approximately $525.0 million of this variable rate debt has been effectively fixed through the use of interest rate swaps. Thus, we are potentially exposed to increases in costs in a rising interest rate environment. Increased payments will reduce the funds available for other purposes including funding capital expenditures or distributions to our stockholders. In addition, if rising interest rates cause us to need additional capital to repay indebtedness, we may be forced to sell one or more of our properties or investments in real estate at times which may result in losses, or not permit us to realize the return on the investments we would have otherwise realized.

To hedge against interest rate fluctuations, we use derivative financial instruments, which will subject us to various risks.

From time to time we may use derivative financial instruments to hedge exposures to changes in interest rates on loans secured by our assets and investments in collateralized mortgage-backed securities. Derivative instruments include interest rate swap contracts, interest rate cap or floor contracts, futures or forward contracts, options, or repurchase agreements. Our actual hedging decisions are determined in light of the facts and circumstances existing at the time of the hedge and may differ from time to time. There is no assurance that our hedging activities will have a positive impact on our results of operations or financial condition. We might be subject to costs, such as transaction fees or breakage costs, if we terminate these arrangements.

To the extent that we use derivative financial instruments to hedge against interest rate fluctuations, we are exposed to credit risk, basis risk, and legal enforceability risks. In this context, credit risk is the failure of the counterparty to perform under the terms of the derivative contract. If the fair value of a derivative contract is positive, the counterparty owes us, which creates credit risk for us. Basis risk occurs when the index upon which the contract is based is more or less variable than the index upon which the hedged asset or liability is based, thereby making the hedge less effective. Finally, legal enforceability risks encompass general contractual risks including the risk that the counterparty will breach the terms of, or fail to perform its obligations under, the derivative contract. Further, the REIT provisions of the Code may limit our ability to hedge the risks inherent to our operations. We may be unable to manage these risks effectively.

We may enter into derivative contracts that could expose us to contingent liabilities in the future.

Derivative financial instruments may require us to fund cash payments upon the early termination of a derivative agreement caused by an event of default or other early termination event. The amount due would be equal to the unrealized loss of the open swap positions with the respective counterparty and could also include other fees and charges. In addition, some of these derivative arrangements may require that we maintain specified percentages of cash collateral with the counterparty to fund potential liabilities under the derivative contract. We may have to make cash payments in order to maintain the required percentage of collateral with the counterparty. These economic losses would be reflected in our results of operations, and our ability to fund these obligations would depend on the liquidity of our respective assets and access to capital at the time.

Volatility in the financial markets and challenging economic conditions could adversely affect our ability to obtain debt financing on attractive terms and our ability to service any future indebtedness that we may incur.

If the overall cost of borrowing increases, either by increases in the index rates or by increases in lender spreads, the increased cost may result in future refinancing or acquisitions generating lower overall economic returns. Disruptions in the debt markets negatively impact our ability to borrow monies to finance the purchase of, or other activities related to, real estate assets. We may not be able to borrow monies on terms and conditions that we find acceptable or at all. In addition, we may find it costly to refinance indebtedness which is maturing.

Further, economic conditions could negatively impact commercial real estate fundamentals and may cause declines in our occupancy and rental rates as well as in the overall value of our real estate assets.

Risks Related to Our Common Stock

There is no assurance that an active market can be sustained for our shares of common stock or regarding the prices at which our shares may trade.

Our shares of common stock were listed on the NYSE in July 2015. Listing on the NYSE does not ensure that an active market can be sustained for our common stock. It is possible that the daily trading volumes for our common stock may be relatively small compared to other publicly traded securities. Accordingly, no assurance can be given as to (1) the likelihood that an active market for the stock will develop and be sustained, (2) the liquidity of any such market, (3) the ability of our stockholders to sell their common stock or (4) the price that our stockholders may obtain for their common stock. Even if an active trading market develops, the market price of our common stock may be highly volatile and could be subject to wide fluctuations. We cannot predict the prices at which our shares will trade.

The market price and trading volume of our common stock may be volatile.

The trading price of our common stock may be volatile. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock include:

- actual or anticipated variations in our quarterly operating results or distributions;
- changes in our earnings estimates;

- publication of research reports about us or the real estate industry;
- increases in market interest rates that lead purchasers of our shares to demand a higher yield;
- changes in market valuations of similar companies;
- adverse market reaction to any additional debt we incur in the future;
- additions or departures of key management personnel;
- actions by institutional stockholders;
- speculation in the press or investment community;
- the realization of any of the other risk factors presented in this Annual Report on Form 10-K or in our other public filings;
- the extent of investor interest in our securities;
- the general reputation of REITs and the attractiveness of our equity securities in comparison to other equity securities, including securities issued by other real estate based companies;
- our underlying asset value;
- investor confidence in the stock and bond markets generally;
- changes in tax laws;
- future equity issuances or the perception that such equity issuances may occur;
- failure to meet earnings estimates;
- failure to maintain our status as a REIT; and
- general market, economic, and political conditions.

The availability, timing, and amount of any cash distributions are uncertain.

Our board of directors reinstated quarterly cash distributions beginning in the second quarter of 2015, at $0.18 per share per quarter, and authorized cash distributions in the same amount for each quarter since that time. We anticipate that the board of directors will continue to consider authorizing a quarterly distribution payable from cash anticipated to be provided by operations. We can provide no assurance, however, regarding the availability, timing, or amount of any cash distributions. Distributions are authorized at the discretion of our board of directors based on its analysis of our forthcoming cash needs, earnings, cash flow, anticipated cash flow, capital expenditure requirements, cash on hand, general financial condition, and other factors that our board deems relevant. Our board also considers the requirements necessary to maintain our REIT status under the Code.

Our business and operations could be adversely affected if we are subject to stockholder activism, which could cause us to incur significant expense and impact the market price of our common stock.

In recent years, proxy contests and other forms of stockholder activism have been directed against numerous public companies. Stockholder activism, including potential proxy contests, could result in substantial costs and divert the attention of our management and our board of directors and resources from our business. Activist campaigns can create perceived uncertainties as to our future direction, strategy or leadership and may result in the loss of potential business opportunities and harm our ability to attract new investors, tenants, joint venture partners and employees. In addition, we may be required to incur significant legal fees and other expenses related to any activist stockholder matters. Further, the market price of our common stock could be subject to significant fluctuation or otherwise be adversely affected by the events, risks, and uncertainties of any stockholder activism.

Risks Related to Our Organization and Structure

Stockholders have limited control over changes in our policies and operations, and our investment and business strategies and objectives may not be successful.

Our board of directors determines our major policies, including those regarding investment and business policies and strategies, financing, growth, debt capitalization, REIT qualification, and distributions. Our board of directors may amend or revise certain of these and other policies without a vote of the stockholders. In addition, there is no assurance that we will be able to successfully implement our investment or business strategies, including our strategies and objectives for 2018.

Your percentage interest in TIER REIT, Inc. will be reduced if we issue additional shares.

Existing stockholders do not have preemptive rights to any shares issued by us in the future. Our charter currently has authorized 400,000,000 shares of capital stock of which 382,499,000 shares are designated as common stock, 1,000 shares are designated as convertible stock, and 17,500,000 shares are designated as preferred stock. Subject to any preferential rights in favor of any class of preferred stock, our board of directors may increase the number of authorized shares of capital stock that we have the authority to issue or increase or decrease the number of shares of equity stock of any class or series of stock designated. Shares may be issued at the discretion of our board of directors. The percentage of our outstanding shares owned by stockholders at the time of any issuance will likely be reduced if we (1) issue or sell additional shares of our common stock in the future; (2) sell securities that are convertible into shares of our common stock; (3) issue shares of our common stock in a private offering of securities; (4) issue shares of our common stock upon issuance of restricted stock or other awards under our 2015 Equity Incentive Plan to our independent directors, employees, or consultants; or (5) issue shares of our common stock to sellers of properties acquired by us in connection with an exchange of limited partnership interests of Tier OP. In addition, the partnership agreement for Tier OP contains provisions that would allow, under certain circumstances, other entities to merge into, or cause the exchange or conversion of their interest for interests of, Tier OP. Because the limited partnership interests of Tier OP may be exchanged for shares of our common stock, any merger, exchange or conversion between Tier OP and another entity ultimately could result in the issuance of a substantial number of shares of our common stock, therefore reducing the number of outstanding shares owned by our other stockholders. Further, our board of directors could authorize the issuance of stock with terms and conditions that subordinate the rights of the current holders of our common stock or have the effect of delaying, deferring, or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer, or sale of all or substantially all of our assets) that might provide a liquidity event for our stockholders.

A limit on the number of shares a person may own may discourage a takeover.

Our charter, with certain exceptions, authorizes our board of directors to take such actions as are necessary and desirable to preserve our qualification as a REIT. Unless exempted by our board of directors, no person or group may own more than 9.8% of our outstanding common or preferred stock, in value or number of shares, whichever is more restrictive. This restriction may have the effect of delaying, deferring, or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer, or sale of all or substantially all of our assets) that might otherwise provide stockholders with a liquidity event.

Maryland law prohibits certain business combinations, which may make it more difficult for us to be acquired.

Under Maryland law, “business combinations” between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the holder becomes an “interested stockholder.” These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An “interested stockholder” is defined as:

- any person who beneficially owns 10% or more of the voting power of the then outstanding voting stock of the corporation; or

- an affiliate or associate of the corporation 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 the then outstanding voting stock of the corporation.

A person is not an interested stockholder under the statute if our board of directors approved, in advance, the transaction by which the person otherwise would have become an interested stockholder. However, in approving a transaction, our board may condition its approval on compliance, at or after the time of approval, with any terms and conditions determined by the board.

After the expiration of the five-year period described above, any business combination between the Maryland corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of the then outstanding shares of voting stock of the corporation; and

- two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super-majority voting requirements do not apply if the corporation's common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares. Maryland law also permits various exemptions from these provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. The business combination statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

Maryland law limits the ability of a third party to buy a large stake in us and exercise voting power in electing directors.

Maryland law contains a second statute that may also have an anti-takeover effect. This statute, known as the Control Share Acquisition Act, provides that persons or entities owning "control shares" of a Maryland corporation acquired in a "control share acquisition" have no voting rights with respect to those shares except to the extent approved by a vote of two-thirds of the corporation's disinterested stockholders. Shares of stock owned by the acquirer, by officers, or by employees who are directors of the corporation, are not considered disinterested for these purposes. "Control shares" are shares of stock that, taken together with all other shares of stock the acquirer previously acquired, would entitle the acquirer to exercise voting power in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third of all voting power;

- one-third or more but less than a majority of all voting power; or

- a majority or more of all voting power.

Control shares do not include shares of stock the acquiring person is entitled to vote as a result of having previously obtained stockholder approval. A "control share acquisition" means the acquisition of control shares, subject to certain exceptions. The Control Share Acquisition Act does not apply to (1) shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (2) acquisitions approved or exempted by our charter or bylaws. Our bylaws exempt any acquisition by any person of shares of our common stock from the Control Share Acquisition Act.

Our rights, and the rights of our stockholders, to recover claims against our officers and directors are limited.

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 or grossly negligent manner. In addition, we may be obligated to fund the defense costs incurred by our officers and directors in some cases.

U. S. Federal Income Tax Risks

Failure to qualify as a REIT would adversely affect our operations and our ability to make distributions.

We elected to be taxed as a REIT commencing with our 2004 tax year. In order for us to remain qualified as a REIT, we must satisfy certain requirements set forth in the Code and maintain other facts and circumstances that are not entirely within our control.

Our qualification as a REIT depends upon our ability to meet, through investments, actual operating results, distributions, and satisfaction of specific stockholder rules, the various tests imposed by the Code. While we intend to structure our activities in a manner designed to satisfy all of these requirements, we cannot assure you that we will satisfy the REIT requirements in the future because qualification as a REIT involves the application of highly technical and complex provisions of the Code as to which there are only limited judicial and administrative interpretations and involves the determination of facts and circumstances not entirely within our control. In addition, new legislation, new regulations, administrative interpretations, or court decisions could significantly change the tax laws with respect to qualifying as a REIT or the federal income tax consequences of qualifying as a REIT. In the future, we may determine that it is in our best interests to hold one or more of our properties through one or more subsidiaries that elect to be taxed as REITs. If any of these subsidiaries fail to qualify as a REIT for federal income tax purposes, then we may also fail to qualify as a REIT for federal income tax purposes.

If we fail to qualify as a REIT for any taxable year, then unless certain relief provisions apply, we will face serious tax consequences that could substantially reduce the funds available for payment of distributions for each of the years involved because:

- we would not be allowed to deduct distributions paid to stockholders when computing our taxable income and we would no longer be required to make distributions to our stockholders;
- we would be subject to federal income tax (including any applicable alternative minimum tax for taxable years ending on or prior to December 31, 2017) on our taxable income at regular corporate rates;
- we would become subject to additional state income tax provisions and owe greater amounts of state income tax on our taxable income;
- we would be disqualified from being taxed as a REIT for the four years following the year during which we failed to qualify, unless entitled to relief under certain statutory provisions; and
- we may be required to borrow additional funds during unfavorable market conditions or sell some of our assets in order to pay corporate tax obligations.

If we fail to qualify as a REIT but are eligible for certain relief provisions then we may retain our status as a REIT but may be required to pay a penalty tax, which could be substantial.

Our investment strategy may cause us to incur penalty taxes, lose our REIT status, or own and sell properties through taxable REIT subsidiaries, each of which would diminish the return to our stockholders.

It is possible that one or more sales of our properties may be "prohibited transactions" under provisions of the Code. If we are deemed to have engaged in a "prohibited transaction" (i.e., we sell a property held primarily for sale to customers in the ordinary course of business), all profit that we derive from such sale would be subject to a 100% penalty tax. While the Code sets forth a safe harbor for REITs that wish to sell property without risking the imposition of the 100% penalty tax, we cannot assure you that we can in all cases comply with the safe harbor or that we will avoid owning property that may be characterized as held primarily for sale to customers in the ordinary course of business.

Alternatively, if we dispose of property through a TRS, then such a sale may not be treated as a prohibited transaction. However, there may be circumstances that prevent us from using a TRS in a transaction that does not qualify for the safe harbor or circumstances where it may not be clear whether the TRS or the REIT would be treated as the seller for U.S. federal income tax purposes. Additionally, even if it is possible to effect a property disposition through a TRS, we may decide to forgo the use of a TRS in a transaction that does not meet the safe harbor requirements based on our own internal analysis, the opinion of counsel, or the opinion of other tax advisors that the disposition should not be subject to the 100% penalty tax. In cases where a property disposition is not effected (or is not treated as being effected) through a TRS, the IRS might successfully assert that the disposition constitutes a prohibited transaction, in which event all of the net income from the sale of such property will be payable as a tax and none of the net proceeds from such sale will be available for investment by us or distribution to our stockholders. Moreover, we may then owe additional state income taxes.

Though a sale of the property by a TRS likely would eliminate the danger of the application of the 100% penalty tax, the TRS itself would be subject to tax at the federal level, and very likely at the state and local levels as well, on the gain realized by it from the sale of the property as well as on the income earned while the property is operated by the TRS. This tax obligation would diminish the amount of the proceeds from the sale of such property that would be distributable to our stockholders. As a result, the amount available for distribution to our stockholders would be substantially less than if the REIT had not operated and sold such property through the TRS and such transaction was not successfully characterized by the IRS as a prohibited transaction.

As a REIT, the value of the non-mortgage securities we hold in our TRSs generally may not exceed 20% of the total value of our assets at the end of any calendar quarter. If the IRS were to determine that the value of our interests in all of our TRSs exceeded this limit at the end of any calendar quarter, then we would fail to qualify as a REIT. If we determine it to be in our best interests to own a substantial number of our properties through one or more TRSs, then it is possible that the IRS may conclude that the value of our interests in our TRSs exceeds 20% of the value of our total assets at the end of any calendar quarter and therefore cause us to fail to qualify as a REIT. Additionally, as a REIT, no more than 25% of our gross income with respect to any year may, in general, be from sources other than certain real estate-related assets. Distributions paid to us from a TRS are typically considered to be non-real estate income. Therefore, we may fail to qualify as a REIT if distributions from all of our TRSs, when aggregated with all other non-real estate income with respect to any one year, are more than 25% of our gross income with respect to such year.

Certain fees paid to us may affect our REIT status.

Certain income received by us may not qualify as income from rental of real property for REIT qualification purposes and could be characterized by the IRS as non-qualifying income for purposes of satisfying the “income tests” required for REIT qualification. If any of our income were, in fact, treated as non-qualifying, and if the aggregate of such non-qualifying income in any taxable year ever exceeded 5% of our gross revenues for such year (or 5% of any REIT subsidiaries), we could lose our REIT status for that taxable year and the four taxable years following the year of losing our REIT status. In addition, if income from services we perform for our tenants is determined to be impermissible by the IRS and if that amount exceeds 1% of the property’s gross revenues, then all gross revenues from that property will be deemed non-qualifying income for purposes of the 5% amount mentioned above. For example, if a property with $9.0 million of gross revenue has more than $90,000 of impermissible tenant services, all $9.0 million of gross revenue would be treated as non-qualifying income and could adversely affect our REIT status.

If any of our partnerships or limited liability companies are recharacterized by the IRS as taxable corporations, our REIT status would be threatened and the income of such entities would be subject to tax at corporate rates.

If any partnership, limited liability company, or other subsidiary entity that we intend to be classified as a partnership or disregarded entity for U.S. federal income tax purposes (including, without limitation, Tier OP and any underlying property owner) is recharacterized by the IRS as a taxable corporation, this may result in our losing REIT status. In addition, the entity would be subject to tax as a corporation, thereby reducing distributions from such entity we ultimately receive.

In certain circumstances, we may be subject to federal and state income taxes as a REIT which would reduce our cash available to pay distributions.

Even if we maintain our status as a REIT, we may yet become subject to federal income taxes and related state taxes.

For example:

- We are subject to tax on any undistributed income. We will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions we pay in any calendar year plus amounts retained for which federal income tax was paid are less than the sum of 85% of our ordinary income, 95% of our capital gain net income, and 100% of our undistributed income from prior years.

- If we have net income from the sale of foreclosure property that we hold primarily for sale to customers in the ordinary course of business or other non-qualifying income from foreclosure property, we must pay a tax on that income at the highest corporate income tax rate.

- If we sell a property, other than foreclosure property, that we hold primarily for sale to customers in the ordinary course of business, our gain would be subject to the 100% “prohibited transaction” tax.

- We will be subject to a 100% penalty tax on certain amounts if the economic arrangements between our tenants, our taxable REIT subsidiaries, and us are not comparable to similar arrangements among unrelated parties.

- State laws may change so as to begin taxing REITs.

Legislative or regulatory action could adversely affect stockholders.

The tax laws are complex and are subject to change at any time as a result of legislative, judicial or administrative actions, and these changes may adversely affect the taxation of a stockholder. Any such changes could have an adverse effect on an investment in our shares or on the market value or the resale potential of our assets.

On December 22, 2017, the TCJA was signed into law, which makes major changes to the Code, including a number of provisions of the Code that affect the taxation of REITs and their stockholders. The individual and collective impact of these provisions and other provisions of the TCJA on REITs and their stockholders is uncertain, and may not become evident for some period of time. Prospective investors should consult their tax advisors regarding the implications of the TCJA on their investment in our shares.

We face possible state and local tax audits.

Because we are organized and qualify as a REIT, we are generally not subject to federal income taxes, but are subject to certain state and local taxes. In the normal course of business, certain entities through which we own real estate have undergone tax audits. In some instances there is no controlling precedent or interpretive guidance on the specific point at issue. Collectively, tax deficiency notices received to date have not been material. However, there can be no assurance that future audits will not occur with increased frequency or that the ultimate result of such audits will not have a material adverse effect on our financial condition and results of operations.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

General

As of December 31, 2017, we owned interests in 20 operating office properties, one non-operating property, and two development properties located in eight markets throughout the United States. As of December 31, 2017, our operating office properties are approximately 89.1% leased to tenants. In the aggregate, our operating office properties represent approximately 7.4 million rentable square feet. The average effective rent per square foot for the operating office properties is approximately $30.33 per square foot. Average effective rent per square foot represents 12 times the sum of (1) the monthly contractual amounts for base rent and (2) the pro rata 2017 budgeted operating expense reimbursements, each as of December 31, 2017, related to leases in place as of December 31, 2017, as reduced for free rent and excluding any scheduled future rent increases, divided by the total square footage under commenced leases as of December 31, 2017.

As of December 31, 2017, all of our properties were consolidated with and into the accounts of our operating partnership, except for two properties which are accounted for using the equity method. As of December 31, 2017, approximately 14% of our consolidated properties are encumbered by property debt.

The following information applies to all of our operating office properties:

- we believe, although there can be no assurance that, all of our properties are adequately covered by insurance and suitable for their intended purposes;
- we have no current commitments for any material renovations, improvements, or development of our properties, except in accordance with planned budgets or anticipated insurance proceeds;
- our properties are located in markets where we are subject to competition in attracting new tenants and retaining current tenants; and
- depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the buildings, improvements, and related assets.

The following table presents certain additional information about our properties as of December 31, 2017:

Property Name	Location	Date Acquired/Completed	Approximate Rentable Square Footage (in thousands)	Approximate % Leased	Our Ownership Interest	Ownership Type
Operating office properties						
The Terrace Office Park	Austin, TX	06/2006	619	90.3%	100.00%	fee title
Domain 2	Austin, TX	07/2015	115	100.0%	100.00%	fee title
Domain 3	Austin, TX	07/2015	179	100.0%	100.00%	fee title
Domain 4	Austin, TX	07/2015	153	100.0%	100.00%	fee title
Domain 7	Austin, TX	07/2015	222	100.0%	100.00%	fee title
Domain 8 (1)	Austin, TX	07/2017	291	100.0%	50.00%	joint venture
5950 Sherry Lane	Dallas, TX	12/2014	197	89.8%	100.00%	fee title
Burnett Plaza	Ft. Worth, TX	02/2006	1,025	90.0%	100.00%	fee title
Centreport Office Center	Ft. Worth, TX	06/2007	133	85.0%	100.00%	fee title
Legacy District One	Plano, TX	06/2017	319	100.0%	100.00%	fee title
One BriarLake Plaza	Houston, TX	09/2008	502	89.2%	100.00%	fee title
Two BriarLake Plaza	Houston, TX	09/2014	333	67.9%	100.00%	fee title
One & Two Eldridge Place	Houston, TX	12/2006	519	72.6%	100.00%	fee title
Three Eldridge Place	Houston, TX	11/2009	305	71.1%	100.00%	fee title
Loop Central	Houston, TX	12/2007	575	83.8%	100.00%	fee title
Bank of America Plaza	Charlotte, NC	10/2006	891	95.8%	100.00%	fee title
Plaza at MetroCenter	Nashville, TN	12/2007	361	90.3%	100.00%	fee title
500 East Pratt (2)	Baltimore, MD	12/2007	280	92.9%	100.00%	leasehold
Woodcrest Corporate Center	Cherry Hill, NJ	01/2006	333	99.1%	100.00%	fee title
111 Woodcrest	Cherry Hill, NJ	11/2007	53	84.9%	100.00%	fee title
Total operating office properties			7,405			
Non-operating property						
Fifth Third Center (3)	Columbus, OH	12/2007	331	50.5%	100.00%	fee title
Total properties			7,736			
Development properties						
Domain 11	Austin, TX		324	98.0%	100.00%	fee title
Third + Shoal (1)	Austin, TX		345	73.0%	47.50%	joint venture

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(1) This property is accounted for under the equity method as of December 31, 2017.
(2) This property is held for sale as of December 31, 2017.
(3)The non-recourse loan secured by Fifth Third Center is currently in default and we are working with the lender to dispose of this office property on their behalf.

Lease Expirations

The following table sets forth a 10-year schedule of the lease expirations for leases in place at our operating office properties (excluding held for sale properties) as of December 31, 2017 (square footage and dollar amounts are in thousands):

Year of Lease Expiration	Number of Leases Expiring (1)	Rentable Square Feet Expiring	Annualized Rent (2)	Percentage of Rentable Square Feet	Percentage of Annualized Expiring Rent
2018	45	314	$9,214	4%	4%
2019	45	657	$23,241	9%	11%
2020	42	803	$26,233	12%	12%
2021	47	885	$27,987	13%	13%
2022	30	430	$16,860	6%	8%
2023	25	606	$22,944	9%	10%
2024	12	493	$19,793	7%	9%
2025	22	185	$7,401	3%	3%
2026	15	852	$31,935	12%	14%
2027	6	423	$17,967	6%	8%

(1) Leases with an expiration on the last day of the year are considered leased at the last day of the year (i.e., expiring on the first day of the following year).
(2) Represents the cash rental rate of base rents, including tenant reimbursements, in the final month prior to the expiration multiplied by 12, without consideration of tenant contraction or termination rights. Tenant reimbursements generally include payment of real estate taxes, operating expenses, and common area maintenance and utility charges.

Item 3. Legal Proceedings.

We are not currently party to, and none of our properties is currently subject to, any material legal proceedings. From time to time, we are a party to various claims and legal proceedings that arise in the ordinary course of business.

Item 4. Mine Safety Disclosures.

None.

PART II

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

Market Information

Our common stock is traded on the NYSE under the symbol "TIER." As of February 1, 2018, we had 47,793,481 shares of common stock outstanding, including 139,729 shares of restricted stock for which restrictions have not yet lapsed, held by a total of approximately 12,000 stockholders of record. The number of holders of record does not include individuals or entities that beneficially own shares that are held of record by a broker or clearing agency. On February 1, 2018, the last reported sales price of our shares of common stock on the NYSE was $18.96. The following table sets forth the quarterly high and low sales price per share of common stock reported on the NYSE for the indicated periods and the distributions declared by us with respect to each such period.

	Share Price High	Share Price Low	Distributions declared per share of common stock
First Quarter 2017	$18.80	$16.67	$0.18
Second Quarter 2017	$18.61	$15.96	$0.18
Third Quarter 2017	$19.50	$16.67	$0.18
Fourth Quarter 2017	$20.72	$18.83	$0.18
First Quarter 2016	$15.60	$12.52	$0.18
Second Quarter 2016	$16.66	$13.29	$0.18
Third Quarter 2016	$17.81	$15.07	$0.18
Fourth Quarter 2016	$17.44	$14.06	$0.18

Distributions

We made an election to qualify as a REIT for federal income tax purposes commencing with our taxable year ended December 31, 2004. As a REIT, we must distribute at least 90% of our REIT taxable income to our stockholders annually. Our board of directors reinstated quarterly cash distributions in the second quarter of 2015 at $0.18 per share of common stock and authorized cash distributions in the same amount for each quarter since that time. Distributions declared for each quarter were paid in the subsequent quarter through January 2017. Beginning in the first quarter of 2017, distributions declared for each quarter are paid in the same quarter. We have paid all or a portion of these distributions from cash provided by operating activities, cash on hand, borrowings, and proceeds from the sales of assets. Of the amounts distributed by us in 2017, 100% represented ordinary income. Of the amounts distributed by us in 2016, 100% represented a return of capital. Distributions are authorized at the discretion of our board of directors based on its analysis of numerous factors, including but not limited to our forthcoming cash needs and our financial condition, and there is no assurance that distributions will continue or at any particular rate or timing. Further, we are subject to certain restrictions pursuant to covenants in connection with our outstanding indebtedness, which may affect our distribution policies and our ability to pay distributions.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information regarding our equity compensation plans as of December 31, 2017:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	Weighted-average exercise price of outstanding options, warrants and rights (2)	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders - 2015 Equity Incentive Plan (3)	89,212	N/A	1,659,308
Equity compensation plans approved by security holders - 2005 Equity Incentive Plan (4)	N/A	N/A	N/A
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	89,212	N/A	1,659,308

(1) Includes restricted stock units issued to independent directors and a target number of restricted stock units granted to employees under our long-term incentive program, which are subject to vesting based on our total stockholder return on an absolute basis during a measurement period.

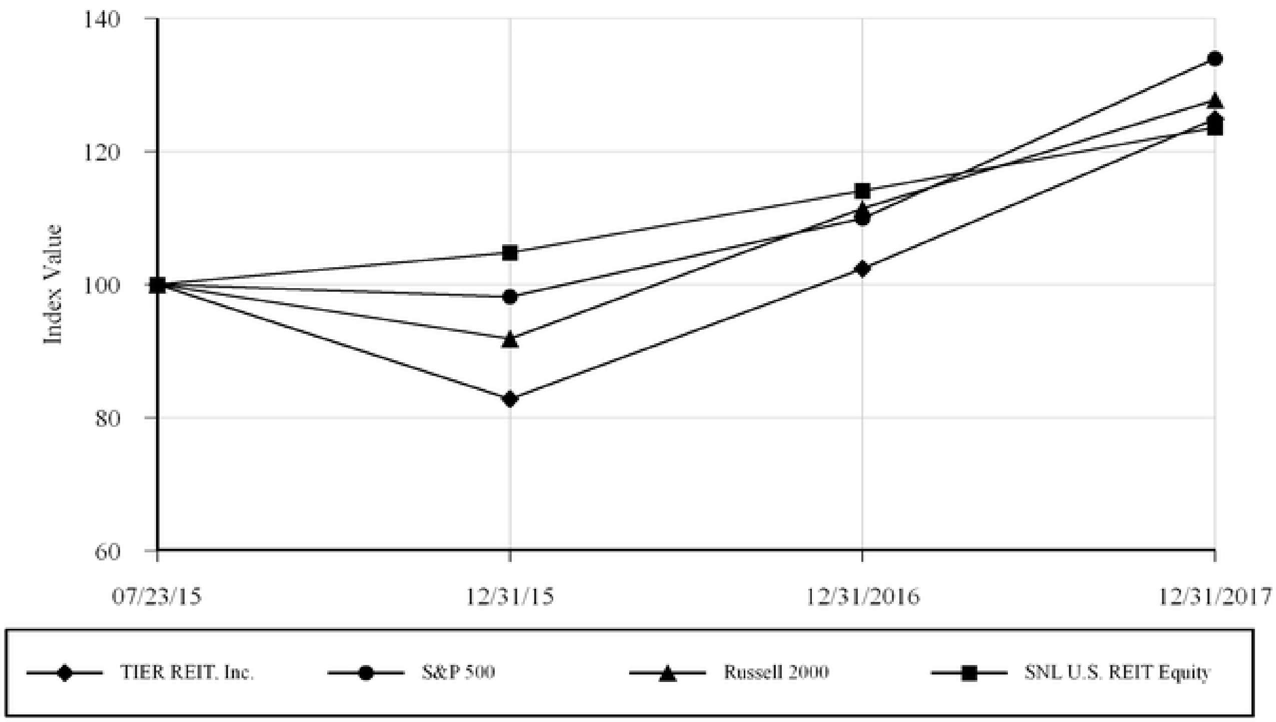
(2) Restricted stock units are not included in the weighted-average exercise price calculation because there is no exercise price associated with restricted stock units.

(3) Excludes 114,564 shares of restricted stock with restrictions that lapse from December 2018 to May 2020.

(4) Excludes 66,227 shares of restricted stock with restrictions that lapse in January 2018 and January 2019.

Share Performance Graph

The SEC requires us to present a chart comparing the cumulative total shareholder return on our shares of common stock with the cumulative total shareholder return of (i) a broad equity index and (ii) a published industry or peer group index. The following chart compares the cumulative total shareholder return for the shares of common stock with the cumulative shareholder return of companies on (i) the S&P 500 Index (ii) the Russell 2000 Index and (iii) the SNL U.S. REIT Equity Index as provided by SNL Financial for the period beginning July 23, 2015, (the date our shares of common stock were listed on the NYSE) and ending December 31, 2017, and assumes an investment of $100 has been made in shares of our common stock and in each index on July 23, 2015, with reinvestment of all distributions. The historical information set forth below is not necessarily indicative of future performance.



	Period Ending			
Index	**07/23/15**	**12/31/2015**	**12/31/2016**	**12/31/2017**
TIER REIT, Inc.	$ 100.00	$ 82.81	$ 102.37	$ 124.90
S&P 500	$ 100.00	$ 98.20	$ 109.94	$ 133.94
Russell 2000	$ 100.00	$ 91.87	$ 111.44	$ 127.77
SNL U.S. REIT Equity	$ 100.00	$ 104.79	$ 114.10	$ 123.56

Unregistered Sales of Equity Securities and Use of Proceeds.

The following table includes information regarding purchases of our common stock made by us during the quarter ended December 31, 2017. These purchases represent the shares of common stock surrendered by employees to us to satisfy such employees' minimum tax withholding obligations in connection with the lapse of restrictions on shares of restricted common stock.

	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
October 2017	—	—	not applicable	not applicable
November 2017	—	—	not applicable	not applicable
December 2017	39,914	$20.39	not applicable	not applicable

Item 6. Selected Financial Data.

The following data should be read in conjunction with our audited consolidated financial statements and the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Annual Report on Form 10-K. The selected historical consolidated financial data presented below has been derived from our audited consolidated financial statements (in thousands, except number of properties and per share amounts).

As of December 31	2017	2016	2015	2014	2013
Total assets	$ 1,581,138	$ 1,552,540	$ 1,864,891	$ 2,203,802	$ 2,429,491
Notes payable, net	$ 794,538	$ 826,783	$ 1,071,571	$ 1,186,704	$ 1,483,633
Other liabilities	109,029	105,241	115,501	228,938	142,599
Series A Convertible Preferred Stock	—	—	2,700	4,626	2,700
Stockholders' equity	676,803	618,546	673,617	782,589	799,732
Noncontrolling interests (1)	768	1,970	1,502	945	827
Total liabilities and equity	$ 1,581,138	$ 1,552,540	$ 1,864,891	$ 2,203,802	$ 2,429,491

Year Ended December 31	2017	2016	2015	2014	2013
Rental revenue	$ 216,461	$ 242,818	$ 282,365	$ 288,067	$ 289,071
Loss from continuing operations before gains	(22,237)	(51,629)	(95,430)	(74,855)	(57,083)
Discontinued operations (2)	—	—	16,790	59,327	56,964
Gain on sale of assets	92,396	22,176	44,477	—	16,102
Gain on remeasurement of investment in unconsolidated entities	14,168	—	—	—	—
Net income (loss)	84,327	(29,453)	(34,163)	(15,528)	15,983
Noncontrolling interests in continuing operations	(41)	36	159	132	60
Noncontrolling interests in discontinued operations	—	—	(30)	(120)	(491)
Dilution (accretion) of Series A Convertible Preferred Stock	—	—	1,926	(1,926)	—
Net income (loss) attributable to common stockholders	$ 84,286	$ (29,417)	$ (32,108)	$ (17,442)	$ 15,552
Cash provided by (used in) operating activities	$ 60,416	$ 51,303	$ (3,880)	$ 25,140	$ 45,151
Cash provided by investing activities	$ 163,979	$ 230,137	$ 200,242	$ 138,952	$ 424,609
Cash used in financing activities	$ (224,478)	$ (282,007)	$ (240,168)	$ (204,831)	$ (451,557)
Basic income (loss) per common share					
Continuing operations	$ 1.76	$ (0.62)	$ (1.00)	$ (1.54)	$ (0.82)
Discontinued operations	—	—	0.34	1.19	1.13
Basic income (loss) per common share	$ 1.76	$ (0.62)	$ (0.66)	$ (0.35)	$ 0.31
Diluted income (loss) per common share					
Continuing operations	$ 1.75	$ (0.62)	$ (1.00)	$ (1.54)	$ (0.82)
Discontinued operations	—	—	0.34	1.19	1.13
Diluted income (loss) per common share	$ 1.75	$ (0.62)	$ (0.66)	$ (0.35)	$ 0.31
Distributions declared to common stockholders per share	$ 0.72	$ 0.72	$ 0.54	$ —	$ —
Number of properties (3)	21	30	36	37	38
Total rentable square feet (3)	7,736	10,435	12,381	14,304	15,501

(1) Noncontrolling interests reflect the proportionate interest not owned by us of certain of our real estate properties, limited partnership interests in Tier OP held by third parties, and restricted stock units issued to our independent directors.

(2) Effective January 1, 2015, we adopted Financial Accounting Standards Board ("FASB") guidance that changes the criteria for reporting a discontinued operation. This adoption impacts the comparability of our financial statements as disposals of individual operating properties generally no longer qualify as discontinued operations.

(3) Reflects all properties owned at the end of each year. This number includes properties held for sale and excludes properties under development.

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 the accompanying consolidated financial statements and the notes thereto.

Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these financial statements requires our management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues, and expenses, and related disclosure of contingent assets and liabilities. On a regular basis, we evaluate these estimates, including investment impairment. These estimates are based on management's industry experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. Below is a discussion of the accounting policies that we consider to be critical in that they may require complex judgment in their application or require estimates about matters that are inherently uncertain.

Real Estate

Upon the acquisition of real estate properties accounted for as an acquisition of an asset, we recognize the assets acquired, the liabilities assumed, and any noncontrolling interest as of the acquisition date, measured at their relative fair values once we have determined the fair value of each of these assets and liabilities. The acquisition date is the date on which we obtain control of the real estate property and associated transaction costs are capitalized. The assets acquired and liabilities assumed consist of land, inclusive of associated rights, buildings, assumed debt, identified intangible assets and liabilities, and asset retirement obligations. Identified intangible assets generally consist of above-market leases, in-place leases, in-place tenant improvements, in-place leasing commissions, and tenant relationships. Identified intangible liabilities generally consist of below-market leases.

The fair value of the tangible assets acquired, consisting of land and buildings, is determined by valuing the property as if it were vacant, and the "as-if-vacant" value is then allocated to land and buildings. Land values are derived from appraisals or other relevant market information available to us, and building values are calculated as replacement cost less depreciation or management's estimates of the fair value of these assets using discounted cash flow analyses or similar methods believed to be used by market participants. The value of buildings is depreciated over the estimated useful life of generally 25 years using the straight-line method.

We determine the fair value of assumed debt by calculating the net present value of the scheduled mortgage payments using interest rates for debt with similar terms and remaining maturities that management believes we could obtain at the date of the debt assumption. Any difference between the fair value and stated value of the assumed debt is recorded as a discount or premium and amortized over the remaining life of the loan using the effective interest method.

We determine the value of above-market and below-market leases for acquired properties based on the present value (using an interest rate that reflects the risks associated with the leases acquired) of the difference between (1) the contractual amounts to be paid pursuant to the in-place leases and (2) management's estimate of current market lease rates for the corresponding in-place leases, measured over a period equal to (a) the remaining non-cancelable lease term for above-market leases, or (b) the remaining non-cancelable lease term plus any below-market fixed rate renewal options that, based on a qualitative assessment of several factors, including the financial condition of the lessee, the business conditions in the industry in which the lessee operates, the economic conditions in the area in which the property is located, and the ability of the lessee to sublease the property during the renewal term, are reasonably assured to be exercised by the lessee for below-market leases. We record the fair value of above-market and below-market leases as intangible assets or intangible liabilities, respectively, and amortize them as an adjustment to rental income over the determined lease term.

The total value of identified real estate intangible assets acquired is further allocated to in-place leases, in-place tenant improvements, in-place leasing commissions, and tenant relationships based on our evaluation of the specific characteristics of each tenant's lease and our overall relationship with that respective tenant. The aggregate value for tenant improvements and leasing commissions is based on estimates of these costs incurred at inception of the acquired leases, amortized through the date of acquisition. The aggregate value of in-place leases acquired and tenant relationships is determined by applying a fair value model. The estimates of fair value of in-place leases include an estimate of carrying costs during the expected lease-up periods for the respective spaces considering current market conditions. In estimating the carrying costs that would have otherwise been incurred had the leases not been in place, we include such items as real estate taxes, insurance, and other operating expenses, as well as lost rental revenue during the expected lease-up period based on current market conditions. The estimates of the fair value of tenant relationships also include costs to execute similar leases including leasing commissions, legal fees, and tenant improvements, as well as an estimate of the likelihood of renewal as determined by management on a tenant-by-tenant basis.

We amortize the value of in-place leases, in-place tenant improvements, and in-place leasing commissions to expense over the initial term of the respective leases. The tenant relationship values are amortized to expense over the initial term and any anticipated renewal periods, but in no event does the amortization period for intangible assets or liabilities exceed the remaining depreciable life of the building. Should a tenant terminate its lease, the unamortized portion of the acquired intangibles related to that tenant would be charged to expense.

In allocating the purchase price of each of our properties, management makes assumptions and uses various estimates, including, but not limited to, the estimated useful lives of the assets, the cost of replacing certain assets, discount rates used to determine present values, market rental rates per square foot, and the period required to lease the property up to its occupancy at acquisition as if it were vacant. Many of these estimates are obtained from independent third party appraisals. However, management is responsible for the source and use of these estimates. A change in these estimates and assumptions could result in the various categories of our real estate assets and/or related intangibles being overstated or understated which could result in an overstatement or understatement of depreciation and/or amortization expense and/or rental revenue. These variances could be material to our financial statements.

Impairment of Real Estate Related Assets

For our consolidated real estate assets, we monitor events and changes in circumstances indicating that the carrying amounts of the real estate assets may not be recoverable. When such events or changes in circumstances are present, we assess potential impairment by comparing estimated future undiscounted cash flows expected to be generated over the life of the asset including its eventual disposition, to the carrying amount of the asset. In the event that the carrying amount exceeds the estimated future undiscounted cash flows and also exceeds the fair value of the asset, we recognize an impairment loss to adjust the carrying amount of the asset to its estimated fair value. Our process to estimate the fair value of an asset involves using bona fide purchase offers or the expected sales price of an executed sales agreement, which would be considered Level 1 or Level 2 assumptions within the fair value hierarchy. To the extent that this type of third-party information is unavailable, we estimate projected cash flows and a risk-adjusted rate of return that we believe would be used by a third party market participant in estimating the fair value of an asset. This is considered a Level 3 assumption within the fair value hierarchy. These projected cash flows are prepared internally by the Company’s asset management professionals and are updated quarterly to reflect in-place and projected leasing activity, market revenue and expense growth rates, market capitalization rates, discount rates, and changes in economic and other relevant conditions. The Company’s Chief Financial Officer, Senior Vice President - Accounting, and Managing Director - Asset Management review these projected cash flows to assure that the valuation is prepared using reasonable inputs and assumptions which are consistent with market data or with assumptions that would be used by a third party market participant and assume the highest and best use of the real estate investment. For the year ended December 31, 2017, 2016 and 2015, we recorded non-cash impairment charges of approximately $5.3 million, $9.0 million, and $0.1 million, respectively, related to the impairment of consolidated real estate assets. The impairment losses recorded were primarily related to assets assessed for impairment due to changes in management’s estimates of the intended hold periods for certain of our properties.

For our unconsolidated real estate assets, at each reporting date we compare the estimated fair value of our investment to the carrying amount. An impairment charge is recorded to the extent the fair value of our investment is less than the carrying amount and the decline in value is determined to be other than a temporary decline. We had no impairment charges related to our investments in unconsolidated entities for the years ended December 31, 2017, 2016 and 2015.

In evaluating our investments for impairment, management makes several estimates and assumptions, including, but not limited to, the projected date of disposition and sales price for each property, the estimated future cash flows of each property during our estimated ownership period, and for unconsolidated investments, the estimated future distributions from the investment. A change in these estimates and assumptions could result in understating or overstating the carrying amount of our investments which could be material to our financial statements.

We undergo continuous evaluations of property level performance, credit market conditions and financing options. If our assumptions regarding the cash flows expected to result from the use and eventual disposition of our properties decrease or our expected hold periods decrease, we may incur future impairment charges on our real estate related assets. In addition, we may incur impairment charges on assets classified as held for sale in the future if the carrying amount of the asset upon classification as held for sale exceeds the estimated fair value less costs to sell.

Hurricane Harvey

During the third quarter of 2017, our Eldridge Properties experienced flood-related damage as a result of Hurricane Harvey and its aftermath. By early January 2018, all of the properties were fully operational. We carry comprehensive property, casualty, flood, and business interruption insurance that we anticipate will cover our losses at the properties, subject to a deductible. Based on management's estimates, we recognized approximately $15.0 million for the write-off of the net book value of damaged assets as of December 31, 2017, and we incurred approximately $8.6 million of restoration costs during the year ended December 31, 2017.

The write-off of the net book value of damaged assets and the restoration costs incurred during the year ended December 31, 2017, have been offset by an estimated insurance recovery of approximately $23.6 million. As of December 31, 2017, we have received approximately $4.8 million of these insurance recoveries. Since we determined that it was probable of receipt, the remaining estimated insurance recovery of approximately $18.8 million is recorded as a receivable as of December 31, 2017, and is included in "accounts receivable, net" on our consolidated balance sheet as of December 31, 2017.

To the extent that insurance proceeds ultimately exceed (1) the difference between the replacement costs and the net book value of damaged assets plus (2) the restoration costs incurred, the excess (net of the deductible) will be reflected as income in the period insurance proceeds are received or when receipt is deemed probable to occur.

From August 28, 2017 through December 31, 2017, we provided rent abatements of approximately $7.0 million to tenants because the properties had not been restored to pre-loss condition. These abatements were a reduction to "rental revenue" on our consolidated statement of operations and comprehensive income (loss) for the year ended December 31, 2017, offset by business interruption insurance proceeds of approximately $6.2 million, net of a deductible and estimated saved expenses.

Overview

As of December 31, 2017, we owned interests in 20 operating office properties totaling approximately 7.4 million rentable square feet, one non-operating property with approximately 331,000 rentable square feet, and two development properties that will consist of approximately 669,000 rentable square feet. As of December 31, 2016, we owned interests in 29 operating office properties with approximately 10.1 million rentable square feet, one non-operating property totaling approximately 331,000 square feet, and one development property.

As an owner of real estate, our operating results depend heavily on successfully leasing and operating the office space in our portfolio. Economic growth and employment levels in our target markets are, and will continue to be, important factors in predicting our future operating results.

The key components affecting our rental revenue are occupancy, rental rates, operating cost recovery income, new developments when completed, acquisitions, and dispositions. Occupancy generally increases during times of declining supply or economic growth, as our ability to lease space outpaces vacancies that occur upon the expirations of existing leases. Occupancy generally decreases during times of oversupply or economic decline, when new vacancies tend to outpace our ability to lease space. Acquisitions, dispositions, and new developments when completed directly impact our rental revenue and could impact our occupancy, depending upon the occupancy of the properties that are acquired, sold, or completed. A further indicator of the predictability of future revenues is the expected lease expirations at our operating properties. As a result, in addition to seeking to increase our occupancy by leasing current vacant space, we also concentrate our leasing efforts on renewing existing leases prior to expiration.

Review of 2017 Objectives

We identified four key objectives for 2017: (1) substantially complete portfolio repositioning while balancing relative market concentration; (2) manage capital expenditures to sustain dividend coverage; (3) maintain portfolio occupancy despite known challenges in the Houston market; and (4) continue our robust investor relations program.

Substantially Complete Portfolio Repositioning While Balancing Market Concentration

We had an objective for 2017 to exit four or more non-target markets yielding between $400 million and $500 million of proceeds to be allocated to highly selective strategic investment opportunities. During 2017, we exited five non-target markets and generated gross proceeds of approximately $390.6 million from the sales of 11 properties: Buena Vista Plaza in Burbank, California; the Wanamaker Building and Three Parkway in Philadelphia, Pennsylvania; Eisenhower I in Tampa, Florida; 1325 G Street and the Colorado Building (two properties located in Washington, D.C. in which we owned a 10% interest); and the Louisville

Portfolio (five properties) located in Louisville, Kentucky. Exiting these properties has allowed us to substantially complete our portfolio repositioning and provided capital to reinvest into our target markets.

We had an objective for 2017 to invest between $100 million and $225 million in target growth markets through a combination of prudent development and our strategic acquisition efforts. During 2017, we acquired an unrelated third party's 50.16% interest in Domain 2 and Domain 7 in Austin, Texas (increasing our ownership interest to 100%), for a purchase price of approximately $91.3 million, including our assumption of approximately $40.1 million of mortgage debt, and we acquired Legacy District One in Plano, Texas, for a purchase price of approximately $123.3 million, including our assumption of approximately $66.0 million of mortgage debt. We have also continued the execution of our build-to-core development program, commencing with the development of Third + Shoal and Domain 11, and the completion of the Domain 8 development which delivered at 100% leased in 2017, all strategically located within TIER**1** submarkets in Austin, Texas.

Manage Capital Expenditures to Sustain Dividend Coverage

We set out in 2017 to actively manage our capital expenditures with the objective of balancing leasing capital and competitive building improvements that we believe are important to maintain and/or create value with the goal of full and sustainable dividend coverage, such as we did with the 2017 redevelopment of our Bank of America Plaza property's lobby.

Maintain Portfolio Occupancy Despite Known Challenges in the Houston Market

During 2017, we were focused on maintaining occupancy across our portfolio despite tenant vacancies in our Houston portfolio. The leasing environment remained strong in the majority of our markets, though there were risks in our general exposure to the Houston market that continues to be hampered by low and volatile oil prices, recent office deliveries, and sublease space, as well as the impact of Hurricane Harvey. As of December 31, 2017, our total portfolio of operating properties was 89.1% occupied.

The following table sets forth information regarding leasing activity for our operating office properties, including our ownership share of unconsolidated properties, for the year ended December 31, 2017:

	Renewal	Expansion	New	Total
Square feet leased	918,000	62,000	312,000	1,292,000
Weighted average lease term (in years)	5.5	5.8	7.6	6.0
Increase in weighted average net rental rates per square foot per year (1)	$3.80	$6.86	$6.35	$4.51
% increase in rental rates per square foot per year	33%	34%	41%	35%
Leasing cost per square foot per year (2)	$2.90	$6.02	$7.78	$4.71

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(1) Weighted average net rental rates are calculated as the straight-lined fixed base rental amount paid by a tenant under the terms of their related lease agreements, less any portion of that base rent used to offset real estate taxes, utility charges, and other operating expenses incurred in connection with the leased space, weighted for the relative square feet under the lease. Increase reflects change in net rental rates from the lease previously occupying the specific space.

(2) Includes tenant improvements and leasing commissions.

Continue Our Robust Investor Relations Program

We believe our best-in-class, Class A office portfolio, focused investment strategy, in-house expertise, and opportunity to generate significant value through our reinvestment efforts in build-to-core developments and strategic acquisitions are attractive to institutional investors and differentiate us from other office REITs. To this end, our robust investor relations program continued to communicate our strategy to a broad audience of institutional investors.

Results of Operations

Comparison of the year ended December 31, 2017, to the year ended December 31, 2016

The results of operations of our consolidated operating and non-operating properties are included in the discussion below, and include properties sold and acquired (or newly consolidated) for our period of ownership. The term "same store" in the discussion below includes our consolidated operating office properties owned and operated for the entirety of the two periods being compared and excludes the property held for sale as of December 31, 2017.

Rental Revenue. Rental revenue for the year ended December 31, 2017, was approximately $216.5 million as compared to approximately $242.8 million for the year ended December 31, 2016, a $26.3 million decrease. Our non-same store properties had a decrease of approximately $24.3 million in rental revenue primarily due to a decrease of approximately $45.8 million from the sale (or held for sale classification) of properties, partially offset by an increase of approximately $21.9 million from acquired and newly consolidated properties. Our same store properties had a decrease of approximately $2.0 million, primarily as a result of a decrease in occupancy resulting in a decrease of approximately $3.8 million, increased free rent concessions resulting in a decrease in rental revenue of approximately $2.9 million, a decrease in contribution to revenue from the amortization of above- and below-market rents, net, of approximately $1.5 million, a decrease of approximately $0.5 million due to higher property operating expense reimbursements, a decrease in lease termination fee income of approximately $1.0 million, and approximately $0.8 million of rent abatements (net of business interruption insurance proceeds) provided to tenants at our Eldridge Properties because the properties had not been restored to pre-loss condition following Hurricane Harvey. These decreases were partially offset by an increase in rental rates of approximately $6.7 million, an increase in parking and other income of approximately $1.5 million, and an increase in straight-line rent and lease incentive adjustments of approximately $0.3 million.

Property Operating Expenses. Property operating expenses for the year ended December 31, 2017, were approximately $55.9 million as compared to approximately $72.6 million for the year ended December 31, 2016, a $16.7 million decrease. Our non-same store properties had a decrease of approximately $15.1 million primarily due to a decrease of approximately $17.2 million from the sale of properties, partially offset by an increase of approximately $2.5 million from acquired and newly consolidated properties. Our same store properties had a decrease of approximately $1.6 million, primarily due to lower repairs and maintenance expense, lower utilities expense, and lower bad debt expense.

Interest Expense. Interest expense for the year ended December 31, 2017, was approximately $33.6 million as compared to approximately $43.3 million for the year ended December 31, 2016, and was comprised of interest expense and amortization of deferred financing fees. The $9.7 million decrease was primarily due to lower overall borrowings, which reduced our interest expense by approximately $8.4 million and increased capitalized interest, which reduced our interest expense by approximately $1.7 million, partially offset by an increase of approximately $0.3 million related to lower interest rate hedge ineffectiveness income.

Asset Impairment Losses. We had approximately $5.3 million in asset impairment losses for the year ended December 31, 2017, related to an asset assessed for impairment primarily due to a change in management's estimate of the intended hold period. We had approximately $9.0 million in asset impairment losses for the year ended December 31, 2016, related to assets assessed for impairment primarily due to a change in management's estimate of the intended hold periods.

General and Administrative. General and administrative expenses for the year ended December 31, 2017, were approximately $21.4 million as compared to approximately $23.6 million for the year ended December 31, 2016, and were comprised of corporate general and administrative expenses including payroll costs, directors' and officers' insurance premiums, professional service fees, and other administrative expenses. The $2.2 million decrease is primarily due to lower payroll costs and lower professional service fees.

Depreciation and Amortization. Depreciation and amortization expense for the year ended December 31, 2017, was approximately $94.8 million as compared to approximately $111.8 million for the year ended December 31, 2016, a $17.0 million decrease. Our non-same store properties had a decrease of approximately $10.0 million primarily due to a decrease of approximately $21.2 million from the sale of properties, partially offset by an increase of approximately $11.3 million from acquired and newly consolidated properties. Our same store properties had a decrease of approximately $7.0 million primarily due to accelerated depreciation and amortization expense in 2016 as a result of certain early lease terminations.

Equity in Operations of Investments. Equity in operations of investments for the year ended December 31, 2017, was approximately $6.4 million as compared to approximately $2.6 million for the year ended December 31, 2016, and was comprised of our share of the earnings and losses of unconsolidated investments. The $3.8 million increase was due to a gain on the sales of 1325 G Street and the Colorado Building of approximately $6.7 million, partially offset by decreases in earnings of our unconsolidated investments, primarily due to the sale of the Wanamaker Building.

Gain on Sale of Assets. We had approximately $92.4 million in gain on sale of assets for the year ended December 31, 2017, primarily related to our sales of Buena Vista Plaza, Eisenhower I, Three Parkway, the Louisville Portfolio, and the sale of substantially all of our investment in the Wanamaker Building. We had approximately $22.2 million in gain on sale of assets for the year ended December 31, 2016, primarily related to our sales of Lawson Commons, FOUR40, and the Hurstbourne Business Center.

Gain on Remeasurement of Investment in Unconsolidated Entities. We had approximately $14.2 million in gain on remeasurement of investment in unconsolidated entities for the year ended December 31, 2017, as a result of obtaining a controlling interest in Domain 2 and Domain 7 and remeasuring our previously held equity interest at fair value. We had no gain on remeasurement of investment in unconsolidated entities for the year ended December 31, 2016.

Comparison of the year ended December 31, 2016, to the year ended December 31, 2015

The results of operations of our consolidated operating and non-operating properties are included in the discussion below, and include properties sold and acquired for our period of ownership. Excluded in the discussion below are properties that were held for sale as of December 31, 2014, sold in 2015, and classified as discontinued operations in the accompanying consolidated statements of operations and comprehensive income (loss). We adopted new accounting guidance on January 1, 2015, that changes the criteria for reporting a discontinued operation. This adoption impacts the comparability of our financial statements as disposals of individual operating properties after January 1, 2015, generally no longer qualify as discontinued operations. The term "same store" in the discussion below includes our consolidated operating office properties owned and operated for the entirety of the two periods being compared and excludes the four properties held for sale as of December 31, 2016.

Rental Revenue. Rental revenue for the year ended December 31, 2016, was approximately $242.8 million as compared to approximately $282.4 million for the year ended December 31, 2015, a $39.6 million decrease. Our non-same store properties had a decrease of approximately $37.7 million in rental revenue due to a decrease of approximately $46.0 million from the sale (or held for sale classification) of properties in 2016 and 2015, partially offset by an increase of approximately $6.3 million from acquired properties and an increase of approximately $2.0 million from our recently developed office property. Our same store properties had a decrease of approximately $1.9 million, primarily as a result of a decrease in occupancy resulting in a decrease in rental revenue of approximately $2.6 million, a decrease in contribution to revenue from the amortization of above- and below-market rents, net, of approximately $2.1 million, and a decrease in lease termination fee income of approximately $2.0 million. These decreases were partially offset by an increase of approximately $1.8 million due to less write-offs of straight-line rent revenue, an increase of approximately $1.7 million due to greater property operating expense reimbursements from tenants in 2016 primarily related to property tax refunds received and repaid to tenants in 2015, and an increase in rental rates resulting in an increase in revenue of approximately $1.5 million.

Property Operating Expenses. Property operating expenses for the year ended December 31, 2016, were approximately $72.6 million as compared to approximately $89.2 million for the year ended December 31, 2015, a $16.6 million decrease. Our non-same store properties had a decrease of approximately $17.6 million due to a decrease of approximately $18.2 million from the sale (or held for sale classification) of properties in 2016 and 2015 and a decrease of approximately $0.2 million from our recently developed office property, partially offset by an increase of approximately $0.8 million from acquired properties. Our same store properties had an increase of approximately $1.0 million, primarily due to higher repair and maintenance expense and higher bad debt expense, partially offset by lower utility expenses.

Interest Expense. Interest expense for the year ended December 31, 2016, was approximately $43.3 million as compared to approximately $57.5 million for the year ended December 31, 2015, and was comprised of interest expense, amortization of deferred financing fees, and interest rate mark-to-market adjustments related to our credit facility, our notes payable associated with our consolidated real estate properties, and interest rate swap agreements. The $14.2 million decrease was primarily due to lower overall interest rates (a weighted average effective interest rate of approximately 3.94% at December 31, 2016, as compared to approximately 5.34% as of January 1, 2015) which reduced our interest expense by approximately $10.1 million, lower overall borrowings which reduced our interest expense by approximately $4.5 million, approximately $0.9 million of decreased amortization of deferred financing costs, and approximately $0.6 million in 2016 interest rate hedge ineffectiveness income, partially offset by an increase of approximately $1.5 million in default interest in 2016 related to our non-recourse loan on our Fifth Third Center property located in Columbus, Ohio, and an approximately $0.4 million reduction in capitalized interest.

Property Management Fees. Property management fees for the year ended December 31, 2016, were approximately $0.9 million as compared to approximately $5.0 million for the year ended December 31, 2015, a $4.1 million decrease, primarily due to the internalization of the management of our properties that were formerly externally managed.

Asset Impairment Losses. We had approximately $9.0 million in asset impairment losses for the year ended December 31, 2016, related to assets assessed for impairment due to a change in management's estimate of the intended hold period. We had approximately $0.1 million asset impairment losses for the year ended December 31, 2015, related to final estimated closing costs incurred in connection with the disposition of One and Two Chestnut Place.

General and Administrative. General and administrative expenses for the year ended December 31, 2016, were approximately $23.6 million as compared to approximately $44.9 million for the year ended December 31, 2015, and were comprised of corporate general and administrative expenses including payroll costs, directors' and officers' insurance premiums, audit and tax fees, legal fees, corporate office rent, and other administrative expenses. The $21.3 million decrease is primarily due to approximately $10.3 million of costs incurred in 2015, and not incurred in 2016, related to the buyout and termination fees paid to HPT Management Services, LLC and BHT Advisors, LLC in connection with our 2015 property management and administrative services internalization, approximately $5.5 million in costs related to our 2015 tender offer and listing of our common stock on the NYSE, approximately $1.5 million of 2015 acquisition expense, 2016 cost reductions in insurance and other administrative expenses of approximately $3.3 million, and approximately $0.7 million of reduced corporate rent expense.

Depreciation and Amortization. Depreciation and amortization expense for the year ended December 31, 2016, was approximately $111.8 million as compared to approximately $122.7 million for the year ended December 31, 2015, a $10.9 million decrease. Our non-same store properties had a decrease of approximately $13.5 million primarily due to a decrease of approximately $18.7 million from the sale (or held for sale classification) of properties in 2016 and 2015, partially offset by an increase of approximately $3.5 million from acquired properties and an increase of approximately $1.7 million from our recently developed office property. Our same store properties had an increase of approximately $2.6 million primarily due to increased amortization related to tenant improvements and leasing commissions.

Loss on Early Extinguishment of Debt. We had no loss on early extinguishment of debt for the year ended December 31, 2016. Loss on early extinguishment of debt for the year ended December 31, 2015, was approximately $21.5 million and was primarily comprised of defeasance costs related to early payoffs of debt.

Equity in Operations of Investments. Equity in operations of investments for the year ended December 31, 2016, was approximately $2.6 million as compared to approximately $4.0 million for the year ended December 31, 2015, and was comprised of our share of the earnings and losses of unconsolidated investments. The $1.4 million decrease was primarily due to the 2015 gain on sale of Paces West, a property that was sold in November 2015, partially offset by increased earnings of our unconsolidated entities.

Gain on Sale of Assets. We had approximately $22.2 million in gain on sale of assets for the year ended December 31, 2016 primarily related to our sales of Lawson Commons, FOUR40, and the Hurstbourne Business Center. We had approximately $44.5 million in gain on sale of assets for the year ended December 31, 2015 primarily related to our sales of 1650 Arch and United Plaza and our partial sales of 1325 G Street and the Colorado Building.

Cash Flow Analysis

Comparison of the year ended December 31, 2017, to the year ended December 31, 2016

Cash provided by operating activities was approximately $60.4 million for the year ended December 31, 2017, as compared to approximately $51.3 million for the year ended December 31, 2016. The $9.1 million increase is primarily attributable to (1) approximately $15.8 million more cash received primarily due to the results of our real estate property operations, net of interest expense, and general and administrative expenses; partially offset by (2) an increase in cash paid for lease commissions and other lease intangibles of approximately $4.9 million; and (3) the timing of receipt of revenues and payment of expenses which resulted in approximately $1.8 million more net cash outflows from working capital assets and liabilities in 2017 as compared to 2016.

Cash provided by investing activities for the year ended December 31, 2017, was approximately $164.0 million and was primarily comprised of proceeds from the sale of assets of approximately $328.5 million and return of investments of approximately $25.8 million primarily due to proceeds received from a loan that was refinanced, partially offset by purchases of real estate of approximately $93.0 million, monies used to fund capital expenditures for existing real estate and real estate under development of approximately $64.2 million, investments in unconsolidated entities of approximately $19.7 million related to development activities at an unconsolidated property, and escrow deposits for anticipated real estate purchases of approximately $13.4 million. During the year ended December 31, 2016, cash provided by investing activities was approximately $230.1 million and was primarily comprised of proceeds from the sale of properties of approximately $295.5 million and return of investments of approximately $17.3 million primarily due to proceeds received from a loan that was refinanced, partially offset by monies used to fund capital expenditures for existing real estate and real estate under development of approximately $59.7 million, escrow deposits of approximately $19.0 million related to anticipated real estate acquisitions, and approximately $4.0 million related to development activities at an unconsolidated property.

Cash used in financing activities for the year ended December 31, 2017, was approximately $224.5 million and was primarily comprised of payments on notes payable and financing costs, net of proceeds from notes payable of approximately $180.8 million and distributions of approximately $43.1 million, including an additional distribution payment in 2017 as compared to 2016, as we transitioned our distribution payment schedule to pay distributions in the same quarter they were declared starting in January 2017. During the year ended December 31, 2016, cash used in financing activities was approximately $282.0 million and was primarily comprised of payments on notes payable and financing costs, net of proceeds from notes payable of approximately $247.2 million and distributions of approximately $34.4 million.

Comparison of the year ended December 31, 2016, to the year ended December 31, 2015

Cash provided by operating activities was approximately $51.3 million for the year ended December 31, 2016, as compared to cash used by operating activities approximately $3.9 million for the year ended December 31, 2015. The $55.2 million increase is primarily attributable to (1) the timing of receipt of revenues and payment of expenses which resulted in approximately $7.8 million more net cash inflows from working capital assets and liabilities in 2016 compared to 2015; (2) approximately $40.7 million primarily due to more cash received from the results of our real estate property operations, including discontinued operations, net of interest expense, general and administrative expenses including costs associated with our 2015 listing on the NYSE, and termination fees and buyout fees paid in connection with our 2015 internalization of property management services and administrative services; and (3) a decrease in cash paid for lease commissions and other lease intangibles of approximately $6.7 million.

Cash provided by investing activities for the year ended December 31, 2016, was approximately $230.1 million and was primarily comprised of proceeds from the sale of properties of approximately $295.5 million and return of investments of approximately $17.3 million primarily due to proceeds received from a loan that was refinanced, partially offset by monies used to fund capital expenditures for existing real estate and real estate under development of approximately $59.7 million, escrow deposits of approximately $19.0 million related to anticipated real estate acquisitions, and approximately $4.0 million related to development activities at an unconsolidated property. During the year ended December 31, 2015, cash provided by investing activities was approximately $200.2 million and was primarily comprised of proceeds from the sale of properties of approximately $493.4 million, partially offset by purchases of real estate, a ground lease, and investments in unconsolidated entities of approximately $224.6 million and monies used to fund capital expenditures for existing real estate and real estate under development of approximately $73.4 million.

Cash used in financing activities for the year ended December 31, 2016, was approximately $282.0 million and was primarily comprised of payments on notes payable and financing costs, net of proceeds from notes payable of approximately $247.2 million and distributions of approximately $34.4 million. During the year ended December 31, 2015, cash used in financing activities was approximately $240.2 million and was primarily comprised of payments on notes payable and financing costs, net of proceeds from notes payable of approximately $169.7 million, redemption of common stock primarily related to our tender offer of $50.8 million, and distributions of approximately $17.6 million.

Inflation

The majority of our leases contain inflation protection provisions applicable to reimbursement billings for common area maintenance charges, real estate taxes, and insurance reimbursements on a per square foot basis, or in some cases, annual reimbursement of operating expenses above a certain per square foot allowance. The real estate market has not been affected significantly by inflation in the past several years due to the relatively low inflation rate.

Funds from Operations ("FFO")

Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate 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 alone to be insufficient for evaluating operating performance. FFO is a non-GAAP financial measure that is widely recognized as a measure of a REIT's operating performance. We use FFO as defined by the National Association of Real Estate Investment Trusts ("NAREIT") which is net income (loss), computed in accordance with GAAP, excluding gains (or losses) from sales of property and impairments of depreciable real estate (including impairments of investments in unconsolidated entities which resulted from measurable decreases in the fair value of the depreciable real estate held by the unconsolidated entity), plus depreciation and amortization of real estate assets, and after related adjustments for unconsolidated entities and noncontrolling interests. The determination of whether impairment charges have been incurred is based partly on anticipated operating performance and hold periods. Estimated undiscounted cash flows from a property, derived from estimated future net rental and lease revenues, net proceeds on the sale of the property, and certain other ancillary cash flows, are taken into account in determining whether an impairment charge has been incurred. While impairment charges for depreciable real estate are excluded from net income (loss) in the calculation of FFO as described above, impairments reflect a decline in the value of the applicable property that we may not recover.

We believe that the use of FFO, together with the required GAAP presentations, is helpful in understanding our operating performance because it excludes real estate-related depreciation and amortization, gains and losses from property dispositions, and impairments of depreciable real estate assets, and as a result, when compared period to period, reflects the impact on operations from trends in occupancy rates, rental rates, operating costs, development activities, general and administrative expenses, and interest costs, which are not immediately apparent from net income. Factors that impact FFO include fixed costs, yields on cash held in accounts, income from portfolio properties and other portfolio assets, interest rates on debt financing, and operating expenses.

We also evaluate FFO, excluding certain items. The items excluded relate to certain non-operating activities or certain non-recurring activities that create significant FFO volatility. We believe it is useful to evaluate FFO excluding these items because it provides useful information in analyzing comparability between reporting periods and in assessing the sustainability of our operating performance.

FFO and FFO, excluding certain items, should not be considered as alternatives to net income (loss), or as indicators of our liquidity, nor are they indicative of funds available to fund our cash needs, including our ability to make distributions. Additionally, the exclusion of impairments limits the usefulness of FFO and FFO, excluding certain items, as historical operating performance measures since an impairment charge indicates that operating performance has been permanently affected. FFO and FFO, excluding certain items, are non-GAAP measurements and should be reviewed in connection with other GAAP measurements. Our FFO and FFO, excluding certain items, as presented may not be comparable to amounts calculated by other REITs that do not define FFO in accordance with the current NAREIT definition, or interpret it differently, or that identify and exclude different items related to non-operating activities or certain non-recurring activities.

The following section presents our calculations of FFO (as defined by NAREIT) attributable to common stockholders and FFO attributable to common stockholders, excluding certain items, for the years ended December 31, 2017, 2016 and 2015, (in thousands, except per share amounts):

	Year Ended December 31,		
	2017	2016	2015
Net income (loss)	$ 84,327	$ (29,453)	$ (34,163)
Noncontrolling interests	(41)	36	129
Dilution of Series A Convertible Preferred Stock	—	—	1,926
Adjustments (1):			
Real estate depreciation and amortization from consolidated properties	94,296	111,122	122,230
Real estate depreciation and amortization from unconsolidated properties	1,377	8,258	6,985
Real estate depreciation and amortization - noncontrolling interests	—	(6)	(20)
Impairment of depreciable real estate assets	5,250	8,977	132
Gain on sale of depreciable real estate	(99,109)	(22,236)	(63,263)
Gain on remeasurement of investment in unconsolidated entities	(14,168)	—	—
Taxes associated with sale of depreciable real estate	—	(88)	1,259
Noncontrolling interests	6	(78)	(116)
FFO attributable to common stockholders	71,938	76,532	35,099
Acquisition expenses	—	—	1,863
Severance charges	451	1,025	—
Tender offer and listing costs	—	—	5,526
Interest rate hedge ineffectiveness income (2)	(253)	(572)	—
Loss on early extinguishment of debt	545	—	21,606
Default interest (3)	2,443	2,468	980
BHT Advisors termination fee and HPT Management buyout fee	—	—	10,301
Noncontrolling interests	(2)	(2)	(70)
Dilution of Series A Convertible Preferred Stock	—	—	(1,926)
FFO attributable to common stockholders, excluding certain items	$ 75,122	$ 79,451	$ 73,379
Weighted average common shares outstanding - basic	47,538	47,406	48,960
Weighted average common shares outstanding - diluted (4)	47,883	47,819	49,148
Net income (loss) per common share - diluted (4)	$ 1.75	$ (0.62)	$ (0.66)
FFO per common share - diluted	$ 1.50	$ 1.60	$ 0.71
FFO, excluding certain items, per common share - diluted	$ 1.57	$ 1.66	$ 1.49

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(1) Includes our pro rata share of consolidated and unconsolidated amounts and the adjustments of continuing operations, as well as discontinued operations.

(2) Interest rate swaps are adjusted to fair value through other comprehensive income (loss). However, because our interest rate swaps do not have a LIBOR floor while the hedged debt is subject to a LIBOR floor, the portion of the change in fair value of our interest rate swaps attributable to this mismatch is reclassified to interest rate hedge ineffectiveness income within "interest expense" on our consolidated statements of operations and comprehensive income (loss).

(3)We have a non-recourse loan in default which subjects us to incur default interest at a rate that is 500 basis points higher than the stated interest rate. Although there can be no assurance, we anticipate that when this property is sold or when ownership of this property is conveyed to the lender, this default interest will be forgiven.

(4) There are no dilutive securities for purposes of calculating net loss per common share.

From August 28, 2017 through December 31, 2017, we provided rent abatements of approximately $7.0 million to tenants at the Eldridge Properties because the properties had not been restored to pre-loss condition following Hurricane Harvey. Approximately $6.2 million of these losses were recovered from business interruption insurance proceeds, net of a deductible and estimated saved expenses. For a more detailed discussion of certain changes in the factors listed above, refer to "Results of Operations" beginning on page 38.

Same Store Net Operating Income and Same Store Cash Net Operating Income (“Same Store NOI” and “Same Store Cash NOI”)

Same Store NOI is equal to rental revenue, less lease termination fee income, property operating expenses (excluding tenant improvement demolition costs), real estate taxes, and property management expenses for our same store properties and is considered a non-GAAP financial measure. Same Store Cash NOI is equal to Same Store NOI less non-cash revenue items including straight-line rent adjustments and the amortization of above- and below-market rent. The same store properties include our operating office properties not held for sale and owned and operated for the entirety of both periods being compared and include our comparable ownership percentage in each period for properties in which we own an unconsolidated interest that is accounted for using the equity method. We view Same Store NOI and Same Store Cash NOI as important measures of the operating performance of our properties because they allow us to compare operating results of properties owned and operated for the entirety of both periods being compared and therefore eliminate variations caused by acquisitions or dispositions during such periods.

Same Store NOI and Same Store Cash NOI presented by us may not be comparable to Same Store NOI or Same Store Cash NOI reported by other REITs that do not define Same Store NOI or Same Store Cash NOI exactly as we do. We believe that in order to facilitate a clear understanding of our operating results, Same Store NOI and Same Store Cash NOI should be examined in conjunction with net income (loss) as presented in our consolidated financial statements and notes thereto. Same Store NOI and Same Store Cash NOI should not be considered as an indicator of our ability to make distributions, as alternatives to net income (loss) as an indication of our performance, or as measures of cash flows or liquidity.

The table below presents our Same Store NOI and Same Store Cash NOI with a reconciliation to net income (loss) for the years ended December 31, 2017 and 2016 (in thousands). As of December 31, 2017, we owned interests in 20 operating office properties totaling approximately 7.4 million square feet. The same store properties for the comparisons below consist of 17 operating properties and approximately 6.3 million square feet. Our Domain 2 and Domain 7 properties (two properties in which we acquired full ownership in January 2017) are reflected below as unconsolidated and at our prior year ownership percentage of 49.84% in both periods.

	Year Ended December 31,	
	2017	2016
Same Store Revenue:		
Rental revenue	$ 170,997	$ 173,005
Less:		
Lease termination fees	(463)	(1,504)
	170,534	171,501
Same Store Expenses:		
Property operating expenses (less tenant improvement demolition costs)	44,872	46,375
Real estate taxes	28,463	29,154
Property management fees	91	192
Property Expenses	73,426	75,721
Same Store NOI - consolidated properties	97,108	95,780
Same Store NOI - unconsolidated properties (at ownership %)	5,394	3,605
Same Store NOI	$ 102,502	$ 99,385
Increase in Same Store NOI	*3.1 %*	
Same Store NOI - consolidated properties	$ 97,108	$ 95,780
Less:		
Straight-line rent revenue adjustment	(5,558)	(5,269)
Amortization of above- and below-market rents, net	(2,586)	(4,101)
Same Store Cash NOI - consolidated properties	88,964	86,410
Same Store Cash NOI - unconsolidated properties (at ownership %)	4,418	3,225
Same Store Cash NOI	$ 93,382	$ 89,635
Increase in Same Store Cash NOI	*4.2 %*	
Reconciliation of net income (loss) to Same Store NOI and Same Store Cash NOI		
Net income (loss)	$ 84,327	$ (29,453)
Adjustments:		
Interest expense	33,576	43,257
Asset impairment losses	5,250	8,977
Tenant improvement demolition costs	267	722
General and administrative	21,446	23,649
Depreciation and amortization	94,754	111,830
Interest and other income	(1,359)	(1,169)
Loss on early extinguishment of debt	545	—
Provision for income taxes	468	655
Equity in operations of investments	(6,399)	(2,569)
Gain on sale of assets	(92,396)	(22,176)
Gain on remeasurement of investment in unconsolidated entities	(14,168)	—
Net operating income of non-same store properties	(28,740)	(36,439)
Lease termination fees	(463)	(1,504)
Same Store NOI - unconsolidated properties (at ownership %)	5,394	3,605
Same Store NOI	102,502	99,385
Straight-line rent revenue adjustment	(5,558)	(5,269)
Amortization of above- and below-market rents, net	(2,586)	(4,101)
Cash NOI adjustments - unconsolidated properties (at ownership %)	(976)	(380)

Same Store Cash NOI	$	93,382	$	89,635

From August 28, 2017 through December 31, 2017, we provided rent abatements of approximately $7.0 million to tenants at the Eldridge Properties because the properties had not been restored to pre-loss condition following Hurricane Harvey. Approximately $6.2 million of these losses were recovered from business interruption insurance proceeds, net of a deductible and estimated saved expenses. For a more detailed discussion of certain changes in the factors listed above, refer to “Results of Operations” beginning on page 38.

The table below presents our Same Store NOI and Same Store Cash NOI with a reconciliation to net loss for the years ended December 31, 2016 and 2015 (in thousands). As of December 31, 2016, we owned interests in 29 operating office properties totaling approximately 10.1 million square feet. The same store properties for the comparisons below consist of 20 operating properties and approximately 7.8 million square feet.

	Year Ended December 31,	
	2016	**2015**
Same Store Revenue:		
Rental revenue	$ 188,228	$ 190,059
Less:		
Lease termination fees	(1,443)	(3,471)
	186,785	186,588
Same Store Expenses:		
Property operating expenses (less tenant improvement demolition costs)	53,337	52,782
Real estate taxes	27,786	25,069
Property management fees	517	3,208
Property Expenses	81,640	81,059
Same Store NOI - consolidated properties	105,145	105,529
Same Store NOI - unconsolidated properties (at ownership %)	10,273	9,736
Same Store NOI	$ 115,418	$ 115,265
Increase in Same Store NOI	*0.1 %*	
Same Store NOI - consolidated properties	$ 105,145	$ 105,529
Less:		
Straight-line rent revenue adjustment	(4,951)	(6,187)
Amortization of above- and below-market rents, net	(3,357)	(5,486)
Same Store Cash NOI consolidated properties	96,837	93,856
Same Store Cash NOI - unconsolidated properties (at ownership %)	9,264	8,787
Same Store Cash NOI	$ 106,101	$ 102,643
Increase in Same Store Cash NOI	*3.4 %*	
Reconciliation of net loss to Same Store NOI and Same Store Cash NOI		
Net loss	$ (29,453)	$ (34,163)
Adjustments:		
Interest expense	43,257	57,454
Asset impairment losses	8,977	132
Tenant improvement demolition costs	722	358
General and administrative	23,649	44,941
Depreciation and amortization	111,830	122,731
Interest and other income	(1,169)	(810)
Loss on early extinguishment of debt	—	21,502
Provision for income taxes	655	1,507
Equity in operations of investments	(2,569)	(3,982)
Income from discontinued operations	—	(1,407)
Gain on sale of discontinued operations	—	(15,383)
Gain on sale of assets	(22,176)	(44,477)
Net operating income of non-same store properties	(27,135)	(39,403)
Lease termination fees	(1,443)	(3,471)
Same Store NOI - unconsolidated properties (at ownership %)	10,273	9,736
Same Store NOI	115,418	115,265
Straight-line rent revenue adjustment	(4,951)	(6,187)

Amortization of above- and below-market rents, net	(3,357)	(5,486)
Cash NOI adjustments - unconsolidated properties (at ownership %)	(1,009)	(949)
Same Store Cash NOI	$ 106,101	$ 102,643

For a more detailed discussion of certain changes in the factors listed above, refer to “Results of Operations” beginning on page 38.

Liquidity and Capital Resources

General

As of December 31, 2017, we had cash and cash equivalents of approximately $13.8 million and restricted cash of approximately $8.5 million. We also have a credit facility with a borrowing capacity of $860.0 million as of December 31, 2017, which was increased to $900.0 million in an amendment to the facility on January 18, 2018 (as described below). As of December 31, 2017, under the credit facility, we had approximately $610.0 million of outstanding borrowings and had the ability, subject to our most restrictive financial covenants, to borrow an additional approximately $240.9 million.

Our expected actual and potential short- and long-term liquidity sources are, among others, cash and cash equivalents, restricted cash, revenue from our properties, proceeds from available borrowings under our credit facility and additional secured or unsecured debt financings and refinancings, proceeds from the sales of properties, and proceeds from selling equity or debt securities of the Company in the future if and when we believe appropriate to do so.

We may also seek to generate capital by contributing one or more of our existing assets to a joint venture with a third party. Investments in joint ventures may, under certain circumstances, involve risks not present when a third party is not involved. Our ability to successfully identify, negotiate, and complete joint venture transactions on acceptable terms or at all is highly uncertain.

Generally, our principal liquidity needs are operating and administrative expenses, payment of principal and interest on our outstanding indebtedness, including repaying or refinancing our outstanding indebtedness as it matures, capital improvements to our properties, including commitments for future tenant improvements, property developments, property acquisitions, and distributions to our stockholders. During the year ended December 31, 2017, we paid approximately $153.4 million of mortgage debt before maturity. As of December 31, 2017, approximately $383.2 million of debt, including our share of debt at our unconsolidated properties, has matured or matures before the end of 2019. In January 2018, after the amendment of our credit facility (as described below), other than the approximately $48.2 million of debt which has matured, none of our other debt, including our share of debt at our unconsolidated properties, matures before the end of 2019. We anticipate, although we can provide no assurance, that this approximately $48.2 million of debt will be settled when the property to which such loan relates is sold.

At projected operating levels, we anticipate we have adequate capital resources and liquidity to meet our short-term and long-term liquidity requirements.

Notes Payable

Our notes payable, net were approximately $794.5 million and $826.8 million in principal amount at December 31, 2017 and 2016, respectively. As of December 31, 2017, approximately $191.3 million of our notes payable were secured by real estate assets with a carrying value of approximately $251.3 million. As of December 31, 2017, all of our outstanding debt was fixed rate debt (or effectively fixed rate debt, through the use of interest rate swaps), with the exception of approximately $85.0 million. As of December 31, 2017, the stated annual interest rates on our outstanding notes payable ranged from approximately 2.98% to 6.09%. As of December 31, 2017, the effective weighted average interest rate for our debt is approximately 3.89%. For our loan that is in default and detailed below, we incur a default interest rate that is 500 basis points higher than the stated interest rate, which results in an overall effective weighted average interest rate of 4.20% for our debt and an increase in 2017, 2016 and 2015 interest expense of approximately $2.4 million, $2.5 million, and $1.0 million, respectively. We anticipate, although we can provide no assurance, that when the property to which such loan relates is sold, or if ownership of this property is conveyed to the lender, the default interest will be forgiven.

Our loan agreements generally require us to comply with certain reporting and financial covenants. As of December 31, 2017, we were in default on a non-recourse property loan with an outstanding balance of approximately $48.2 million secured by our Fifth Third Center property located in Columbus, Ohio, which has a carrying value of approximately $32.4 million as of December 31, 2017. A receiver was appointed for this property in March 2016. The loan had an original maturity date of July 2016, and we are currently working with the lender to dispose of this property on their behalf. As of December 31, 2017, other than the default discussed above, we believe we were in compliance with the covenants under each of our loan agreements including our credit facility.

Excluding debt already matured as detailed above, our outstanding debt had maturity dates that range from December 2018 to January 2023. On January 18, 2018, we amended our credit facility (as described below), and as a result, this maturity date range was adjusted to August 2021 to January 2025.

Credit Facility

As of December 31, 2017, we have a credit agreement through our operating partnership, Tier OP, that provides for total unsecured borrowings of up to $860.0 million, subject to our compliance with certain financial covenants. The facility consists of a $300.0 million term loan, a $275.0 million term loan, and a $285.0 million revolving line of credit. The first term loan matures on December 18, 2019. The second term loan matures on June 30, 2022. The revolving line of credit matures on December 18, 2018, and can be extended one additional year subject to certain conditions and payment of an extension fee. The annual interest rate on the credit facility is equal to either, at our election, (1) the "base rate" (calculated as the greatest of (i) the agent's "prime rate"; (ii) 0.5% above the Federal Funds Effective Rate; or (iii) the LIBOR Market Index Rate plus 1.0%) plus the applicable margin or (2) LIBOR for an interest period of one, three, or six months plus the applicable margin. The applicable margin will be determined based on the ratio of total indebtedness to total asset value and ranges from 35 to 250 basis points. We have entered into interest rate swap agreements to hedge interest rates on $525.0 million of these borrowings to manage our exposure to future interest rate movements. All amounts owed are guaranteed by us and certain subsidiaries of Tier OP. As of December 31, 2017, we had approximately $575.0 million in borrowings outstanding under the term loans, and approximately $35.0 million in borrowings outstanding under the revolving line of credit with the ability, subject to our most restrictive financial covenants, to borrow an additional approximately $240.9 million under the facility as a whole. As of December 31, 2017, the weighted average effective interest rate for borrowings under the credit facility as a whole, inclusive of our interest rate swaps, was approximately 3.44%.

On January 18, 2018, the credit agreement was amended to provide for total unsecured borrowings of up to $900.0 million, subject to our compliance with certain financial covenants. Subject to lender approval, certain conditions, and our payment of certain activation fees to the agent and lenders, the borrowing capacity may be increased up to an additional $300.0 million in the aggregate. The revolving line of credit was increased to $325.0 million with a new maturity date of January 18, 2022, which can be extended one additional year subject to certain conditions and our payment of an extension fee, and the maturity date of the $300.0 million term loan was extended to January 17, 2025.

ATM Program

On May 10, 2017, we established an "at the market" equity offering program (the "ATM Program") pursuant to which we may issue and sell shares of our common stock having an aggregate offering price of up to $125,000,000, in amounts and at times as we determine from time to time. We have no obligation to sell any of such shares. Actual sales will depend on a variety of factors to be determined by the Company from time to time, including, among others, market conditions, the trading price of our common stock, our determinations of the appropriate sources of funding for the Company, and potential uses of funding available to us. We intend to use the net proceeds from the offering of such shares, if any, for general corporate purposes, which may include future acquisitions, development, and repayment of indebtedness, including borrowings under our credit facility. During the year ended December 31, 2017, we did not issue any shares of common stock under the ATM Program.

Hurricane Harvey

During the third quarter of 2017, our Eldridge Properties experienced flood-related damage as a result of Hurricane Harvey and its aftermath. By early January 2018, all of the properties were fully operational.

From August 28, 2017 through December 31, 2017, we provided rent abatements of approximately $7.0 million to tenants because the properties had not been restored to pre-loss condition. Based on management's estimates, we recognized approximately $15.0 million for the write-off of the net book value of damaged assets as of December 31, 2017, and we incurred approximately $8.6 million of restoration costs during the year ended December 31, 2017. We expect to incur additional costs over a period of time to fully restore the properties to their pre-loss condition.

We carry comprehensive property, casualty, flood and business interruption insurance that we anticipate will cover our losses at the properties, subject to a deductible. Insurance payments to us may be delayed, which could have a material adverse impact on our results prior to our receipt of such payments. In addition, our results of operations may be adversely impacted to the extent that our insurance coverage does not cover all of the losses that we expect or in connection with litigation relating to the property damage, insurance claims or lease disputes arising out of Hurricane Harvey and its aftermath. To the extent that we are unable to sufficiently restore the condition of each of the buildings, primarily comprised of the first floor of each building and mechanical systems, in a timely manner, our tenants at these properties may have a right to terminate their leases, which could materially impact our results of operations, particularly if we are unable to recover potential losses through insurance coverage or we are unable to lease the space to new tenants on a timely basis or at comparable rates. To date, one tenant has delivered a purported notice of termination relating to a significant lease; however, we have contested such notice and discussions between the parties are ongoing. There can be no assurances as to the results of such discussions or whether other tenants might exercise or purport to exercise a termination right.

Distributions

Distributions are authorized at the discretion of our board of directors based on its analysis of numerous factors, including but not limited to our performance over the previous period, expectations of performance over future periods, forthcoming cash needs, earnings, cash flow, anticipated cash flow, capital expenditure requirements, cash on hand and general financial condition. The board's decisions are also influenced, in substantial part, by the requirements necessary to maintain our REIT status.

On November 3, 2017, our board of directors authorized a cash distribution of $0.18 per share of common stock for the fourth quarter of 2017, which was paid on December 29, 2017. On February 7, 2018, our board of directors authorized a cash distribution of $0.18 per share of common stock for the first quarter of 2018. The distribution will be paid on March 29, 2018, to stockholders of record on March 15, 2018. We anticipate that the board of directors will continue to consider authorizing a quarterly distribution payable from cash anticipated to be provided by operations. There is no assurance that distributions will continue or at any particular rate or timing. All or a portion of the distribution may constitute a return of capital.

Contractual Obligations

Our primary contractual obligations relate to our notes payable. In addition, we have land that is subject to long-term ground leases, we lease office space, parking space, and equipment, and we have lease-related commitments.

The following table summarizes our primary contractual obligations as of December 31, 2017 (in thousands):

	Total	2018	2019	2020	2021	2022	Thereafter
Notes payable principal (1)	$ 801,339	$ 84,678	$ 301,589	$ 1,670	$ 72,402	$ 275,000	$ 66,000
Interest (2)	95,394	28,188	26,599	17,015	15,536	7,815	241
Tenant improvement commitments	15,324	15,324	—	—	—	—	—
Leasing commission commitments	1,005	1,005	—	—	—	—	—
Operating leases	20,626	1,715	1,289	1,110	852	565	15,095
Total	$ 933,688	$ 130,910	$ 329,477	$ 19,795	$ 88,790	$ 283,380	$ 81,336

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(1) Excludes approximately $6.8 million of unamortized debt issuance costs.

(2) Includes fixed rate interest and interest on any variable interest rate debt at rates in effect at December 31, 2017.

Off-Balance Sheet Arrangements

The unconsolidated entities in which we have investments generally finance their activities with a combination of partner equity and debt financing. In the fourth quarter of 2017, 208 Nueces Street, LLC entered into a construction loan for the development of Third + Shoal, in which TIER OP has guaranteed 50% of the outstanding principal balance as of December 31, 2017. This percentage is reduced when certain conditions in the guarantee agreement are met. In January 2018, the percentage was lowered to 25% upon the achievement of certain conditions. This guarantee, which extends to October 2021 when the loan matures, includes a project completion guarantee and a payment guarantee covering a percentage of the outstanding loan.

Additionally, there is a recourse carve-out agreement in which TIER OP has guaranteed the entire outstanding balance of the loan in addition to any related losses that may arise from certain violations of the joint venture's contractual agreements, including "bad boy acts." In these situations, we have an indemnity and contribution agreement with our partners where each partner has indemnified the other for any recourse liability resulting from claims triggered by that partner.

We believe that, as of December 31, 2017, in the event we become legally obligated to perform under a guarantee of an obligation of 208 Nueces Street, LLC due to a triggering event, the collateral in such entity should be sufficient to repay the obligation. If it is not, we and our partners would need to contribute additional capital to the venture. At December 31, 2017, 208 Nueces Street, LLC has a loan commitment of approximately $103.8 million, of which, if the full amount of the debt obligation was borrowed, we estimate approximately $51.9 million to be our maximum exposure related to the payment guarantee. At December 31, 2017, the outstanding balance of the construction loan for 208 Nueces Street, LLC was approximately $18.5 million, of which we estimate approximately $9.3 million to be our maximum exposure related to the payment guarantee. These maximum exposure estimates do not take into account any recoveries from the underlying collateral or any reimbursement from our partners.

We have no other off-balance sheet arrangements that have or are reasonably likely to have a current or future effect or change on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

New Accounting Pronouncements

New Accounting Pronouncements to be Adopted

In May 2014, the FASB issued guidance to clarify the principles for recognizing revenue and to develop a common revenue standard for GAAP and International Financial Reporting Standards. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Lease contracts will be excluded from this revenue recognition criteria; however, the sale of real estate will be required to follow the new model. Expanded quantitative and qualitative disclosures regarding revenue recognition will be required for contracts that are subject to this guidance. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017, with early adoption permitted only as of annual reporting periods beginning after December 15, 2016. The guidance permits two implementation approaches, one requiring retrospective application of the new standard with restatement of prior years, or “full retrospective” and one requiring prospective application of the new standard with disclosure of results under old standards, or “modified retrospective.” We will adopt this guidance using the “modified retrospective” approach effective January 1, 2018. We have completed the analysis of our non-lease revenue streams, which primarily include gains on sales of assets and parking income. As the majority of our non-lease revenues will continue to be recognized when or as services are performed, the impact of adoption of this guidance is not expected to be material to our financial statements. The adoption will, however, require more extensive disclosures about our revenue streams and the periods over which each is recognized.

In February 2016, the FASB issued updated guidance which sets out revised principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. The guidance requires lessees to recognize assets and liabilities for operating leases with lease terms greater than twelve months on the balance sheet. The guidance modifies lessors’ classification criteria for leases and the accounting for sales-type and direct financing leases. The guidance also makes changes to lessor accounting and reporting, specifically the classification of lease components and non-lease components, such as services provided to tenants. New disclosures regarding the amount, timing, and uncertainty of cash flows arising from leases are also required. The guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2018, with early adoption permitted and is required to be adopted using the “modified retrospective” approach. We expect to adopt this guidance effective January 1, 2019. Upon adoption, we will recognize a lease liability and a right-of-use asset for operating leases where we are the lessee, such as ground leases and office and equipment leases. We continue to evaluate the impact this guidance will have on our financial statements when adopted.

In June 2016, the FASB issued amended guidance which requires measurement and recognition of expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This is different from the current guidance as this will require immediate recognition of estimated credit losses expected to occur over the remaining life of many financial assets. Financial assets that are measured at amortized cost will be required to be presented at the net amount expected to be collected with an allowance for credit losses deducted from the amortized cost basis. Generally, the pronouncement requires a modified retrospective method of adoption. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2019, with early adoption permitted. We are currently evaluating the impact this guidance will have on our financial statements when adopted.

In August 2016, the FASB issued amended guidance on the classification of certain cash receipts and payments in the statement of cash flows. Of the eight types of cash flows discussed in the new standard, we believe the classification of debt prepayment and debt extinguishment costs as financing outflows will impact our financial statements as these items are currently reflected as operating outflows. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017, with early adoption permitted and is required to be applied retrospectively to all periods presented. Upon adoption, approximately $0.4 million and $20.9 million of debt extinguishment costs paid will be reflected as cash used in financing activities on our consolidated statements of cash flows for the years ended December 31, 2017 and 2015, respectively. We paid no debt extinguishment costs for the year ended December 31, 2016.

In February 2017, the FASB issued updated guidance that clarifies the scope of asset derecognition guidance, adds guidance for partial sales of nonfinancial assets and clarifies recognizing gains and losses from the transfer of nonfinancial assets in contracts with noncustomers. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017, with early adoption permitted only as of annual reporting periods beginning after December 15, 2016. We do not believe this guidance will have a material impact on our financial statements when adopted.

In May 2017, the FASB issued updated guidance on applying modification accounting to changes in the terms or conditions of a share-based payment award. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. The guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017, with early adoption permitted. We do not believe this guidance will have a material impact on our financial statements when adopted.

In August 2017, the FASB issued updated guidance to simplify the application of hedge accounting, increase transparency as to the scope and results of hedging programs, and result in a more accurate portrayal of the economics of an entity's risk management activities in its financial statements. The transition guidance provides the option of early adoption using a modified retrospective transition method in any interim period after issuance of the update, or alternatively requires adoption for fiscal years beginning after December 15, 2018. This adoption method will require recognizing the cumulative effect of initially applying the new guidance as an adjustment to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the fiscal year that the update is adopted. We are currently evaluating the impact this guidance will have on our financial statements when adopted.

Recently Adopted Accounting Pronouncements

In April 2014, the FASB issued guidance that changes the criteria for reporting a discontinued operation. Under the new guidance, only a disposal of a component that represents a major strategic shift of an organization qualifies for discontinued operations reporting. The guidance also requires expanded disclosures about discontinued operations and new disclosures in regard to individually significant disposals that do not qualify for discontinued operations reporting. This guidance is effective for the first interim or annual period beginning on or after December 15, 2014. Upon our adoption of this guidance on January 1, 2015, sales of our individual operating properties generally no longer qualify as discontinued operations. However, properties sold or initially classified as held for sale prior to January 1, 2015, continue to be reported as discontinued operations. Properties that were held for sale prior to January 1, 2015, and were subsequently reclassified to held for use after January 1, 2015, are reported as continuing operations.

In January 2017, the FASB issued guidance that clarifies the definition of a business and assists in the evaluation of whether a transaction will be accounted for as an acquisition of an asset or as a business combination. The guidance provides a test to determine when a set of assets and activities acquired is not a business. When substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not a business. Under the updated guidance, an acquisition of a single property will likely be treated as an asset acquisition as opposed to a business combination and associated transaction costs will be capitalized rather than expensed as incurred. Additionally, assets acquired, liabilities assumed, and any noncontrolling interest will be measured at their relative fair values. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017, with early adoption permitted, including for interim or annual periods for which financial statements have not yet been issued. As we had not issued any financial statements for the fourth quarter of 2016, we early adopted this guidance on October 1, 2016, with no material impact on our financial statements or disclosures.

In March 2016, the FASB issued guidance which affects accounting for certain aspects of share-based payments for employees. The guidance requires income statement recognition of income tax effects of the awards when the awards vest or are settled. The guidance also changes the employer's accounting for forfeitures as well as for an employee's use of shares to satisfy their income tax withholding obligations. We have elected to recognize forfeitures as they occur. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2016, with early adoption permitted. We adopted this guidance using the "modified retrospective" approach on January 1, 2017, and recorded a cumulative-effect adjustment of approximately $0.3 million to retained earnings to recognize forfeitures as they occur.

In March 2016, the FASB issued amended guidance which simplifies the accounting for equity method investments by removing the requirement that an entity retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. The amendment requires that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2016, with early adoption permitted. The adoption of this guidance on January 1, 2017, did not have a material impact on our financial statements or disclosures.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to interest rate changes primarily as a result of our debt used to acquire properties. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve these objectives, we borrow primarily at fixed rates or variable rates with what we believe are the lowest margins available at the time and in some cases, the ability to convert variable rates to fixed rates. With regard to variable rate financing, we will assess interest rate risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities. We have entered into derivative financial instruments to mitigate our interest rate risk on certain financial instruments and as a result have effectively fixed the interest rate on certain of our variable rate debt. As of December 31, 2017, and 2016, we had approximately $610.0 million and approximately $634.0 million, respectively, of debt that bears interest at a variable rate with $525.0 million of this variable rate debt effectively fixed through the use of interest rate swaps at both December 31, 2017 and 2016.

A 100 basis point increase or decrease in interest rates on our variable rate debt would result in a net increase or decrease in total annual interest incurred of approximately $0.9 million as of December 31, 2017. In the event LIBOR was less than zero we would incur additional interest expense of approximately $1.3 million per year per 25 basis point decrease as of December 31, 2017. A 100 basis point increase in interest rates on our variable rate debt outstanding as of December 31, 2017, would result in a net increase in the fair value of our interest rate swaps of approximately $15.2 million. A 100 basis point decrease in interest rates on our variable rate debt outstanding as of December 31, 2017, would result in a net decrease in the fair value of our interest rate swaps of approximately $15.8 million.

We do not have any foreign operations and thus we are not directly exposed to foreign currency fluctuations.

Item 8. Financial Statements and Supplementary Data.

The information required by this Item 8 is hereby incorporated by reference to our Consolidated Financial Statements beginning on page F-1 of this Annual Report on Form 10-K.

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

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) and Rule 15d-15(b) under the Exchange Act, our management, including our Chief Executive Officer and Chief Financial Officer, evaluated as of the end of the period covered by this report, the effectiveness of our disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e) and Rule 15d-15(e). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures, as of the end of the period covered by this report, were effective for the purpose of ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified by the rules and forms of the Securities and Exchange Commission and is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

We believe, however, that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud or error, if any, within a company have been detected.

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated as of December 31, 2017, the effectiveness of our internal control over financial reporting using the framework in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our internal controls, as of December 31, 2017, were effective.

Our independent registered public accounting firm, Deloitte & Touche LLP, has issued an audit report on our internal control over financial reporting, which is set forth below.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the quarter ended December 31, 2017, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of TIER REIT, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of TIER REIT, Inc. and subsidiaries (the "Company") as of December 31, 2017, 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, 2017, 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 and financial statement schedules as of and for the year ended December 31, 2017, of the Company and our report dated February 12, 2018, expressed an unqualified opinion on those financial statements and financial statement schedules, and includes an explanatory paragraph regarding the early adoption of Financial Accounting Standards Board Accounting Standards Update No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, and the 2015 adoption of Financial Accounting Standards Board Accounting Standards Update No. 2014-08, Presentation of Financial Statements and Property, Plant, and Equipment (Topics 205 and 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.

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 Annual 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

Dallas, Texas
February 12, 2018

Item 9B. Other Information.

Appointment of Certain Officers

On February 8, 2018, our board of directors appointed Dallas E. Lucas as our President and Chief Operating Officer, James E. Sharp as our Chief Financial Officer and Treasurer, and Hannah Q. Wrenn as our Chief Accounting Officer, in each case effective as of February 15, 2018. Below are the biographies for each of Messrs. Lucas and Sharp and Ms. Wrenn:

Mr. Lucas, 55, is our President and Chief Operating Officer effective February 15, 2018. Prior to joining the Company as Chief Financial Officer and Treasurer in May 2014, Mr. Lucas served as Chief Financial Officer of Intrawest ULC ("Intrawest") from July 2012 to October 2013. Intrawest is a developer and operator of destination resorts. Prior to joining Intrawest, Mr. Lucas was a founding partner of Pacshore Partners, a Los Angeles-based real estate investment company. He also served as Chief Executive Officer and President and as a director of Pacific Office Properties Trust, Inc., a publicly traded REIT, from September 2007 to August 2009. He served as Executive Vice President and Chief Financial Officer of Maguire Properties, Inc., a publicly traded REIT, from July 2002 to March 2007, and he served as Chief Financial Officer and Vice President and as a director of NorthStar Capital Investment Corp. from August 1998 to July 2002. From December 1993 to August 1998, he served as Senior Vice President and Chief Financial Officer of Crescent Real Estate Equities Inc., a publicly traded REIT. He began his career as an auditor with Arthur Andersen & Company in 1984 until joining Crescent in 1993. He received a bachelor of business administration degree in accounting from the University of Oklahoma.

Mr. Sharp, 45, is our Chief Financial Officer and Treasurer effective February 15, 2018. He joined the Company's management team in October 2010 as the Chief Accounting Officer, and became the Executive Vice President – Capital Markets in May 2017. Prior to joining the Company, he worked as an auditor in public accounting with Ernst & Young LLP, serving primarily public and private real estate companies, including various REITs, homebuilders, and real estate investment companies, and he held an accounting and finance role with Terrabrook, a national master-planned community developer with a portfolio of over 50 residential communities in 20 states. Mr. Sharp has more than 20 years of experience in finance and accounting related to public and private real estate companies. Mr. Sharp is a certified public accountant and has a bachelor of business administration in accounting from the University of Texas at Austin.

Ms. Wrenn, 34, is our Chief Accounting Officer effective February 15, 2018. She joined the Company in November 2015 as the Vice President of Accounting, and became the Senior Vice President of Accounting in May 2017. Prior to joining the Company, she worked as an auditor at Ernst & Young LLP for nearly ten years in its assurance practice. Ms. Wrenn has more than 12 years of SEC financial reporting and technical accounting experience. During her career at Ernst & Young LLP, she served both public and privately held companies within the real estate industry, including REITs, homebuilders, and hospitality companies. Ms. Wrenn is a certified public accountant and earned her bachelor of business administration and master of accounting degrees from Texas Christian University.

The appointments of Messrs. Lucas and Sharp and Ms. Wrenn were not made pursuant to any arrangement or understanding between these individuals and any other person, and Messrs. Lucas and Sharp and Ms. Wrenn do not have any direct or indirect material interests in any transaction with us or in any currently proposed transaction to which we are a party.

Amendments to Employment Agreements

Effective February 8, 2018, the Company and Tier OP entered into a Seventh Amendment to Employment Agreement with James E. Sharp, a Fifth Amendment to Employment Agreement with each of Scott W. Fordham, William J. Reister and Telisa Webb Schelin, and a Fourth Amendment to Employment Agreement with Dallas E. Lucas (collectively, the "Amendments"). Depending on the executive, the Amendments adjust base salary, the percentage for target annual cash incentive compensation, and/or the percentage for target annual long-term incentive compensation.

The information set forth herein with respect to the Amendments does not purport to be complete in scope and is qualified in its entirety by the full text of the Amendments, which are filed as Exhibits 10.17, 10.22, 10.28, 10.34, and 10.42 hereto and are incorporated into this Annual Report on Form 10-K by reference.

Notice of 2018 Annual Meeting of Stockholders

On February 7, 2018, the Board of Directors of the Company determined that the 2018 annual meeting of stockholders will be held on June 19, 2018. The date of the 2018 annual meeting of stockholders has been changed by more than 30 days from the date of the 2017 annual meeting of stockholders. In accordance with Rule 14a-8(e) under the Exchange Act, the deadline for receipt of stockholder proposals for inclusion in the Company's proxy statement for the 2018 annual meeting of stockholders has been set at February 22, 2018. Stockholder proposals must comply with all of the applicable requirements set forth in the rules and regulations of the SEC, including Rule 14a-8 under the Exchange Act.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Our board of directors has adopted a Code of Business Conduct Policy. The policy describes ethical and legal principles and applies to all of our employees, including our officers, as well as all of our directors and contract personnel. A complete copy of the policy can be found at www.tierreit.com. Printed copies are available to any stockholder without charge by writing to us at: Corporate Secretary, 5950 Sherry Lane, Suite 700, Dallas, Texas 75225. We intend to disclose on this website any amendment to, or waiver of, any provision of this policy applicable to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, that would otherwise be required to be disclosed under the rules of the SEC.

The other information required by this Item is incorporated herein by reference from our definitive proxy statement relating to our 2018 annual meeting of stockholders, to be filed with the SEC pursuant to Regulation 14A within 120 days of December 31, 2017.

Item 11. Executive Compensation.

The information required by this Item is incorporated herein by reference from our definitive proxy statement relating to our 2018 annual meeting of stockholders, to be filed with the SEC pursuant to Regulation 14A within 120 days of December 31, 2017.

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

The information required by this Item is incorporated herein by reference from our definitive proxy statement relating to our 2018 annual meeting of stockholders, to be filed with the SEC pursuant to Regulation 14A within 120 days of December 31, 2017.

The information concerning our equity compensation plans contained in the table entitled “Equity Compensation Plan Information” set forth in Item 5 of this Annual Report on Form 10-K is incorporated by reference into this Item 12.

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

The information required by this Item is incorporated herein by reference from our definitive proxy statement relating to our 2018 annual meeting of stockholders, to be filed with the SEC pursuant to Regulation 14A within 120 days of December 31, 2017.

Item 14. Principal Accounting Fees and Services.

The information required by this Item is incorporated herein by reference from our definitive proxy statement relating to our 2018 annual meeting of stockholders, to be filed with the SEC pursuant to Regulation 14A within 120 days of December 31, 2017.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

List of Documents Filed.

1. *Financial Statements*

The list of the financial statements filed as part of this Annual Report on Form 10-K is set forth on page F-1 herein.

2. *Financial Statement Schedules*

Schedule II Valuation and Qualifying Accounts

Schedule III Real Estate and Accumulated Depreciation

All other financial statement schedules, except for Schedules II and III, have been omitted because the required information of such schedules is not present, is not present in amounts sufficient to require a schedule, or is included in the financial statements.

3. *Exhibits*

The list of exhibits filed as part of this Annual Report on Form 10-K is set forth below in response to Item 601 of Regulation S-K.

3.1	Ninth Articles of Amendment and Restatement (previously filed and incorporated by reference to Form 8-K filed on June 28, 2011)
3.2	Articles Supplementary (previously filed and incorporated by reference to Form 8-K filed on September 6, 2012)
3.3	Articles of Amendment of the Company (previously filed and incorporated by reference to Form 8-K filed on June 25, 2013)
3.4	Second Articles of Amendment to Ninth Articles of Amendment and Restatement of TIER REIT, Inc., effective as of June 2, 2015 (previously filed and incorporated by reference to Form 8-K filed on June 3, 2015)
3.5	Third Articles of Amendment to Ninth Articles of Amendment and Restatement of TIER REIT, Inc., effective as of June 2, 2015 (previously filed and incorporated by reference to Form 8-K filed on June 3, 2015)
3.6	Second Amended and Restated Bylaws (previously filed and incorporated by reference to Form 10-Q filed on August 8, 2011)
3.7	Amendment to the Second Amended and Restated Bylaws (previously filed and incorporated by reference to Form 8-K filed on February 5, 2013)
3.8	Amendment to the Second Amended and Restated Bylaws (previously filed and incorporated by reference to Form 8-K filed on June 25, 2013)
4.1	Statement regarding restrictions on transferability of shares of common stock (to appear on stock certificate or to be sent upon request and without charge to stockholders issued shares without certificates) (previously filed and incorporated by reference to Exhibit 4.4 to the Registrant's Post-Effective Amendment No. 8 to Registration Statement on Form S-11 filed on April 24, 2008)
10.1	Third Amended and Restated Agreement of Limited Partnership of Behringer Harvard Operating Partnership I LP, dated as of August 31, 2012 (previously filed and incorporated by reference to Form 8-K filed on September 6, 2012)
10.2	2005 Incentive Award Plan (previously filed and incorporated by reference to Annex A of the Registrant's Definitive Proxy Statement on Schedule 14A filed on April 15, 2005)
10.3	Amendment to 2005 Incentive Award Plan (previously filed and incorporated by reference to Form 10-K filed on March 11, 2015)
10.4	Amendment No. 2 to 2005 Incentive Award Plan (previously filed and incorporated by reference to Form 10-K filed on March 11, 2015)
10.5	Form of Restricted Stock Award Agreement under the Behringer Harvard REIT I, Inc. 2005 Incentive Award Plan (previously filed and incorporated by reference to Form 10-K filed on March 7, 2013)
10.6	TIER REIT, Inc. 2015 Equity Incentive Plan (incorporated by reference to Appendix A to the Company's Definitive Proxy Statement filed with the Securities and Exchange Commission on September 18, 2015)
10.7	First Amendment to TIER REIT, Inc. 2015 Equity Incentive Plan (previously filed and incorporated by reference to Form 10-K filed on February 13, 2017)

10.8	Form of Restricted Stock Unit Award Agreement for officers and non-employee directors with respect to time-based vesting under the TIER REIT, Inc. 2015 Equity Incentive Plan (previously filed and incorporated by reference to Form 8-K filed on December 3, 2015)
10.9	Form of Restricted Stock Unit Award Agreement with respect to performance-based vesting under the TIER REIT, Inc. 2015 Equity Incentive Plan (previously filed and incorporated by reference to Form 10-K filed on February 13, 2017)
10.10	Form of Restricted Stock Unit Award Agreement for non-employee directors with respect to time-based vesting under the TIER REIT, Inc. 2015 Equity Incentive Plan (previously filed and incorporated by reference to Form 8-K filed on December 3, 2015)
10.11	Form of Restricted Stock Award Agreement under the TIER REIT, Inc. 2015 Equity Incentive Plan (previously filed and incorporated by reference to Form 10-K filed on February 13, 2017)
10.12	Employment Agreement, dated as of September 1, 2012, by and between Behringer Harvard REIT I, Inc. and Scott W. Fordham (previously filed and incorporated by reference to Form 8-K filed on September 6, 2012)
10.13	First Amendment to Employment Agreement, effective as of May 27, 2014, by and between TIER REIT, Inc. and Tier Operating Partnership LP and Scott W. Fordham (previously filed and incorporated by reference to Form 8-K filed on May 27, 2014)
10.14	Second Amendment to Employment Agreement, effective as of January 27, 2015, by and between TIER REIT, Inc. and Tier Operating Partnership LP and Scott W. Fordham (previously filed and incorporated by reference to Form 8-K filed on February 2, 2015)
10.15	Third Amendment to Employment Agreement, effective as of July 15, 2015, by and between TIER REIT, Inc. and Tier Operating Partnership LP and Scott W. Fordham (previously filed and incorporated by reference to Form 8-K filed on July 15, 2015)
10.16	Fourth Amendment to Employment Agreement, effective as of February 10, 2017, by and between TIER REIT, Inc. and Tier Operating Partnership LP and Scott W. Fordham (previously filed and incorporated by reference to Form 10-K filed on February 13, 2017)
10.17	Fifth Amendment to Employment Agreement, effective as of February 7, 2018, by and between TIER REIT, Inc. and Tier Operating Partnership LP and Scott W. Fordham (filed herewith)
10.18	Employment Agreement, effective as of May 27, 2014, by and between TIER REIT, Inc. and Tier Operating Partnership LP and Dallas E. Lucas (previously filed and incorporated by reference to Form 8-K filed on May 27, 2014)
10.19	First Amendment to Employment Agreement, effective as of January 27, 2015, by and between TIER REIT, Inc. and Tier Operating Partnership LP and Dallas E. Lucas (previously filed and incorporated by reference to Form 8-K filed on February 2, 2015)
10.20	Second Amendment to Employment Agreement, effective as of July 15, 2015, by and between TIER REIT, Inc. and Tier Operating Partnership LP and Dallas E. Lucas (previously filed and incorporated by reference to Form 8-K filed on July 15, 2015)
10.21	Third Amendment to Employment Agreement, effective as of February 10, 2017, by and between TIER REIT, Inc. and Tier Operating Partnership LP and Dallas E. Lucas (previously filed and incorporated by reference to Form 10-K filed on February 13, 2017)
10.22	Fourth Amendment to Employment Agreement, effective as of February 7, 2018, by and between TIER REIT, Inc. and Tier Operating Partnership LP and Dallas E. Lucas (filed herewith)
10.23	Employment Agreement, dated as of September 1, 2012, by and between Behringer Harvard REIT I, Inc. and William J. Reister (previously filed and incorporated by reference to Form 8-K filed on September 6, 2012)
10.24	First Amendment to Employment Agreement, effective as of May 27, 2014, by and between TIER REIT, Inc. and Tier Operating Partnership LP and William J. Reister (previously filed and incorporated by reference to Form 8-K filed on May 27, 2014)
10.25	Second Amendment to Employment Agreement, effective as of January 27, 2015, by and between TIER REIT, Inc. and Tier Operating Partnership LP and William J. Reister (previously filed and incorporated by reference to Form 8-K filed on February 2, 2015)
10.26	Third Amendment to Employment Agreement, effective as of July 15, 2015, by and between TIER REIT, Inc. and Tier Operating Partnership LP and William J. Reister (previously filed and incorporated by reference to Form 8-K filed on July 15, 2015)
10.27	Fourth Amendment to Employment Agreement, effective as of February 10, 2017, by and between TIER REIT, Inc. and Tier Operating Partnership LP and William J. Reister (previously filed and incorporated by reference to Form 10-K filed on February 13, 2017)
10.28	Fifth Amendment to Employment Agreement, effective as of February 7, 2018, by and between TIER REIT, Inc. and Tier Operating Partnership LP and William J. Reister (filed herewith)
10.29	Employment Agreement, dated as of September 1, 2012, by and between Behringer Harvard REIT I, Inc. and Telisa Webb Schelin (previously filed and incorporated by reference to Form 8-K filed on September 6, 2012)

10.30	First Amendment to Employment Agreement, effective as of May 27, 2014, by and between TIER REIT, Inc. and Tier Operating Partnership LP and Telisa Webb Schelin (previously filed and incorporated by reference to Form 8-K filed on May 27, 2014)
10.31	Second Amendment to Employment Agreement, effective as of January 27, 2015, by and between TIER REIT, Inc. and Tier Operating Partnership LP and Telisa Webb Schelin (previously filed and incorporated by reference to Form 8-K filed on February 2, 2015)
10.32	Third Amendment to Employment Agreement, effective as of July 15, 2015, by and between TIER REIT, Inc. and Tier Operating Partnership LP and Telisa Webb Schelin (previously filed and incorporated by reference to Form 8-K filed on July 15, 2015)
10.33	Fourth Amendment to Employment Agreement, effective as of February 10, 2017, by and between TIER REIT, Inc. and Tier Operating Partnership LP and Telisa Webb Schelin (previously filed and incorporated by reference to Form 10-K filed on February 13, 2017)
10.34	Fifth Amendment to Employment Agreement, effective as of February 7, 2018, by and between TIER REIT, Inc. and Tier Operating Partnership LP and Telisa Webb Schelin (filed herewith)
10.35	Employment Agreement, dated as of September 1, 2012, by and between Behringer Harvard REIT I, Inc. and James E. Sharp (previously filed and incorporated by reference to Form 8-K filed on September 6, 2012)
10.36	First Amendment to Employment Agreement, effective as of May 27, 2014, by and between TIER REIT, Inc. and Tier Operating Partnership LP and James E. Sharp (previously filed and incorporated by reference to Form 8-K filed on May 27, 2014)
10.37	Second Amendment to Employment Agreement, effective as of January 27, 2015, by and between TIER REIT, Inc. and Tier Operating Partnership LP and James E. Sharp (previously filed and incorporated by reference to Form 8-K filed on February 2, 2015)
10.38	Third Amendment to Employment Agreement, effective as of July 15, 2015, by and between TIER REIT, Inc. and Tier Operating Partnership LP and James E. Sharp (previously filed and incorporated by reference to Form 8-K filed on July 15, 2015)
10.39	Fourth Amendment to Employment Agreement, effective as of January 26, 2016, by and between TIER REIT, Inc. and Tier Operating Partnership LP and James E. Sharp (previously filed and incorporated by reference to Form 8-K filed on January 26, 2016)
10.40	Fifth Amendment to Employment Agreement, effective as of February 10, 2017, by and between TIER REIT, Inc. and Tier Operating Partnership LP and James E. Sharp (previously filed and incorporated by reference to Form 10-K filed on February 13, 2017)
10.41	Sixth Amendment to Employment Agreement, effective as of May 10, 2017, by and between TIER REIT, Inc. and Tier Operating Partnership LP and James E. Sharp (previously filed and incorporated by reference to Form 10-Q filed on May 10, 2017)
10.42	Seventh Amendment to Employment Agreement, effective as of February 7, 2018, by and between TIER REIT, Inc. and Tier Operating Partnership LP and James E. Sharp (filed herewith)
10.43	Amended and Restated Credit Agreement, dated as of June 30, 2015, by and among Tier Operating Partnership LP, as Borrower; TIER REIT, Inc., as Parent; the Financial Institutions party thereto and their assignees as Lenders; Wells Fargo Bank, National Association, as Administrative Agent; Wells Fargo Securities, LLC and J.P. Morgan Securities LLC, as Joint Lead Arrangers and Joint Bookrunners; JPMorgan Chase Bank, N.A., as Syndication Agent; and U.S. Bank National Association and Fifth Third Bank as Co-Documentation Agents (previously filed and incorporated by reference to Form 8-K filed on July 20, 2015)
10.44	First Amendment to Amended and Restated Credit Agreement, dated as of July 20, 2015, by and among Tier Operating Partnership LP as Borrower; TIER REIT, Inc. as Parent; certain subsidiaries of TIER REIT, Inc. as signatory thereto; and Wells Fargo Bank National Association as Administrative Agent (previously filed and incorporated by reference to Form 8-K filed on July 20, 2015)
10.45	Amended and Restated Guaranty, dated as of June 30, 2015, by TIER REIT, Inc. and the subsidiary guarantors identified on the signature pages thereto in favor of Wells Fargo Bank, National Association in its capacity as Administrative Agent for the Lenders under the Credit Agreement (previously filed and incorporated by reference to Form 8-K filed on July 20, 2015)
10.46	Increase and Second Amendment to Amended and Restated Credit Agreement, dated as of March 15, 2016, by and among Tier Operating Partnership LP as Borrower; TIER REIT, Inc. as Parent; and Wells Fargo Bank, National Association as Administrative Agent (previously filed and incorporated by reference to Form 10-Q filed on May 9, 2016)
10.47	Third Amendment to Amended and Restated Credit Agreement, dated as of March 17, 2017, by and among Tier Operating Partnership LP as Borrower; TIER REIT, Inc. as Parent; and Wells Fargo Bank, National Association as Administrative Agent (previously filed and incorporated by reference to Form 10-Q filed on May 10, 2017)
21.1	List of Subsidiaries (filed herewith)
23.1	Consent of Deloitte & Touche LLP (filed herewith)
31.1	Rule 13a-14(a) or Rule 15d-14(a) Certification of Chief Executive Officer (filed herewith)
31.2	Rule 13a-14(a) or Rule 15d-14(a) Certification of Chief Financial Officer (filed herewith)
32.1*	Section 1350 Certification (furnished herewith)
101	The following financial information from TIER REIT, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations and Comprehensive Income (Loss), (iii) Consolidated Statements of Changes in Equity, (iv) Consolidated Statements of Cash Flows (v) Notes to Consolidated Financial Statements, and (vi) Financial Statement Schedules.

* In accordance with Item 601(b)(32) of Regulation S-K, this Exhibit is not deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section. Such certification will not be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 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.

TIER REIT, Inc.

Dated:	February 12, 2018	By:	/s/ Scott W. Fordham
			Scott W. Fordham
			Chief Executive Officer, President, 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 capacities and on the dates indicated.

February 12, 2018	/s/ Scott W. Fordham
	Scott W. Fordham
	Chief Executive Officer, President, and Director
	(Principal Executive Officer)
February 12, 2018	/s/ Dallas E. Lucas
	Dallas E. Lucas
	Chief Financial Officer and Treasurer
	(Principal Financial Officer and Principal Accounting Officer)
February 12, 2018	/s/ Richard I. Gilchrist
	Richard I. Gilchrist
	Chairman of the Board of Directors
February 12, 2018	/s/ R. Kent Griffin, Jr.
	R. Kent Griffin, Jr.
	Director
February 12, 2018	/s/ Thomas M. Herzog
	Thomas M. Herzog
	Director
February 12, 2018	/s/ Dennis J. Martin
	Dennis J. Martin
	Director
February 12, 2018	/s/ Gregory J. Whyte
	Gregory J. Whyte
	Director

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of TIER REIT, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of TIER REIT, Inc. and subsidiaries (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of operations and comprehensive income (loss), changes in equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and the schedules listed in the Index as Item 15 (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, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, 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, 2017, 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 12, 2018, expressed an unqualified opinion on the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 3 to the financial statements, as of October 1, 2016, the Company early adopted Financial Accounting Standards Board Accounting Standards Update No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. Also, during 2015 the Company adopted Financial Accounting Standards Board Accounting Standards Update No. 2014-08, Presentation of Financial Statements and Property, Plant, and Equipment (Topics 205 and 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.

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/ Deloitte & Touche LLP

Dallas, Texas
February 12, 2018

We have served as the Company's auditor since 2005.

TIER REIT, Inc.
Consolidated Balance Sheets
As of December 31, 2017 and 2016
(in thousands, except share and per share amounts)

	December 31, 2017	December 31, 2016
Assets		
Real estate		
Land	$ 139,951	$ 143,537
Land held for development	45,059	45,059
Buildings and improvements, net	1,061,418	1,043,641
Real estate under development	29,525	17,961
Total real estate	1,275,953	1,250,198
Cash and cash equivalents	13,800	14,884
Restricted cash	8,510	7,509
Accounts receivable, net	81,129	71,459
Prepaid expenses and other assets	28,112	25,305
Investments in unconsolidated entities	31,852	76,813
Deferred financing fees, net	1,387	2,395
Lease intangibles, net	87,047	61,844
Other intangible assets, net	—	9,787
Assets associated with real estate held for sale	53,348	32,346
Total assets	$ 1,581,138	$ 1,552,540
Liabilities and equity		
Liabilities		
Notes payable, net	$ 794,538	$ 826,783
Accounts payable and accrued liabilities	81,166	74,458
Acquired below-market leases, net	17,942	6,886
Distributions payable	—	8,601
Other liabilities	7,567	14,353
Obligations associated with real estate held for sale	2,354	943
Total liabilities	903,567	932,024
Commitments and contingencies		
Equity		
Preferred stock, $.0001 par value per share; 17,500,000 shares authorized at December 31, 2017 and 2016, respectively, none outstanding	—	—
Convertible stock, $.0001 par value per share; 1,000 shares authorized, none outstanding	—	—
Common stock, $.0001 par value per share; 382,499,000 shares authorized, 47,623,324 and 47,473,218 shares issued and outstanding at December 31, 2017 and 2016, respectively	5	5
Additional paid-in capital	2,609,540	2,606,098
Cumulative distributions and net loss attributable to common stockholders	(1,936,960)	(1,986,515)
Accumulated other comprehensive income (loss)	4,218	(1,042)
Stockholders' equity	676,803	618,546
Noncontrolling interests	768	1,970
Total equity	677,571	620,516
Total liabilities and equity	$ 1,581,138	$ 1,552,540

See Notes to Consolidated Financial Statements.

TIER REIT, Inc.
Consolidated Statements of Operations and Comprehensive Income (Loss)
For the Years Ended December 31, 2017, 2016 and 2015
(in thousands, except share and per share amounts)

	2017	2016	2015
Rental revenue	$ 216,461	$ 242,818	$ 282,365
Expenses			
Property operating expenses	55,921	72,603	89,158
Interest expense	33,576	43,257	57,454
Real estate taxes	34,264	36,297	40,134
Property management fees	232	917	5,028
Asset impairment losses	5,250	8,977	132
General and administrative	21,446	23,649	44,941
Depreciation and amortization	94,754	111,830	122,731
Total expenses	245,443	297,530	359,578
Interest and other income	1,359	1,169	810
Loss on early extinguishment of debt	(545)	—	(21,502)
Loss from continuing operations before income taxes, equity in operations of investments, and gains	(28,168)	(53,543)	(97,905)
Provision for income taxes	(468)	(655)	(1,507)
Equity in operations of investments	6,399	2,569	3,982
Loss from continuing operations before gains	(22,237)	(51,629)	(95,430)
Discontinued operations			
Income from discontinued operations	—	—	1,407
Gain on sale of discontinued operations	—	—	15,383
Discontinued operations	—	—	16,790
Gain on sale of assets	92,396	22,176	44,477
Gain on remeasurement of investment in unconsolidated entities	14,168	—	—
Net income (loss)	84,327	(29,453)	(34,163)
Noncontrolling interests in continuing operations	(41)	36	159
Noncontrolling interests in discontinued operations	—	—	(30)
Dilution of Series A Convertible Preferred Stock	—	—	1,926
Net income (loss) attributable to common stockholders	$ 84,286	$ (29,417)	$ (32,108)
Basic weighted average common shares outstanding	47,537,758	47,405,564	48,960,393
Diluted weighted average common shares outstanding	47,882,642	47,405,564	48,960,393
Basic income (loss) per common share:			
Continuing operations	$ 1.76	$ (0.62)	$ (1.00)
Discontinued operations	—	—	0.34
Basic income (loss) per common share	$ 1.76	$ (0.62)	$ (0.66)
Diluted income (loss) per common share:			
Continuing operations	$ 1.75	$ (0.62)	$ (1.00)
Discontinued operations	—	—	0.34
Diluted income (loss) per common share	$ 1.75	$ (0.62)	$ (0.66)
Net income (loss) attributable to common stockholders:			
Continuing operations	$ 84,286	$ (29,417)	$ (48,868)
Discontinued operations	—	—	16,760
Net income (loss) attributable to common stockholders	$ 84,286	$ (29,417)	$ (32,108)
Comprehensive income (loss):			
Net income (loss)	$ 84,327	$ (29,453)	$ (34,163)

Other comprehensive income (loss): unrealized gain (loss) on interest rate derivatives	5,262	2,824	(3,077)
Dilution of Series A Convertible Preferred Stock	—	—	1,926
Comprehensive income (loss)	89,589	(26,629)	(35,314)
Comprehensive (income) loss attributable to noncontrolling interests	(43)	30	134
Comprehensive income (loss) attributable to common stockholders	$ 89,546	$ (26,599)	$ (35,180)

See Notes to Consolidated Financial Statements.

TIER REIT, Inc.
Consolidated Statements of Changes in Equity
For the Years Ended December 31, 2017, 2016 and 2015
(in thousands)

	Common Stock			Cumulative Distributions and Net Loss Attributable to Common Stockholders	Accumulated Other Comprehensive Income (Loss)		
	Number of Shares	Par Value	Additional Paid-in Capital			Noncontrolling Interests	Total Equity
Balance at January 1, 2015	49,877	$ 5	$ 2,645,927	$ (1,862,555)	$ (788)	$ 945	$ 783,534
Net loss	—	—	—	(34,034)	—	(129)	(34,163)
Unrealized loss on interest rate derivatives	—	—	—	—	(3,072)	(5)	(3,077)
Share based compensation, net	148	—	3,687	—	—	31	3,718
Redemption of common stock	(2,663)	—	(50,841)	—	—	—	(50,841)
Contributions by noncontrolling interest	—	—	—	—	—	1,325	1,325
Distributions declared:							
Common stock ($0.54 per share)	—	—	—	(26,126)	—	—	(26,126)
Series A Convertible Preferred Stock ($0.54 per share)	—	—	—	(6)	—	—	(6)
Noncontrolling interests	—	—	—	—	—	(48)	(48)
Dilution of Series A Convertible Preferred Stock	—	—	1,926	—	—	—	1,926
Purchase operating partnership units	—	—	(506)	—	—	(617)	(1,123)
Balance at December 31, 2015	47,362	$ 5	$ 2,600,193	$ (1,922,721)	$ (3,860)	$ 1,502	$ 675,119
Net loss	—	—	—	(29,417)	—	(36)	(29,453)
Unrealized gain on interest rate derivatives	—	—	—	—	2,818	6	2,824
Share based compensation, net	111	—	3,205	—	—	304	3,509
Contributions by noncontrolling interest	—	—	—	—	—	221	221
Distributions declared:							
Common stock ($0.72 per share)	—	—	—	(34,377)	—	—	(34,377)
Noncontrolling interests	—	—	—	—	—	(27)	(27)
Cancellation of Series A Preferred Stock	—	—	2,700	—	—	—	2,700
Balance at December 31, 2016	47,473	$ 5	$ 2,606,098	$ (1,986,515)	$ (1,042)	$ 1,970	$ 620,516
Cumulative effect of a change in accounting principle	—	—	290	(290)	—	—	—
Balance at December 31, 2016 (restated)	47,473	$ 5	$ 2,606,388	$ (1,986,805)	$ (1,042)	$ 1,970	$ 620,516
Net income	—	—	—	84,286	—	41	84,327
Unrealized gain on interest rate derivatives	—	—	—	—	5,260	2	5,262
Share based compensation, net	150	—	3,152	—	—	(216)	2,936
Contributions by noncontrolling interest	—	—	—	—	—	488	488
Distributions declared:							
Common stock ($0.72 per share)	—	—	—	(34,441)	—	—	(34,441)
Noncontrolling interests	—	—	—	—	—	(17)	(17)
Deconsolidation of investment	—	—	—	—	—	(1,500)	(1,500)
Balance at December 31, 2017	47,623	$ 5	$ 2,609,540	$ (1,936,960)	$ 4,218	$ 768	$ 677,571

See Notes to Consolidated Financial Statements.

TIER REIT, Inc.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2017, 2016 and 2015
(in thousands)

	2017	2016	2015
Cash flows from operating activities			
Net income (loss)	$ 84,327	$ (29,453)	$ (34,163)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Asset impairment losses	5,250	8,977	132
Gain on sale of assets	(92,396)	(22,176)	(44,477)
Gain on remeasurement of investment in unconsolidated entities	(14,168)	—	—
Gain on sale of discontinued operations	—	—	(15,383)
Loss on early extinguishment of debt	109	—	614
Hedge ineffectiveness income from derivatives	(253)	(572)	—
Amortization of restricted shares and units	4,079	4,159	4,975
Depreciation and amortization	94,754	111,830	122,731
Amortization of lease intangibles	(275)	(2,015)	(1,978)
Amortization of above- and below-market rent	(3,895)	(4,255)	(5,842)
Amortization of deferred financing and mark-to-market costs	3,444	3,106	3,683
Equity in operations of investments	(6,399)	(2,569)	(3,982)
Ownership portion of fees from unconsolidated entities	409	562	497
Distributions from investments	9,108	739	871
Change in accounts receivable	(9,055)	(8,892)	(8,180)
Change in prepaid expenses and other assets	(697)	852	2,260
Change in lease commissions	(15,907)	(10,614)	(17,068)
Change in other lease intangibles	(432)	(852)	(1,149)
Change in other intangible assets	—	(100)	—
Change in accounts payable and accrued liabilities	(842)	3,627	(8,337)
Change in other liabilities	3,255	(1,051)	2,432
Change in payables to related parties	—	—	(1,516)
Cash provided by (used in) operating activities	60,416	51,303	(3,880)
Cash flows from investing activities			
Escrow deposits	(13,350)	(19,000)	—
Return of investments	25,784	17,331	4,786
Purchase of ground lease	—	—	(7,200)
Purchases of real estate	(93,011)	—	(178,184)
Investments in unconsolidated entities	(19,667)	(3,956)	(39,173)
Capital expenditures for real estate	(33,688)	(48,603)	(70,856)
Capital expenditures for real estate under development	(30,550)	(11,088)	(2,555)
Proceeds from sale of discontinued operations	—	—	59,715
Proceeds from sale of assets	328,461	295,453	433,709
Cash provided by investing activities	163,979	230,137	200,242
Cash flows from financing activities			
Financing costs	(1,972)	(885)	(5,915)
Proceeds from notes payable	196,000	173,000	779,905
Payments on notes payable	(374,792)	(419,294)	(943,667)
Payments on capital lease obligations	—	—	(12)
Redemptions of common stock	—	—	(50,841)
Transfer of common stock	(1,143)	(650)	(1,257)
Purchase of operating partnership units	—	—	(1,123)
Distributions paid to common stockholders	(43,034)	(34,359)	(17,549)
Distributions paid to Series A Convertible Preferred stockholders	—	(2)	(4)

Distributions paid to noncontrolling interests	(25)	(38)	(30)
Contributions from noncontrolling interests	488	221	325
Cash used in financing activities	(224,478)	(282,007)	(240,168)
Net change in cash, cash equivalents, and restricted cash	(83)	(567)	(43,806)
Cash, cash equivalents, and restricted cash at beginning of period	22,393	22,960	66,766
Cash, cash equivalents, and restricted cash at end of period	$ 22,310	$ 22,393	$ 22,960

See Notes to Consolidated Financial Statements.

1. Business

Organization

TIER REIT, Inc. is a publicly traded (NYSE: TIER), self-managed, Dallas-based real estate investment trust focused on owning quality, well-managed commercial office properties in dynamic markets throughout the U.S. As used herein, "TIER REIT," the "Company," "we," "us," or "our" refers to TIER REIT, Inc. and its subsidiaries unless the context otherwise requires.

TIER REIT's vision is to be the premier owner and operator of best-in-class office properties in TIER1 submarkets, which are primarily higher density and amenity-rich locations within select, high-growth metropolitan areas that offer a walkable experience to various amenities. Our mission is to provide unparalleled, TIER **ONE** Property Services to our tenants and outsized total return through stock price appreciation and dividend growth to our stockholders. TIER REIT was incorporated in June 2002 as a Maryland corporation and has elected to be treated, and currently qualifies, as a real estate investment trust, or REIT, for federal income tax purposes.

As of December 31, 2017, we owned interests in 20 operating office properties, one non-operating property, and two development properties located in eight markets throughout the United States.

Substantially all of our business is conducted through Tier Operating Partnership LP ("Tier OP"), a Texas limited partnership. Our wholly-owned subsidiary, Tier GP, Inc., a Delaware corporation, is the sole general partner of Tier OP. Our direct and indirect wholly-owned subsidiaries, Tier Business Trust, a Maryland business trust, and Tier Partners, LLC, a Delaware limited liability company, are limited partners that together with Tier GP, Inc. own all of Tier OP.

2. Summary of Significant Accounting Policies

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates include such items as the purchase price allocation for real estate acquisitions, impairment of assets, timing of asset dispositions, duration of lease terms, depreciation and amortization, and allowance for doubtful accounts. Actual results could differ materially from those estimates.

Principles of Consolidation and Basis of Presentation

Our consolidated financial statements include our accounts, the accounts of variable interest entities ("VIEs"), if any, in which we are the primary beneficiary, and the accounts of other subsidiaries over which we have control. VIEs, as defined by GAAP, are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders lack adequate decision making ability. Interests in entities acquired are evaluated based on applicable GAAP guidance which requires the consolidation of VIEs in which we are deemed to be the primary beneficiary. The determination of the primary beneficiary requires management to make significant estimates and judgments about our rights, obligations, and economic interests in such entities as well as the same of the other owners. For entities in which we have less than a controlling financial interest or entities with respect to which we are not deemed to be the primary beneficiary, the entities are accounted for using the equity method of accounting. If the interest is in an entity that is determined not to be a VIE, then the entity is evaluated for consolidation based on legal form, economic substance, and the extent to which we have control and/or substantive participating rights under the respective ownership agreement.

As discussed in Note 3, "New Accounting Pronouncements," effective January 1, 2015, we adopted the Financial Accounting Standards Board ("FASB") guidance that changes the criteria for reporting a discontinued operation. This adoption impacts the comparability of our financial statements as disposals of individual operating properties generally no longer qualify as discontinued operations.

All inter-company transactions, balances, and profits have been eliminated in consolidation.

Real Estate

Upon the acquisition of real estate properties accounted for as an acquisition of an asset, we recognize the assets acquired, the liabilities assumed, and any noncontrolling interest as of the acquisition date, measured at their relative fair values once we have determined the fair value of each of these assets and liabilities. The acquisition date is the date on which we obtain control of the real estate property and associated transaction costs are capitalized. The assets acquired and liabilities assumed consist of land, inclusive of associated rights, buildings, assumed debt, identified intangible assets and liabilities, and asset retirement obligations. Identified intangible assets generally consist of above-market leases, in-place leases, in-place tenant improvements, in-place leasing commissions, and tenant relationships. Identified intangible liabilities generally consist of below-market leases.

The fair value of the tangible assets acquired, consisting of land and buildings, is determined by valuing the property as if it were vacant, and the "as-if-vacant" value is then allocated to land and buildings. Land values are derived from appraisals or other relevant market information available to us, and building values are calculated as replacement cost less depreciation or management's estimates of the fair value of these assets using discounted cash flow analyses or similar methods believed to be used by market participants. The value of buildings is depreciated over the estimated useful life of generally 25 years using the straight-line method.

We determine the value of above-market and below-market leases for acquired properties based on the present value (using an interest rate that reflects the risks associated with the leases acquired) of the difference between (1) the contractual amounts to be paid pursuant to the in-place leases and (2) management's estimate of current market lease rates for the corresponding in-place leases, measured over a period equal to (a) the remaining non-cancelable lease term for above-market leases, or (b) the remaining non-cancelable lease term plus any below-market fixed rate renewal options that, based on a qualitative assessment of several factors, including the financial condition of the lessee, the business conditions in the industry in which the lessee operates, the economic conditions in the area in which the property is located, and the ability of the lessee to sublease the property during the renewal term, are reasonably assured to be exercised by the lessee for below-market leases. We record the fair value of above-market and below-market leases as intangible assets or intangible liabilities, respectively, and amortize them as an adjustment to rental income over the determined lease term.

The total value of identified real estate intangible assets acquired is further allocated to in-place leases, in-place tenant improvements, in-place leasing commissions, and tenant relationships based on our evaluation of the specific characteristics of each tenant's lease and our overall relationship with that respective tenant. The aggregate value for tenant improvements and leasing commissions is based on estimates of these costs incurred at inception of the acquired leases, amortized through the date of acquisition. The aggregate value of in-place leases acquired and tenant relationships is determined by applying a fair value model. The estimates of fair value of in-place leases include an estimate of carrying costs during the expected lease-up periods for the respective spaces considering current market conditions. In estimating the carrying costs that would have otherwise been incurred had the leases not been in place, we include such items as real estate taxes, insurance, and other operating expenses, as well as lost rental revenue during the expected lease-up period based on current market conditions. The estimates of the fair value of tenant relationships also include costs to execute similar leases including leasing commissions, legal fees, and tenant improvements, as well as an estimate of the likelihood of renewal as determined by management on a tenant-by-tenant basis.

We amortize the value of in-place leases, in-place tenant improvements, and in-place leasing commissions to expense over the initial term of the respective leases. The tenant relationship values are amortized to expense over the initial term and any anticipated renewal periods, but in no event does the amortization period for intangible assets or liabilities exceed the remaining depreciable life of the building. Should a tenant terminate its lease, the unamortized portion of the acquired intangibles related to that tenant would be charged to expense.

The estimated remaining useful lives for our acquired lease intangibles range from an ending date of January 2018 to an ending date of June 2027. Anticipated amortization associated with our acquired lease intangibles for each of the years ending December 31, 2018, through December 31, 2022, is as follows (in thousands):

2018	$	3,466
2019	$	3,413
2020	$	3,465
2021	$	3,222
2022	$	2,779

The following is a summary of our building and improvements and related lease intangibles as of December 31, 2017 and 2016, (in thousands):

as of December 31, 2017	Buildings and Improvements	Lease Intangibles: Assets: Other Lease Intangibles	Lease Intangibles: Assets: Acquired Above-Market Leases	Lease Intangibles: Liabilities: Acquired Below-Market Leases
Cost	$ 1,514,544	$ 146,926	$ 4,857	$ (50,399)
Less: accumulated depreciation and amortization	(453,126)	(60,298)	(4,438)	32,457
Net	$ 1,061,418	$ 86,628	$ 419	$ (17,942)

as of December 31, 2016	Buildings and Improvements	Lease Intangibles: Assets: Other Lease Intangibles	Lease Intangibles: Assets: Acquired Above-Market Leases	Lease Intangibles: Liabilities: Acquired Below-Market Leases
Cost	$ 1,579,157	$ 131,618	$ 5,005	$ (42,537)
Less: accumulated depreciation and amortization	(535,516)	(70,672)	(4,107)	35,651
Net	$ 1,043,641	$ 60,946	$ 898	$ (6,886)

Real Estate Development

We capitalize project costs related to the development and construction of real estate (including interest and related loan fees, property taxes, insurance, and other direct costs associated with the development) as a cost of the development. Indirect costs not clearly related to development and construction are expensed as incurred. Capitalization begins when we determine that the development is probable and significant development activities are underway. We cease capitalization when the development is completed and ready for its intended use or if the intended use changes such that capitalization is no longer appropriate.

Impairment of Real Estate Related Assets

For our consolidated real estate assets, we monitor events and changes in circumstances indicating that the carrying amounts of the real estate assets may not be recoverable. When such events or changes in circumstances are present, we assess potential impairment by comparing estimated future undiscounted cash flows expected to be generated over the life of the asset including its eventual disposition, to the carrying amount of the asset. In the event that the carrying amount exceeds the estimated future undiscounted cash flows and also exceeds the fair value of the asset, we recognize an impairment loss to adjust the carrying amount of the asset to its estimated fair value. Our process to estimate the fair value of an asset involves using bona fide purchase offers or the expected sales price of an executed sales agreement, which would be considered Level 1 or Level 2 assumptions within the fair value hierarchy. To the extent that this type of third-party information is unavailable, we estimate projected cash flows and a risk-adjusted rate of return that we believe would be used by a third party market participant in estimating the fair value of an asset. This is considered a Level 3 assumption within the fair value hierarchy. These projected cash flows are prepared internally by the Company's asset management professionals and are updated quarterly to reflect in-place and projected leasing activity, market revenue and expense growth rates, market capitalization rates, discount rates, and changes in economic and other relevant conditions. The Company's Chief Financial Officer, Senior Vice President - Accounting, and Managing Director - Asset Management review these projected cash flows to assure that the valuation is prepared using reasonable inputs and assumptions which are consistent with market data or with assumptions that would be used by a third party market participant and assume the highest and best use of the real estate investment. For the year ended December 31, 2017, 2016 and 2015 we recorded non-cash impairment charges of approximately $5.3 million, $9.0 million and $0.1 million, respectively, related to the impairment of consolidated real estate assets. The impairment losses recorded were primarily related to assets assessed for impairment due to changes in management's estimates of the intended hold periods for certain of our properties.

For our unconsolidated real estate assets, at each reporting date we compare the estimated fair value of our investment to the carrying amount. An impairment charge is recorded to the extent the fair value of our investment is less than the carrying amount and the decline in value is determined to be other than a temporary decline. We had no impairment charges related to our investments in unconsolidated entities for the years ended December 31, 2017, 2016 or 2015.

In evaluating our investments for impairment, management makes several estimates and assumptions, including, but not limited to, the projected date of disposition and sales price for each property, the estimated future cash flows of each property during our estimated ownership period, and for unconsolidated investments, the estimated future distributions from the investment. A change in these estimates and assumptions could result in understating or overstating the carrying amount of our investments which could be material to our financial statements.

We undergo continuous evaluations of property level performance, credit market conditions and financing options. If our assumptions regarding the cash flows expected to result from the use and eventual disposition of our properties decrease or our expected hold periods decrease, we may incur future impairment charges on our real estate related assets. In addition, we may incur impairment charges on assets classified as held for sale in the future if the carrying amount of the asset upon classification as held for sale exceeds the estimated fair value less costs to sell.

Hurricane Harvey

During the third quarter of 2017, One & Two Eldridge Place and Three Eldridge Place (collectively known as the “Eldridge Properties”), located in Houston, Texas, experienced flood-related damage as a result of Hurricane Harvey and its aftermath. By early January 2018, all of the properties were fully operational. We carry comprehensive property, casualty, flood, and business interruption insurance that we anticipate will cover our losses at the properties, subject to a deductible. Based on management’s estimates, we recognized approximately $15.0 million for the write-off of the net book value of damaged assets as of December 31, 2017, and we incurred approximately $8.6 million of restoration costs during the year ended December 31, 2017.

The write-off of the net book value of damaged assets and the restoration costs incurred during the year ended December 31, 2017, have been offset by an estimated insurance recovery of approximately $23.6 million. As of December 31, 2017, we have received approximately $4.8 million of these insurance recoveries. Since we determined that it was probable of receipt, the remaining estimated insurance recovery of approximately $18.8 million is recorded as a receivable as of December 31, 2017, and is included in “accounts receivable, net” on our consolidated balance sheet as of December 31, 2017.

To the extent that insurance proceeds ultimately exceed (1) the difference between the replacement costs and the net book value of damaged assets plus (2) the restoration costs incurred, the excess (net of the deductible) will be reflected as income in the period insurance proceeds are received or when receipt is deemed probable to occur.

From August 28, 2017 through December 31, 2017, we provided rent abatements of approximately $7.0 million to tenants because the properties had not been restored to pre-loss condition. These abatements were a reduction to “rental revenue” on our consolidated statement of operations and comprehensive income (loss) for the year ended December 31, 2017, offset by business interruption insurance proceeds of approximately $6.2 million, net of a deductible and estimated saved expenses.

Cash and Cash Equivalents

We consider investments in highly-liquid money market funds or investments with original maturities of three months or less to be cash equivalents.

Restricted Cash

Restricted cash includes restricted money market accounts, as required by our lenders or by leases, for anticipated tenant improvements, property taxes and insurance, certain tenant security deposits, and additional loan security reserves.

The following is a summary of our cash, cash equivalents, and restricted cash total as presented in our statements of cash flows for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	December 31, 2017	December 31, 2016	December 31, 2015
Cash and cash equivalents	$ 13,800	$ 14,884	$ 12,248
Restricted cash	8,510	7,509	10,712
Total cash, cash equivalents, and restricted cash	$ 22,310	$ 22,393	$ 22,960

Accounts Receivable, net

The following is a summary of our accounts receivable as of December 31, 2017 and 2016 (in thousands):

	December 31, 2017	December 31, 2016
Straight-line rental revenue receivable	$ 57,372	$ 68,287
Insurance receivable	18,826	—
Tenant receivables	4,221	5,047
Non-tenant receivables	893	691
Allowance for doubtful accounts	(183)	(2,566)
Total	$ 81,129	$ 71,459

Our allowance for doubtful accounts is an estimate based on management's evaluation of accounts where it has determined that a tenant may not meet its financial obligations. In these situations, management uses its judgment, based on the facts and circumstances, and records a reserve for that tenant against amounts due to reduce the receivable to an amount it believes is collectible. These reserves are reevaluated and adjusted as additional information becomes available.

Prepaid Expenses and Other Assets

Prepaid expenses and other assets include escrow deposits for the purchase of properties that we have contracted to acquire, prepaid insurance, prepaid real estate taxes, and utility and other deposits of the properties we consolidate, as well as our deferred tax assets, derivative financial assets, and prepaid directors' and officers' insurance.

Investments in Unconsolidated Entities

Investments in unconsolidated entities consist of our noncontrolling interests in properties. We account for these investments using the equity method of accounting in accordance with GAAP. We use the equity method of accounting when we have significant influence, but not control, of the decision-making involved in the operating and financial decisions of these investments and thereby have some responsibility to create a return on our investment. The equity method of accounting requires these investments to be initially recorded at cost and subsequently increased (decreased) for our share of net income (loss), including eliminations for our share of inter-company transactions, and increased (decreased) for contributions (distributions). To the extent that we contribute assets to an unconsolidated entity, our investment in the unconsolidated entity is recorded at our cost basis in the assets that were contributed to the entity. To the extent that our cost basis is different than the basis reflected at the entity level, the basis difference is generally amortized over the life of the related asset and included in our share of equity in operations of investments.

For unconsolidated investments that have properties under development, we capitalize interest expense to our investment basis using our weighted average interest rate of consolidated debt. Capitalization begins when we are engaged in the activities necessary to get the property ready for its intended use. We cease capitalization when the development is completed and ready for its intended use or if the intended use changes such that capitalization is no longer appropriate. For the years ended December 31, 2017 and 2016, we capitalized interest expense of approximately $1.3 million and $0.7 million, respectively, for unconsolidated entities with property under development, which is included in our investments in unconsolidated entities on our consolidated balance sheets.

Real Estate Held for Sale

We classify properties as held for sale when certain criteria are met, in accordance with GAAP. At that time, we present the assets and obligations associated with the real estate held for sale separately in our consolidated balance sheet, and we cease recording depreciation and amortization expense related to that property. Real estate held for sale is reported at the lower of its carrying amount or its estimated fair value less estimated costs to sell. In the event that a property classified as held for sale no longer meets the criteria for held for sale classification, the property is reclassified as held for use at the lower of the fair value or the depreciated basis as if the property had continued to be used. As of December 31, 2017, we have one property that was classified as real estate held for sale. We had four properties classified as real estate held for sale as of December 31, 2016, each of which was sold during 2017.

Derivative Financial Instruments

We record all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether we have elected to designate a derivative in a hedging relationship and apply hedge accounting, and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. For derivatives designated as fair value hedges, the changes in the fair value of both the derivative instrument and the hedged items are recorded in earnings. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. For derivatives designated as cash flow hedges, the effective portions of changes in the fair value of the derivative are reported in accumulated other comprehensive income (loss) and are subsequently reclassified into earnings when the hedged item affects earnings. Changes in the fair value of derivative instruments not designated as hedges and ineffective portions of hedges are recognized in earnings in the affected period. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. We may enter into derivative contracts that are intended to economically hedge certain of our risk even though hedge accounting does not apply or we elect not to apply hedge accounting.

As of December 31, 2017 and 2016, we do not have any derivatives designated as fair value hedges or hedges of net investments in foreign operations, nor are derivatives being used for trading or speculative purposes.

Valuation of Series A Convertible Preferred Stock

As of December 31, 2015, we had 10,000 shares of Series A participating, voting, convertible preferred stock (the "Series A Convertible Preferred Stock") outstanding. The shares of Series A Convertible Preferred Stock were initially recorded at fair value and classified as temporary equity, outside the stockholders' equity section, on our consolidated balance sheets. In estimating the fair value of these shares, management considered various potential outcomes for the conversion of the shares within the context of a probability weighted expected returns model. Subsequent to the date of issuance, the Series A Convertible Preferred Stock was adjusted to its maximum redemption value at the end of each reporting period. However, to the extent that the maximum redemption value of the Series A Convertible Preferred Stock did not exceed the fair value of the shares at the date of issuance, the shares were not adjusted below the fair value at the date of issuance. On March 2, 2016, based on the Conversion Company Value, no shares of common stock were issued, and the shares of Series A Convertible Preferred Stock were canceled.

Revenue Recognition

We recognize rental income generated from all leases of consolidated real estate assets on a straight-line basis over the terms of the respective leases, including the effect of rent holidays, if any. The total net increase to rental revenue due to straight-line rent adjustments for the years ended December 31, 2017, 2016 and 2015, was approximately $7.0 million, $5.4 million, and $11.4 million, respectively. When a tenant exceeds its tenant improvement allowance, this amount is reimbursed to us and recorded as a deferred rent liability, which is recognized as rental revenue over the life of the lease. The total net increase to rental revenue due to this deferred rent for the years ended December 31, 2017, 2016 and 2015, was approximately $1.8 million, $3.2 million, and $3.1 million, respectively. Our rental revenue also includes amortization of acquired above- and below-market leases. The total net increase to rental revenue due to the amortization of acquired above- and below-market leases for the years ended December 31, 2017, 2016 and 2015, was approximately $3.9 million, $4.3 million, and $5.8 million, respectively. Revenue relating to lease termination fees are recognized on a straight-line basis amortized from the time that a tenant's right to occupy the leased space is modified through the end of the revised lease term. We recognized lease termination fees of approximately $0.7 million, $1.7 million, and $3.5 million for the years ended December 31, 2017, 2016 and 2015, respectively. Each of the amounts presented above include rental revenue amounts recognized in discontinued operations during 2015.

Income Taxes

We have elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"), and have qualified as a REIT since the year ended December 31, 2004. The Company is generally not subject to federal income taxes to the extent we distribute our REIT taxable income to our stockholders currently each year and we meet certain other organizational and operational requirements. In addition to the Company, our business is conducted through our operating partnership, Tier OP, and various subsidiaries, including limited liability companies, partnerships and corporations elected to be treated as taxable REIT subsidiaries. The Company and its subsidiaries are subject to state and local income taxes on operations located in states, cities, and other jurisdictions that impose an income tax. In addition, our taxable REIT subsidiaries are subject to federal, state, and local income taxes at regular corporate tax rates. During the years ended December 31, 2017, 2016, and 2015 the total state and federal income tax provision was approximately $0.5 million, $0.7 million, $1.5 million respectively. The Company has certain deferred tax assets and liabilities consisting primarily of net operating losses and the timing of recognition of depreciation and amortization for tax purposes as opposed to GAAP purposes.

During the years ended December 31, 2017 and 2016, we believe we had no liability for unrecognized tax benefits. Our policy is to include any interest and penalties related to income taxes within the "provision for income taxes" line item on our consolidated statements of operations and comprehensive income (loss). We generally remain subject to examination by tax authorities for the past three tax years.

At December 31, 2017, TIER REIT, Inc. had net operating loss carryforwards of approximately $639.5 million for income tax purposes that expire in years 2028 to 2036, and capital loss carryforwards of approximately $163.6 million for income tax purposes that expire in 2018.

The tax basis of our net assets and liabilities exceeds the book value by approximately $148.3 million at December 31, 2017, and approximately $202.4 million at December 31, 2016.

On December 22, 2017, H.R. 1, known as the Tax Cuts and Jobs Act (the "TCJA") was signed into law and included wide-scale changes to individual, pass-through and corporation tax laws, including those that impact the real estate industry, the ownership of real estate and real estate investments, and REITs. We have reviewed the provisions of the law that pertain to the Company and have determined them to have no material income tax effect for financial statement purposes for the year ended December 31, 2017.

Stock Based Compensation

We have a stock-based incentive award plan for our employees, independent directors, and consultants. Compensation cost for restricted stock and restricted stock units is measured at the grant date based on the estimated fair value of the award and is recognized as expense over the service period based on the tiered lapse schedule and estimated forfeiture rates. Stock options are granted at the fair market value on the date of grant with fair value estimated using the Black-Scholes-Merton option valuation model that incorporates assumptions surrounding volatility, distribution yield, the risk-free interest rate, expected life, and the exercise price as compared to the underlying stock price on the grant date. Any tax benefits associated with these share-based payments are classified as financing activities in the consolidated statements of cash flows. For the years ended December 31, 2017, 2016 and 2015, we had approximately $4.1 million, $4.2 million, and $5.0 million, respectively, in compensation costs related to share-based payments.

401(k) Plan

We have a 401(k) defined contribution plan ("401(k) Plan") for the benefit of our eligible employees. Each employee may contribute up to 100% of their annual compensation, subject to specific limitations under the Code. Our 401(k) Plan allows us to make discretionary contributions during each plan year. For the years ended December 31, 2017, 2016 and 2015, we expensed approximately $0.3 million, $0.3 million, and $0.2 million in employer contributions, respectively.

Concentration of Credit Risk

We have cash and cash equivalents and restricted cash deposited in certain financial institutions in excess of federally insured levels. We have diversified our accounts with several banking institutions in an attempt to minimize exposure to any one of these institutions. We regularly monitor the financial stability of these financial institutions and believe that we are not exposed to significant credit risk in cash and cash equivalents or restricted cash.

We have a concentration of properties located in each of Austin, Dallas, and Houston, Texas, which subject us to the business risk associated with our geographic concentration in these markets. The percentage of our total rental revenue from these markets for the years ended December 31, 2017, 2016 and 2015, are 69.8%, 55.5%, and 44.4%, respectively.

Noncontrolling Interests

Noncontrolling interests consist of our third-party owners' proportionate share of equity in certain consolidated real estate properties and restricted stock units issued to our independent directors.

Net Income (Loss) per Share

Net income (loss) per common share is calculated using the two-class method, which requires the allocation of undistributed net income between common and participating stockholders. All outstanding restricted stock awards containing rights to non-forfeitable distributions are considered participating securities for this calculation. In periods of net loss, no loss is allocated to participating securities because our participating securities do not have a contractual obligation to share in our losses. Gain on sale of assets and gain on remeasurement of investment in unconsolidated entities are included in the calculation of net income (loss) from continuing operations per share in accordance with the Securities and Exchange Commission ("SEC") guidelines.

Reportable Segments

Our current business consists of owning, acquiring, developing, operating, investing in, and selling real estate assets. All of our consolidated revenues are from our consolidated real estate properties. Our chief operating decision maker evaluates operating performance on an individual property level and views each of our real estate assets as an individual operating segment. However, all of our properties are aggregated into one reportable segment as they have similar economic characteristics.

Subsequent Events

We have evaluated subsequent events for recognition or disclosure in our consolidated financial statements.

3. New Accounting Pronouncements

New Accounting Pronouncements to be Adopted

In May 2014, the FASB issued guidance to clarify the principles for recognizing revenue and to develop a common revenue standard for GAAP and International Financial Reporting Standards. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Lease contracts will be excluded from this revenue recognition criteria; however, the sale of real estate will be required to follow the new model. Expanded quantitative and qualitative disclosures regarding revenue recognition will be required for contracts that are subject to this guidance. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017, with early adoption permitted only as of annual reporting periods beginning after December 15, 2016. The guidance permits two implementation approaches, one requiring retrospective application of the new standard with restatement of prior years, or "full retrospective" and one requiring prospective application of the new standard with disclosure of results under old standards, or "modified retrospective." We will adopt this guidance using the "modified retrospective" approach effective January 1, 2018. We have completed the analysis of our non-lease revenue streams, which primarily include gains on sales of assets and parking income. As the majority of our non-lease revenues will continue to be recognized when or as services are performed, the impact of adoption of this guidance is not expected to be material to our financial statements. The adoption will, however, require more extensive disclosures about our revenue streams and the periods over which each is recognized.

In February 2016, the FASB issued updated guidance which sets out revised principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. The guidance requires lessees to recognize assets and liabilities for operating leases with lease terms greater than twelve months on the balance sheet. The guidance modifies lessors' classification criteria for leases and the accounting for sales-type and direct financing leases. The guidance also makes changes to lessor accounting and reporting, specifically the classification of lease components and non-lease components, such as services provided to tenants. New disclosures regarding the amount, timing, and uncertainty of cash flows arising from leases are also required. The guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2018, with early adoption permitted and is required to be adopted using the "modified retrospective" approach. We expect to adopt this guidance effective January 1, 2019. Upon adoption, we will recognize a lease liability and a right-of-use asset for operating leases where we are the lessee, such as ground leases and office and equipment leases. We continue to evaluate the impact this guidance will have on our financial statements when adopted.

In June 2016, the FASB issued amended guidance which requires measurement and recognition of expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This is different from the current guidance as this will require immediate recognition of estimated credit losses expected to occur over the remaining life of many financial assets. Financial assets that are measured at amortized cost will be required to be presented at the net amount expected to be collected with an allowance for credit losses deducted from the amortized cost basis. Generally, the pronouncement requires a modified retrospective method of adoption. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2019, with early adoption permitted. We are currently evaluating the impact this guidance will have on our financial statements when adopted.

In August 2016, the FASB issued amended guidance on the classification of certain cash receipts and payments in the statement of cash flows. Of the eight types of cash flows discussed in the new standard, we believe the classification of debt prepayment and debt extinguishment costs as financing outflows will impact our financial statements as these items are currently reflected as operating outflows. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017, with early adoption permitted and is required to be applied retrospectively to all periods presented. Upon adoption, approximately $0.4 million and $20.9 million of debt extinguishment costs paid will be reflected as cash used in financing activities on our consolidated statements of cash flows for the years ended December 31, 2017 and 2015, respectively. We paid no debt extinguishment costs for the year ended December 31, 2016.

In February 2017, the FASB issued updated guidance that clarifies the scope of asset derecognition guidance, adds guidance for partial sales of nonfinancial assets and clarifies recognizing gains and losses from the transfer of nonfinancial assets in contracts with noncustomers. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017, with early adoption permitted only as of annual reporting periods beginning after December 15, 2016. We do not believe this guidance will have a material impact on our financial statements when adopted.

In May 2017, the FASB issued updated guidance on applying modification accounting to changes in the terms or conditions of a share-based payment award. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. The guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017, with early adoption permitted. We do not believe this guidance will have a material impact on our financial statements when adopted.

In August 2017, the FASB issued updated guidance to simplify the application of hedge accounting, increase transparency as to the scope and results of hedging programs, and result in a more accurate portrayal of the economics of an entity's risk management activities in its financial statements. The transition guidance provides the option of early adoption using a modified retrospective transition method in any interim period after issuance of the update, or alternatively requires adoption for fiscal years beginning after December 15, 2018. This adoption method will require recognizing the cumulative effect of initially applying the new guidance as an adjustment to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the fiscal year that the update is adopted. We are currently evaluating the impact this guidance will have on our financial statements when adopted.

Recently Adopted Accounting Pronouncements

In April 2014, the FASB issued guidance that changes the criteria for reporting a discontinued operation. Under the new guidance, only a disposal of a component that represents a major strategic shift of an organization qualifies for discontinued operations reporting. The guidance also requires expanded disclosures about discontinued operations and new disclosures in regard to individually significant disposals that do not qualify for discontinued operations reporting. This guidance is effective for the first interim or annual period beginning on or after December 15, 2014. Upon our adoption of this guidance on January 1, 2015, sales of our individual operating properties generally no longer qualify as discontinued operations. However, properties sold or initially classified as held for sale prior to January 1, 2015, continue to be reported as discontinued operations. Properties that were held for sale prior to January 1, 2015, and were subsequently reclassified to held for use after January 1, 2015, are reported as continuing operations.

In January 2017, the FASB issued guidance that clarifies the definition of a business and assists in the evaluation of whether a transaction will be accounted for as an acquisition of an asset or as a business combination. The guidance provides a test to determine when a set of assets and activities acquired is not a business. When substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not a business. Under the updated guidance, an acquisition of a single property will likely be treated as an asset acquisition as opposed to a business combination and associated transaction costs will be capitalized rather than expensed as incurred. Additionally, assets acquired, liabilities assumed, and any noncontrolling interest will be measured at their relative fair values. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017, with early adoption permitted, including for interim or annual periods for which financial statements have not yet been issued. As we had not issued any financial statements for the fourth quarter of 2016, we early adopted this guidance on October 1, 2016, with no material impact on our financial statements or disclosures.

In March 2016, the FASB issued guidance which affects accounting for certain aspects of share-based payments for employees. The guidance requires income statement recognition of income tax effects of the awards when the awards vest or are settled. The guidance also changes the employer's accounting for forfeitures as well as for an employee's use of shares to satisfy their income tax withholding obligations. We have elected to recognize forfeitures as they occur. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2016, with early adoption permitted. We adopted this guidance using the "modified retrospective" approach on January 1, 2017, and recorded a cumulative-effect adjustment of approximately $0.3 million to retained earnings to recognize forfeitures as they occur.

In March 2016, the FASB issued amended guidance which simplifies the accounting for equity method investments by removing the requirement that an entity retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. The amendment requires that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2016, with early adoption permitted. The adoption of this guidance on January 1, 2017, did not have a material impact on our financial statements or disclosures.

4. Real Estate Activities

Sales of Real Estate Reported in Continuing Operations

The following table presents our sales of real estate for the year ended December 31, 2017, 2016 and 2015, that are reported in continuing operations (in thousands):

Property Name	Date of Sale	Location	Rentable Square Footage (unaudited)	Contract Sales Price	Proceeds from Sale
2017					
Buena Vista Plaza	01/18/17	Burbank, CA	115	$ 52,500	$ 47,498
Three Parkway	03/01/17	Philadelphia, PA	561	95,000	91,876
Eisenhower I (1)	03/13/17	Tampa, FL	130	31,400	30,742
Third + Shoal (2)	03/31/17	Austin, TX	N/A	14,955	14,525
Louisville Portfolio (3)	06/26/17	Louisville, KY	678	71,500	67,042
			1,484	$ 265,355	$ 251,683
2016					
Lawson Commons	03/01/16	St. Paul MN	436	$ 68,430	$ 60,931
FOUR40	06/17/16	Chicago, IL	1,041	191,000	189,072
Hurstbourne Business Center (4)	09/30/16	Louisville, KY	418	41,000	39,777
801 Thompson	10/27/16	Rockville, MD	51	4,900	4,614
Other			—	—	1,059
			1,946	$ 305,330	$ 295,453
2015					
One and Two Chestnut Place	03/06/15	Worcester, MA	218	$ 14,000	$ 11,631
United Plaza	04/23/15	Philadelphia, PA	617	114,554	114,983
1650 Arch Street	04/23/15	Philadelphia, PA	553	76,290	76,573
1325 G Street (5) (6)	06/30/15	Washington, D.C.	307	152,000	145,520
Colorado Building (5)	06/30/15	Washington, D.C.	128	50,000	43,916
Domain LMN (land)	07/24/15	Austin, TX	—	22,000	22,000
Domain K (multifamily property)	10/16/15	Austin, TX	—	15,000	15,000
Domain A (land)	12/16/15	Austin, TX	—	4,250	4,086
			1,823	$ 448,094	$ 433,709

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(1) We may be entitled to receive an additional $3.0 million subject to certain future events.
(2) We sold a 50% interest in the entity that owns a 95% interest in the Third + Shoal development property.
(3) The Louisville Portfolio consists of five properties located in Louisville, Kentucky.
(4) Hurstbourne Business Center is comprised of Hurstbourne Park and Hurstbourne Place, both office buildings, and Hurstbourne Plaza, a retail center.
(5) On June 30, 2015, our 1325 G Street and Colorado Building properties were each sold to entities in which we acquired a noncontrolling 10% interest and the properties were deconsolidated.
(6) In connection with the sale of this property, approximately $100.0 million of proceeds from sale were used to pay off debt secured by the property.

Properties that have been sold contributed net income of approximately $2.5 million and net loss of approximately $6.1 million and $4.2 million to our net income (loss) for the years ended December 31, 2017, 2016, and 2015, respectively. These amounts include charges for impairment and exclude any gains on the sales of these properties.

Sales and Disposals of Real Estate Reported in Discontinued Operations

No properties sold in 2017 or 2016 have been classified as discontinued operations. The following presents our sales of real estate during 2015, that are reported as discontinued operations in the accompanying consolidated statements of operations and comprehensive income (loss) because they were classified as held for sale as of December 31, 2014 (in thousands):

Property Name	Date of Disposal	Location	Rentable Square Footage (unaudited)	Contract Sales Price	Proceeds from Sale (1)
2015					
250 West Pratt	03/19/15	Baltimore, MD	368	$ 63,500	$ 55,229
Fifth Third Center	04/07/15	Cleveland, OH	508	$ 52,750	4,486
			876		$ 59,715

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(1) Proceeds from sale are reduced by approximately $47.1 million of debt that was assumed by the purchaser.

Acquisitions

On October 1, 2016, we adopted new accounting guidance that clarifies the definition of a business and assists in the evaluation of whether a transaction will be accounted for as an acquisition of an asset or as a business combination. Under the updated guidance, an acquisition of a real estate property is generally treated as an asset acquisition as opposed to a business combination.

Asset Acquisitions

On January 4, 2017, we acquired the remaining 50.16% interest in Domain Junction LLC, the entity that owns Domain 2 and Domain 7, increasing our ownership interest in these properties to 100%, for a purchase price of approximately $91.3 million, which included assumed debt of approximately $40.1 million. As a result of obtaining a controlling interest in the entity, we recognized a gain of approximately $14.2 million from the remeasurement of our previously held equity interest at fair value. Assets acquired and liabilities assumed were recorded at their relative fair values upon consolidation of the properties, and include lease intangible assets of approximately $16.6 million and acquired below-market leases of approximately $9.4 million. The estimated remaining average useful lives for these acquired lease intangibles range from an ending date of December 2022 to an ending date of February 2026.

On June 23, 2017, we acquired Legacy District One for a purchase price of approximately $123.3 million, which included approximately $66.0 million in assumed mortgage debt secured by the property. Legacy District One is located in Plano, Texas, and contains approximately 319,000 rentable square feet. The debt matures in January 2023 and has a fixed stated annual interest rate of 4.24%. Assets acquired and liabilities assumed were recorded at their relative fair values and include lease intangible assets of approximately $20.0 million and acquired below-market leases of approximately $6.4 million. The estimated remaining average useful lives for these acquired lease intangibles all have an ending date of June 2027.

Business Combination

On July 23, 2015, we acquired various interests in real estate, both existing operating properties and unimproved land, located in Austin, Texas, (“The Domain”) for a contract purchase price of approximately $201.1 million which after applying purchase credits received, equates to approximately $198.2 million total consideration paid. The acquisition included two wholly-owned office buildings, interests in two additional office buildings, various tracts of land, approximately $22.0 million for parcels of land zoned for residential development (“Domain LMN”) and a deposit of approximately $15.0 million for an interest in a multifamily residential property (“Domain K”). On July 24, 2015, we sold Domain LMN to an unrelated third party for a contract sales price of approximately $22.0 million. On October 16, 2015, we completed the acquisition of Domain K for a contract purchase price of approximately $15.0 million and concurrently sold it to an unrelated third-party for a contract sales price of approximately $15.0 million. On December 16, 2015, we sold unimproved land ("Domain A") for a contract sales price of approximately $4.3 million. Acquisition costs for The Domain of approximately $0.8 million were expensed as incurred and are included in "general and administrative" in the accompanying consolidated statements of operations and comprehensive income (loss).

The table below reflects total consideration transferred for the purchase of The Domain that was allocated to tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values at the acquisition date.

The table also provides information regarding assets sold subsequent to the acquisition as detailed above (in thousands):

	Assets acquired and liabilities assumed	Assets sold subsequent to acquisition	Net
Land	$ 16,868	$ (4,087)	$ 12,781
Land held for development (1)	74,682	(22,000)	52,682
Building and improvements	57,324	—	57,324
Prepaid expenses and other assets	15,000	(15,000)	—
Lease intangibles	12,070	—	12,070
Investment in Domain 2 & Domain 7	26,784	—	26,784
Accrued liabilities	(1,800)	—	(1,800)
Acquired below-market leases	(2,741)	—	(2,741)
Total	$ 198,187	$ (41,087)	$ 157,100

(1)On August 28, 2015, we contributed a wholly-owned tract of land valued at approximately $14.0 million to an unconsolidated entity in which we own a 50% interest.

Proforma Information

The following summary presents the results of operations (in thousands) for the year ended December 31, 2015, on an unaudited proforma basis, as if the acquisition of The Domain (acquired on July 23, 2015) had occurred on January 1, 2015. This unaudited proforma condensed consolidated financial information is presented for informational purposes only and does not purport to be indicative of what financial results would have been if the transaction reflected herein had occurred on the date set forth above or been in effect during the period indicated, nor should it be viewed as indicative of our financial results in the future.

	December 31, 2015
Rental revenue	$ 288,304
Loss from continuing operations	$ (49,346)
Net loss attributable to common stockholders	$ (30,498)
Basic and diluted weighted average common shares outstanding	48,960
Basic and diluted loss per common share	$ (0.62)

5. Real Estate Under Development

When we are engaged in activities to get a potential development ready for its intended use, we capitalize interest, property taxes, insurance, ground lease payments, and direct construction costs. For the year ended December 31, 2017, we capitalized a total of approximately $30.3 million, including approximately $1.4 million in interest. For the year ended December 31, 2016, we capitalized a total of approximately $14.1 million, including approximately $0.3 million in interest. These costs are classified as real estate under development on our consolidated balance sheets until such time that the development is complete.

6. Investments in Unconsolidated Entities

We participate in real estate ventures for the purpose of acquiring and developing office properties in which we may or may not have a controlling financial interest. Our investments in unconsolidated entities consist of our noncontrolling interests in certain properties that are accounted for using the equity method of accounting.

The following is a summary of our investments in unconsolidated entities as of December 31, 2017 and 2016 (in thousands):

		Ownership Interest		Investment Balance	
	Property Name	**December 31, 2017**	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**
Domain Junction LLC (1)	Domain 2 & Domain 7	100.00%	49.84%	—	9,770
Domain Junction 8 Venture LLC (2)(3)	Domain 8	50.00%	50.00%	882	18,093
208 Nueces Street, LLC (3)(4)	Third + Shoal	47.50%	95.00%	30,970	—
COLDC 54 Holdings, LLC (3)(5)	Colorado Building	—	10.00%	—	711
GSTDC 72 Holdings, LLC (3)(5)	1325 G Street	—	10.00%	—	3,719
1301 Chestnut Associates, L.P. (6)	Wanamaker Building	1.10%	60.00%	—	44,520
Total (7)				$ 31,852	$ 76,813

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(1) On January 4, 2017, we acquired our unrelated third party's 50.16% interest in Domain Junction LLC increasing our ownership interest to 100%, and these properties were consolidated.

(2) All major decisions for this entity are made by the other owner. The ownership interest above represents our legal ownership. The economic ownership percentage may differ due to achievement of specified investment return thresholds as provided in the joint venture agreement.

(3) We have evaluated our investments in unconsolidated entities in order to determine if they are VIEs. Based on our assessment, we have identified each of these entities as a VIE, but we are not the primary beneficiary, as we do not have the power to direct the activities that most significantly impact the economic performance of these entities. For these VIEs in which we are not deemed to be the primary beneficiary, we continue to account for them using the equity method. The maximum amount of exposure to loss with respect to these VIEs is the carrying amount of our investment and to the extent that we guarantee debt. As of December 31, 2017, TIER OP had guaranteed 50% of the construction loan of 208 Nueces Street, LLC, as discussed below. At December 31, 2017, these VIEs have total assets of approximately $172.3 million and total liabilities of approximately $125.1 million. At December 31, 2016, our VIEs had total assets of approximately $353.5 million and total liabilities of approximately $262.8 million.

(4) On March 31, 2017, we sold a 50% interest in the entity that owns a 95% interest in Third + Shoal, resulting in this property being deconsolidated as control of this property is now shared.

(5) On April 27, 2017, the Colorado Building and 1325 G Street were sold for a combined contract sales price of $259.0 million (at 100%).

(6) On January 17, 2017, we sold substantially all of our noncontrolling investment in 1301 Chestnut Associates, L.P. At December 31, 2017, our remaining 1.1% interest is accounted for using the cost method and is included in "prepaid expenses and other assets" on our consolidated balance sheet.

(7) Our investments in unconsolidated entities at December 31, 2017 and 2016, include basis adjustments that total approximately $9.4 million and $7.2 million, respectively. These amounts represent the aggregate difference between our historical cost basis and our equity basis reflected at the joint venture level, which is typically amortized over the life of the related assets and liabilities. Basis differences occur from impairment of investments and upon the transfer of assets that were previously owned by us into a joint venture. In addition, certain acquisition, transaction, and other costs may not be reflected in the net assets at the joint venture level.

Our equity in operations of investments represents our proportionate share of the combined earnings and losses of our investments for the period of our ownership and in 2017, include combined gains on the sales of 1325 G Street and the Colorado Building of approximately $6.7 million. For the years ended December 31, 2017, 2016 and 2015, we recorded income of approximately $6.4 million, $2.6 million and $4.0 million, respectively, for our share of equity in operations from our investments in unconsolidated entities.

Guarantees

The unconsolidated entities in which we have investments generally finance their activities with a combination of partner equity and debt financing. In the fourth quarter of 2017, 208 Nueces Street, LLC entered into a construction loan for the development of Third + Shoal, in which TIER OP has guaranteed 50% of the outstanding principal balance as of December 31, 2017. This percentage is reduced when certain conditions in the guarantee agreement are met. In January 2018, the percentage was lowered to 25% upon the achievement of certain conditions. The guarantee, which extends to October 2021 when the loan matures, includes a project completion guarantee and a payment guarantee covering a percentage of the outstanding loan.

Additionally, there is a recourse carve-out agreement in which TIER OP has guaranteed the entire outstanding balance of the loan in addition to any related losses that may arise from certain violations of the joint venture's contractual agreements, including "bad boy acts." In these situations, we have an indemnity and contribution agreement with our partners where each partner has indemnified the other for any recourse liability resulting from claims triggered by that partner.

We believe that, as of December 31, 2017, in the event we become legally obligated to perform under a guarantee of an obligation of 208 Nueces Street, LLC due to a triggering event, the collateral in such entity should be sufficient to repay the obligation. If it is not, we and our partners would need to contribute additional capital to the venture. As of December 31, 2017, 208 Nueces Street, LLC has a loan commitment of approximately $103.8 million, of which, if the full amount of the debt obligation was borrowed, we estimate approximately $51.9 million to be our maximum exposure related to the payment guarantee. As of December 31, 2017, the outstanding balance of the construction loan for 208 Nueces Street, LLC was approximately $18.5

million, of which we estimate approximately $9.3 million to be our maximum exposure related to the payment guarantee. These maximum exposure estimates do not take into account any recoveries from the underlying collateral or any reimbursement from our partners.

7. Notes Payable, net

Our notes payable, net were approximately $794.5 million and $826.8 million in principal amount at December 31, 2017 and 2016, respectively. As of December 31, 2017, approximately $191.3 million of our notes payable were secured by real estate assets with a carrying value of approximately $251.3 million. As of December 31, 2017, all of our outstanding debt was fixed rate debt (or effectively fixed rate debt, through the use of interest rate swaps), with the exception of approximately $85.0 million. As of December 31, 2017, the stated annual interest rates on our outstanding notes payable ranged from approximately 2.98% to 6.09%. As of December 31, 2017, the effective weighted average interest rate for our debt is approximately 3.89%. For our loan that is in default and detailed below, we incur a default interest rate that is 500 basis points higher than the stated interest rate, which results in an overall effective weighted average interest rate of 4.20% for our debt and an increase in 2017, 2016, and 2015 interest expense of approximately $2.4 million, $2.5 million, and $1.0 million, respectively. We anticipate, although we can provide no assurance, that when the property to which such loan relates is sold, or if ownership of this property is conveyed to the lender, the default interest will be forgiven.

Our loan agreements generally require us to comply with certain reporting and financial covenants. As of December 31, 2017, we were in default on a non-recourse property loan with an outstanding balance of approximately $48.2 million secured by our Fifth Third Center property located in Columbus, Ohio, which has a carrying value of approximately $32.4 million as of December 31, 2017. A receiver was appointed for this property in March 2016. The loan had an original maturity date of July 2016, and we are currently working with the lender to dispose of this property on their behalf. As of December 31, 2017, other than the default discussed above, we believe we were in compliance with the covenants under each of our loan agreements including our credit facility.

Excluding debt already matured as detailed above, our outstanding debt had maturity dates that range from December 2018 to January 2023. On January 18, 2018, we amended our credit facility (as described below), and as a result, this maturity date range was adjusted to August 2021 to January 2025.

The following table summarizes our notes payable as of December 31, 2017, (in thousands):

Principal payments due in:		
2018	$	84,678
2019		301,589
2020		1,670
2021		72,402
2022		275,000
Thereafter		66,000
Less: unamortized debt issuance costs (1)		(6,801)
Total	$	794,538

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(1) Excludes approximately $1.4 million of unamortized debt issuance costs associated with the revolving line of credit because these costs are presented as an asset on our consolidated balance sheets.

Credit Facility

As of December 31, 2017, we have a credit agreement through our operating partnership, Tier OP, that provides for total unsecured borrowings of up to $860.0 million, subject to our compliance with certain financial covenants. The facility consists of a $300.0 million term loan, a $275.0 million term loan, and a $285.0 million revolving line of credit. The first term loan matures on December 18, 2019. The second term loan matures on June 30, 2022. The revolving line of credit matures on December 18, 2018, and can be extended one additional year subject to certain conditions and payment of an extension fee. The annual interest rate on the credit facility is equal to either, at our election, (1) the "base rate" (calculated as the greatest of (i) the agent's "prime rate"; (ii) 0.5% above the Federal Funds Effective Rate; or (iii) the LIBOR Market Index Rate plus 1.0%) plus the applicable margin or (2) LIBOR for an interest period of one, three, or six months plus the applicable margin. The applicable margin will be determined based on the ratio of total indebtedness to total asset value and ranges from 35 to 250 basis points. We have entered into interest rate swap agreements to hedge interest rates on $525.0 million of these borrowings to manage our exposure to future interest rate movements. All amounts owed are guaranteed by us and certain subsidiaries of Tier OP. As of December 31, 2017, we had approximately $575.0 million in borrowings outstanding under the term loans, and approximately $35.0 million in borrowings outstanding under the revolving line of credit with the ability, subject to our most restrictive financial covenants, to borrow an additional approximately $240.9 million under the facility as a whole. As of December 31, 2017, the weighted average effective interest rate for borrowings under the credit facility as a whole, inclusive of our interest rate swaps, was approximately 3.44%.

On January 18, 2018, the credit agreement was amended to provide for total unsecured borrowings of up to $900.0 million, subject to our compliance with certain financial covenants. Subject to lender approval, certain conditions, and our payment of certain activation fees to the agent and lenders, the borrowing capacity may be increased up to an additional $300.0 million in the aggregate. The revolving line of credit was increased to $325.0 million with a new maturity date of January 18, 2022, which can be extended one additional year subject to certain conditions and our payment of an extension fee, and the maturity date of the $300.0 million term loan was extended to January 17, 2025.

8. Fair Value Measurements

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Derivative financial instruments

We use derivative financial instruments, such as interest rate swaps, to manage our interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis of the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

We incorporate credit valuation adjustments ("CVAs") to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the CVAs associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties. However, we have assessed the significance of the impact of the CVAs on the overall valuation of our derivative positions and have determined that they are not significant. As a result, we have determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. Unrealized gains or losses on derivatives are recorded in accumulated other comprehensive income (loss) ("OCI") within equity at each measurement date. Our derivative financial instruments are included in "prepaid expenses and other assets" and "other liabilities" on our consolidated balance sheets.

The following table sets forth our financial assets and liabilities measured at fair value on a recurring basis, which equals book value, by level within the fair value hierarchy as of December 31, 2017 and 2016 (in thousands):

		Basis of Fair Value Measurements		
Derivative financial instruments:	Total Fair Value	Quoted Prices In Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2017				
Assets	$ 5,045	$ —	$ 5,045	$ —
Liabilities	$ —	$ —	$ —	$ —
2016				
Assets	$ 1,182	$ —	$ 1,182	$ —
Liabilities	$ (1,652)	$ —	$ (1,652)	$ —

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Impairment of Real Estate Related Assets

We have recorded non-cash impairment charges related to a reduction in the fair value of certain of our assets. The inputs used to calculate the fair value of these assets included projected cash flows and a risk-adjusted rate of return that management estimated would be used by a market participant in valuing these assets, bona fide purchase offers, or the expected sales price of an executed sales agreement.

During 2017 and 2016, we recorded impairment losses of approximately $5.3 million and $9.0 million, respectively, for properties assessed for impairment due to changes in management’s estimate of the intended hold periods.

The following table summarizes those assets which were measured at fair value and impaired during 2017 and 2016 (in thousands):

		Basis of Fair Value Measurements			
	Fair Value of Assets at Impairment	Quoted Prices In Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Losses
for the year ended December 31, 2017					
Real estate	$ 69,353	$ —	$ 69,353	$ —	$ (5,250)
for the year ended December 31, 2016					
Real estate held for sale	$ 9,309	$ —	$ 4,570	$ 4,739	$ (8,977)

The following table sets forth quantitative information about the unobservable inputs (Level 3) of our real estate that was recorded at fair value as of the date of its impairment during the year ended December 31, 2016 (in thousands):

	Fair Value of Assets at Impairment	Valuation Technique	Unobservable Input	Range
Real estate on which impairment losses were recognized	$ 4,739	Discounted Cash Flow	Discount rate	12.0%
			Terminal capitalization rate	9.5%

Financial Instruments not Reported at Fair Value

Financial instruments held at December 31, 2017 and 2016, but not measured at fair value on a recurring basis include cash and cash equivalents, restricted cash, accounts receivable, notes payable, accounts payable and accrued liabilities, distributions payable, and other liabilities. With the exception of notes payable, the financial statement carrying amounts of these items approximate their fair values due to their short-term nature. Estimated fair values for notes payable have been determined using recent trading activity and/or bid-ask spreads and are classified as Level 2 in the fair value hierarchy.

Carrying amounts and the related estimated fair value of our notes payable as of December 31, 2017 and 2016, are as follows (in thousands):

	December 31, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Notes payable	$ 801,339	$ 805,786	$ 834,131	$ 837,878
Less: unamortized debt issuance costs	(6,801)		(7,348)	
Notes payable, net	$ 794,538		$ 826,783	

9. Derivative Instruments and Hedging Activities

We may be exposed to the risk associated with variability of interest rates that might impact our cash flows and the results of our operations. Our objectives in using interest rate derivatives are to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish this objective, we have used interest rate swaps as part of our interest rate risk management strategy. Our interest rate swaps involve the receipt of variable-rate amounts from counterparties in exchange for us making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Our hedging strategy of entering into interest rate swaps, therefore, is to eliminate or reduce, to the extent possible, the volatility of cash flows.

The following table summarizes the notional values of our derivative financial instruments (in thousands). The notional values provide an indication of the extent of our involvement in these instruments, but do not represent exposure to credit, interest rate, or market risks:

Type/Description	Notional Value	Index	Strike Rate	Effective Date	Maturity Date
Interest rate swap - cash flow hedge	$ 125,000	one-month LIBOR	1.6775%	12/31/14	10/31/19
Interest rate swap - cash flow hedge	$ 125,000	one-month LIBOR	1.6935%	04/30/15	10/31/19
Interest rate swap - cash flow hedge	$ 125,000	one-month LIBOR	1.7615%	06/30/15	05/31/22
Interest rate swap - cash flow hedge	$ 150,000	one-month LIBOR	1.7695%	06/30/15	05/31/22

The table below presents the fair value of our derivative financial instruments, included in "prepaid expenses and other assets" and "other liabilities" on our consolidated balance sheets, as of December 31, 2017 and 2016 (in thousands):

Derivatives designated as hedging instruments:	Derivative Assets		Derivative Liabilities	
	2017	2016	2017	2016
Interest rate swaps	$ 5,045	$ 1,182	$ —	$ (1,652)

The tables below present the effect of the change in fair value of derivative financial instruments in our consolidated statements of operations and comprehensive income (loss) for the years ended December 31, 2017, 2016 and 2015 (in thousands):

Derivatives in Cash Flow Hedging Relationship	Gain (loss) recognized in OCI on derivative (effective portion) for the Year Ended December 31,		
	2017	2016	2015
Interest rate swaps	$ 5,262	$ 2,824	$ (3,077)
Total	$ 5,262	$ 2,824	$ (3,077)

	Amount of loss reclassified from OCI into income (effective portion) for the Year Ended December 31,		
Location	2017	2016	2015
Interest expense (1)	$ 3,457	$ 6,650	$ 5,381
Total	$ 3,457	$ 6,650	$ 5,381

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(1) Increases in fair value as a result of accrued interest associated with our swap transactions are recorded in accumulated OCI and subsequently reclassified into income. Such amounts are shown net in the statements of changes in equity and offset dollar for dollar.

Location	Amount recognized in income on derivatives (ineffective portion and amount excluded from effectiveness testing) for the Year Ended December 31, 2017	2016	2015
Interest expense (1)	$ (253)	$ (572)	$ —

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(1) Represents the portion of the change in fair value of our interest rate swaps as (income) or expense attributable to the mismatch between an interest rate floor on our hedged debt and no floor on the index rate in our interest rate swaps which causes hedge ineffectiveness.

Amounts reported in accumulated OCI related to derivatives will be reclassified to interest expense as interest payments and accruals are made on our variable-rate debt. During twelve months ending December 31, 2018, we estimate that approximately $0.2 million will be reclassified as a decrease to interest expense.

We have agreements with our derivative counterparties that contain provisions where if we default on any of our indebtedness, for at least 30 days, during which time such default has not been remedied, and in all cases provided that the aggregate amount of all such default is not less than $10.0 million for recourse debt or $75.0 million for non-recourse debt, then we could also be declared in default on our derivative obligations.

10. Commitments and Contingencies

As of December 31, 2017, we had commitments of approximately $16.3 million for future tenant improvements and leasing commissions.

As of December 31, 2017, we have employment agreements with five of our executive officers. The term of each employment agreement ends on February 10, 2020, provided that the term will automatically continue for an additional one-year period unless either party provides 60 days written notice of non-renewal prior to the expiration of the initial term. The agreements provide for lump sum payments and an immediate lapse of restrictions on compensation received under the long-term incentive plan upon termination of employment without cause. As a result, in the event we terminated all of these agreements without cause as of December 31, 2017, we would have recognized approximately $12.1 million in related compensation expense.

11. Equity

Series A Convertible Preferred Stock

As of December 31, 2015, we had 10,000 shares of Series A participating, voting, convertible preferred stock (the “Series A Convertible Preferred Stock”) outstanding. In connection with the listing of our common stock on the NYSE on July 23, 2015, an automatic conversion of the Series A Convertible Preferred Stock was triggered with the number of shares to be issued not determinable until March 2, 2016, based on the Conversion Company Value, as defined in the Articles Supplementary. On March 2, 2016, based on the Conversion Company Value, no shares of common stock were issued, and the shares of Series A Convertible Preferred Stock were canceled.

Stock Plans

Our 2015 Equity Incentive Plan allows for equity-based incentive awards to be granted to our employees, non-employee directors, and key persons as detailed below:

Stock options. As of December 31, 2017, we had no outstanding stock options. As of December 31, 2016, we had outstanding options held by our independent directors to purchase 8,330 shares of our common stock, respectively, at a weighted average exercise price of $40.13 per share.

Restricted stock units held by independent directors. We have outstanding restricted stock units ("RSUs") held by our independent directors. These units vest 13 months after the grant date. Subsequent to vesting, these RSUs will be converted to an equivalent number of shares of common stock upon the earlier to occur of the following events or dates: (i) separation from service for any reason other than cause; (ii) a change in control of the Company; (iii) death; or (iv) specific dates chosen by the independent directors that range from February 2018 to June 2018. Expense is measured at the grant date based on the estimated fair value of the award and is recognized over the vesting period. Any forfeitures of awards are recognized as they occur.

The following is a summary of the number of outstanding RSUs held by our independent directors as of December 31, 2017 and 2016:

	December 31, 2017		December 31, 2016	
	Units	Weighted Average Price per unit	Units	Weighted Average Price per unit
Outstanding at the beginning of the year	39,255	$ 16.45	28,705	$ 18.29
Issued	19,672	$ 17.03	18,275	$ 15.05
Converted	(39,255)	$ 16.45	(7,725)	$ 19.96
Outstanding at the end of the year (1)	19,672	$ 17.03	39,255	$ 16.45

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(1) As of December 31, 2017, none of the RSUs held by our independent directors are vested.

Restricted stock units held by employees. In 2016, 111,063 RSUs were issued to employees with a grant price of $15.26 per unit. In 2017, 97,557 RSUs were issued to employees with a weighted average grant price of $18.10 per unit. These units vest on December 31, 2018 and December 31, 2019, respectively, at which time they will be converted into a number of shares of common stock, which could range from zero shares to 222,126 shares at December 31, 2018, and zero shares to 195,114 shares at December 31, 2019. The actual number of shares of common stock issued will be based on our annualized total stockholder return ("TSR") percentage as compared to three metrics: our TSR on a predetermined absolute basis, the TSR of the constituent companies of the NAREIT Office Index (unweighted), and the TSR of a select group of peer companies. Expense is measured at the grant date, based on the estimated fair value of the award ($19.18 per unit for the 2016 grants and $20.95 per unit for the 2017 grants) as determined by a Monte Carlo simulation based model using the following assumptions:

Assumption	Value
Expected volatility	24%-26%
Risk-free interest rate	1.15%-1.53%
Expected term	35 months
Expected dividend yield	3.7%-4.5%

RSUs were anti-dilutive to earnings per share for each period presented.

Restricted stock. We have outstanding restricted stock held by employees. Restrictions on outstanding shares lapse based on various lapse schedules and range from January 2018 to May 2020. Compensation cost is measured at the grant date based on the estimated fair value of the award and is recognized as expense over the service period based on a tiered lapse schedule. Any forfeitures of awards are recognized as they occur.

The following is a summary of the number of shares of restricted stock outstanding as of December 31, 2017 and 2016:

	December 31, 2017		December 31, 2016	
	Shares	Weighted Average Price per share	Shares	Weighted Average Price per share
Outstanding at the beginning of the year	246,805	$ 20.74	281,905	$ 22.46
Issued	122,852	$ 17.89	119,747	$ 15.19
Forfeiture	(20,089)	$ 17.53	(11,789)	$ 19.42
Restrictions lapsed	(168,777)	$ 19.34	(143,058)	$ 19.59
Outstanding at the end of the year	180,791	$ 20.47	246,805	$ 20.74

For the year ended December 31, 2017, 2016 and 2015, we recognized a total of approximately $4.1 million, $4.2 million and $5.0 million, respectively, for compensation expense related to the amortization of all of the equity-based incentive awards outlined above. As of December 31, 2017, the total remaining compensation cost on unvested awards was approximately $3.5 million, with a weighted average remaining contractual life of approximately 1.2 years.

Distributions

Our board of directors reinstated quarterly cash distributions in the second quarter of 2015 at $0.18 per share of common stock and has authorized cash distributions in the same amount for each quarter since that time. Distributions declared for each quarter were paid in the subsequent quarter through January 2017. Beginning in the first quarter of 2017, distributions declared for each quarter are paid in the same quarter. Of the amounts distributed by us in 2017, 100% represented ordinary income. Of the amounts distributed by us in 2016, 100% represented a return of capital.

The following table reflects the distributions declared for our common stock and noncontrolling interests during the years ended December 31, 2017 and 2016 (in thousands).

	Total	Common Stockholders	Noncontrolling Interests
2017			
1st Quarter	$ 8,611	$ 8,606	$ 5
2nd Quarter	8,616	8,611	5
3rd Quarter	8,616	8,612	4
4th Quarter	8,615	8,612	3
Total	$ 34,458	$ 34,441	$ 17
2016			
1st Quarter	$ 8,600	$ 8,594	$ 6
2nd Quarter	8,601	8,594	7
3rd Quarter	8,602	8,595	7
4th Quarter	8,601	8,594	7
Total	$ 34,404	$ 34,377	$ 27

12. Net Income (Loss) per Common Share

Net income (loss) per common share is calculated using the two-class method, which requires the allocation of undistributed net income between common and participating stockholders. All outstanding restricted stock awards containing rights to non-forfeitable distributions are considered participating securities for this calculation. In periods of net loss, no loss is allocated to participating securities because our participating securities do not have a contractual obligation to share in our losses.

The following table reflects the calculation of basic and diluted net income (loss) per common share for the for the years ended December 31, 2017, 2016 and 2015 (in thousands, except per share data).

	2017	2016	2015
Numerator:			
Net income (loss) attributable to common stockholders	$ 84,286	$ (29,417)	$ (32,108)
Less: net income allocated to participating securities	(510)	—	—
Numerator for basic net income (loss) per share	$ 83,776	$ (29,417)	$ (32,108)
Add: undistributed net income allocated to participating securities	300	—	—
Less: undistributed net income re-allocated to participating securities	(298)	—	—
Numerator for diluted net income (loss) per share	$ 83,778	$ (29,417)	$ (32,108)
Denominator:			
Weighted average common shares outstanding - basic	47,538	47,406	48,960
Effect of dilutive securities	345	—	—
Weighted average common shares outstanding - diluted	47,883	47,406	48,960
Basic net income (loss) per common share	$ 1.76	$ (0.62)	$ (0.66)
Diluted net income (loss) per common share	$ 1.75	$ (0.62)	$ (0.66)
Securities excluded from weighted average common shares outstanding-diluted because their effect would be anti-dilutive	25	457	213

13. Leasing Activity

As Lessor

Future minimum base rental payments due to us under non-cancelable leases in effect as of December 31, 2017, for operating office properties we consolidate (excluding properties held for sale) are as follows (in thousands):

Year	Amount
2018	$ 136,363
2019	126,739
2020	113,766
2021	91,932
2022	79,794
Thereafter	256,458
Total	$ 805,052

As Lessee

We have land that is subject to long-term ground leases and we lease office space, parking space, and equipment. Total rent expense for the years ended December 31, 2017, 2016 and 2015, was approximately $2.1 million, $2.5 million and $3.0 million, respectively.

Future minimum base rental payments payable by us under these non-cancelable leases are as follows (in thousands):

Year	Amount
2018	$ 1,715
2019	1,289
2020	1,110
2021	852
2022	565
Thereafter	15,095
Total	$ 20,626

14. Related Party Transactions

We previously purchased certain administrative services from BHT Advisors, LLC ("BHT Advisors"), which served as our advisor. HPT Management Services, LLC ("HPT Management") previously provided property management services for substantially all of our properties. Effective June 30, 2015, we terminated the administrative services agreement with BHT Advisors and we internalized the management of our properties and exercised our buyout option with HPT Management. During the year ended December 31, 2015, we paid BHT Advisors approximately $4.2 million for fees and for reimbursement of services provided, and we paid HPT Management approximately $20.9 million for fees and for reimbursement of costs and expenses.

15. Supplemental Cash Flow Information

Supplemental cash flow information is summarized below for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	2017	2016	2015
Interest paid, net of amounts capitalized	$ 24,430	$ 38,059	$ 54,608
Income taxes paid	$ 404	$ 2,085	$ 1,024
Non-cash investing activities:			
Property and equipment additions in accounts payable and accrued liabilities	$ 16,352	$ 13,295	$ 8,906
Amortization of deferred financing fees in building and improvements, net	$ —	$ —	$ 240
Escrow deposit applied to purchases of real estate	$ 14,000	$ —	$ —
Sale of real estate and lease intangibles to unconsolidated joint venture	$ 13,804	$ —	$ —
Acquisition of controlling interest in unconsolidated entity	$ 9,770	$ —	$ —
Accrued insurance receivable for property damages	$ 15,000	$ —	$ —
Contribution of land to non wholly-owed entity	$ —	$ —	$ 14,002
Liabilities assumed through the purchase of real estate	$ 3,267	$ —	$ 1,800
Non-cash financing activities:			
Accrual for distributions declared	$ —	$ 8,601	$ 8,596
Mortgage notes assumed by purchaser	$ —	$ —	$ 47,074
Mortgage notes assumed by the Company (1)	$ 146,000	$ —	$ —
Cancellation of Series A Convertible Preferred Stock	$ —	$ 2,700	$ —
Dilution of Series A Convertible Preferred Stock	$ —	$ —	$ 1,926
Financing costs in accounts payable and accrued liabilities	$ 25	$ —	$ —
Unrealized gain on interest rate derivatives	$ 5,262	$ 2,824	$ —
Unrealized loss on interest rate derivatives	$ —	$ —	$ 3,077
Contributions from noncontrolling interests	$ —	$ —	$ 1,000

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(1) The approximately $146.0 million mortgage notes assumed during 2017, includes approximately $66.0 million of debt assumed when we acquired Legacy District One, approximately $40.1 million of debt assumed when we acquired the remaining 50.16% interest in our Domain 2 and Domain 7 properties, and approximately $39.9 million of debt associated with our previously held 49.84% unconsolidated interest in the Domain 2 and Domain 7 properties. Domain 2 and Domain 7 were consolidated during 2017.

16. Discontinued Operations and Real Estate Held for Sale

As discussed in Note 2, "Summary of Significant Accounting Policies," we adopted the provisions of FASB guidance regarding the reporting of discontinued operations on January 1, 2015. No properties sold in 2017 or 2016 were classified as discontinued operations. During 2015, we sold two consolidated properties that had been held for sale as of December 31, 2014.

The table below summarizes the results of operations for the properties that have been classified as discontinued operations in the accompanying consolidated statements of operations and comprehensive income (loss) for the year ended December 31, 2015 (in thousands):

	2015
Rental revenue	$ 4,615
Expenses	
Property operating expenses	1,734
Interest expense	720
Real estate taxes	633
Property management fees	121
Total expenses	3,208
Income from discontinued operations	1,407
Gain on sale of discontinued operations	15,383
Discontinued operations	$ 16,790

As of December 31, 2017, we had one property classified as real estate held for sale. As of December 31, 2016, we had four properties classified as real estate held for sale. Each of the properties held for sale as of December 31, 2016, were sold during 2017.

The major classes of assets and obligations associated with real estate held for sale as of December 31, 2017 and 2016, are as follows (in thousands):

	December 31, 2017	December 31, 2016
Land	$ —	$ 5,481
Buildings and improvements, net of approximately $29.0 million and $11.8 million in accumulated depreciation at December 31, 2017 and 2016, respectively	45,396	24,837
Accounts receivable and other assets	3,335	665
Lease intangibles, net of approximately $5.6 million and $2.1 million in accumulated amortization at December 31, 2017 and 2016, respectively	2,830	1,363
Other intangible assets, net of approximately $1.2 million in accumulated amortization at December 31, 2017	1,787	—
Assets associated with real estate held for sale	$ 53,348	$ 32,346
Acquired below-market leases, net of approximately $1.3 million and $0.2 million in accumulated amortization at December 31, 2017 and 2016, respectively	$ 364	$ 44
Other liabilities	1,990	899
Obligations associated with real estate held for sale	$ 2,354	$ 943

17. Quarterly Results (Unaudited)

Presented below is a summary of the unaudited quarterly financial information for the years ended December 31, 2017 and 2016 (in thousands, except per share data).

2017 Quarters Ended	March 31	June 30	September 30	December 31
Rental revenue	$ 56,363	$ 54,552	$ 50,920	$ 54,626
Income (loss) before gains	$ (6,690)	$ 2,772	$ (8,051)	$ (10,268)
Gain on sale of assets	90,750	1,262	—	384
Gain on remeasurement of investment in unconsolidated entities	14,168	—	—	—
Net income (loss)	$ 98,228	$ 4,034	$ (8,051)	$ (9,884)
Net income (loss) attributable to common stockholders	$ 98,171	$ 4,031	$ (8,041)	$ (9,875)
Weighted average shares outstanding - basic	47,511	47,536	47,550	47,554
Weighted average shares outstanding - diluted	47,806	47,875	47,550	47,554
Basic income (loss) per common share	$ 2.05	$ 0.08	$ (0.17)	$ (0.21)
Diluted income (loss) per common share	$ 2.04	$ 0.08	$ (0.17)	$ (0.21)

2016 Quarters Ended	March 31	June 30	September 30	December 31
Rental revenue	$ 68,478	$ 64,267	$ 55,998	$ 54,075
Loss before gain on sale of assets	$ (18,462)	$ (14,371)	$ (11,805)	$ (6,991)
Gain on sale of assets	5,739	5,010	10,777	650
Net loss	$ (12,723)	$ (9,361)	$ (1,028)	$ (6,341)
Net loss attributable to common stockholders	$ (12,707)	$ (9,352)	$ (1,025)	$ (6,333)
Basic and diluted weighted average common shares outstanding	47,390	47,406	47,413	47,414
Basic and diluted loss per common share	$ (0.27)	$ (0.20)	$ (0.02)	$ (0.13)

18. Subsequent Events

On January 4, 2018, we acquired a 96.5% promoted economic interest in Domain Point for a contract purchase price of $73.8 million (at 100%). We own a 90% interest in the entity that owns Domain Point. Domain Point is located in Austin, Texas adjacent to our other Domain office properties and includes two buildings with 240,000 rentable square feet (combined).

On January 18, 2018, our credit agreement was amended to provide for total unsecured borrowings of up to $900.0 million, subject to our compliance with certain financial covenants. Subject to lender approval, certain conditions, and our payment of certain activation fees to the agent and lenders, the borrowing capacity may be increased up to an additional $300.0 million in the aggregate. The revolving line of credit was increased to $325.0 million with a new maturity date of January 18, 2022, which can be extended one additional year subject to certain conditions and our payment of an extension fee, and the maturity date of the $300.0 million term loan was extended to January 17, 2025.

TIER REIT, Inc.
Valuation and Qualifying Accounts
Schedule II
(in thousands)

Allowance for Doubtful Accounts	Balance at Beginning of Year	Charged to Costs and Expenses	Charged to Other Accounts	Write-offs/Payments/Other	Balance at End of Year
Year to date December 31, 2017	$ 2,566	$ 183	$ —	$ (2,566)	$ 183
Year to date December 31, 2016	$ 4,713	$ 878	$ 851	$ (3,876)	$ 2,566
Year to date December 31, 2015	$ 1,201	$ 791	$ 2,946	$ (225)	$ 4,713

TIER REIT, Inc.
Real Estate and Accumulated Depreciation
Schedule III
December 31, 2017
(in thousands)

Property Name	Location	Encumbrances	Initial cost: Land (1)	Initial cost: Building and Improvements	Costs capitalized subsequent to acquisition (2)	Gross amount at which carried at close of period (3)	Accumulated depreciation	Year of construction	Date acquired
Woodcrest Corporate Center	Cherry Hill, NJ	—	5,927	49,977	7,060	62,964	27,270	1960	01/2006
Burnett Plaza	Ft. Worth, TX	—	6,239	157,171	28,259	191,669	84,618	1983	02/2006
The Terrace Office Park	Austin, TX	—	17,330	124,551	21,959	163,840	65,833	1997-2002	06/2006
Bank of America Plaza	Charlotte, NC	—	26,656	185,215	57,027	268,898	94,502	1974	10/2006
One & Two Eldridge Place	Houston, TX	—	6,605	89,506	8,379	104,490	43,471	1984/86	12/2006
Centreport Office Center	Ft. Worth, TX	—	3,175	12,917	(6,130)	9,962	3,695	1999	06/2007
111 Woodcrest	Cherry Hill, NJ	—	1,000	5,417	(827)	5,590	2,113	1964	11/2007
Fifth Third Center	Columbus, OH	48,177	3,500	54,242	(18,623)	39,119	7,998	1928	12/2007
Plaza at MetroCenter	Nashville, TN	—	3,341	35,333	(1,410)	37,264	10,672	1985	12/2007
Loop Central	Houston, TX	—	11,653	86,587	(26,404)	71,836	5,586	1980-1982	12/2007
One BriarLake Plaza	Houston, TX	77,162	9,602	119,660	14,858	144,120	50,662	2000	09/2008
Two BriarLake Plaza	Houston, TX	—	2,446	81,748	1,888	86,082	10,704	2012-2014	12/2009
Three Eldridge Place	Houston ,TX	—	3,090	62,181	1,281	66,552	24,328	2009	12/2006-11/2009
5950 Sherry Lane	Dallas, TX	—	10,002	50,876	6,556	67,434	8,373	1999	12/2014
Domain 2	Austin, TX	—	4,598	48,258	25	52,881	1,926	2014	07/2015-1/2017
Domain 3	Austin, TX	—	6,781	32,923	1,744	41,448	3,203	1975/2001	07/2015
Domain 4	Austin, TX	—	5,988	24,401	3,936	34,325	2,589	1968/2001	07/2015
Domain 7	Austin, TX	—	8,866	87,105	34	96,005	3,486	2015	07/2015-1/2017
Domain 11	Austin, TX	—	8,230	—	21,208	29,438	—	N/A	07/2015
Legacy District One	Plano, TX	66,000	5,100	104,941	6	110,047	2,097	2012	06/2017
Land held for development	Plano, TX	—	6,380	—	3,162	9,542	—	N/A	06/2015
Land held for development	Austin, TX	—	30,449	—	5,124	35,573	—	N/A	07/2015
Totals (4)		$ 191,339	$186,958	$ 1,413,009	$ 129,112	$ 1,729,079	$ 453,126		

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Generally, each of our properties is an office building with a depreciable life of 25 years.

(1) Includes land and land held for development.
(2) Includes adjustments to basis, such as impairment losses and write-off of hurricane damaged assets.
(3) The aggregate cost for federal income tax purposes is approximately $1.9 billion.
(4) Excludes balances related to real estate held for sale as of December 31, 2017.

A summary of activity for real estate and accumulated depreciation for the years ended December 31, 2017, 2016 and 2015, is as follows (in thousands):

	Year Ended December 31, 2017	Year Ended December 31, 2016	Year Ended December 31, 2015
Real Estate:			
Balance at beginning of the year	$ 1,785,714	$ 2,139,712	$ 2,326,195
Acquisitions/improvements	258,955	64,721	184,326
Assets disposed/written-off	(315,590)	(418,719)	(370,809)
Balance at end of the year	$ 1,729,079	$ 1,785,714	$ 2,139,712
Accumulated depreciation:			
Balance at beginning of the year	$ 535,516	$ 566,464	$ 557,429
Depreciation expense	77,585	90,682	99,131
Assets disposed/written-off	(159,975)	(121,630)	(90,096)
Balance at end of the year	$ 453,126	$ 535,516	$ 566,464

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Section 2: EX-10.17 (EXHIBIT 10.17)

Exhibit 10.17

FIFTH AMENDMENT TO EMPLOYMENT AGREEMENT

This FIFTH AMENDMENT TO EMPLOYMENT AGREEMENT (the “Amendment”) is made as of the 8th day of February 2018, between Scott W. Fordham (the “Executive”) and TIER REIT, Inc. (formerly known as Behringer Harvard REIT I, Inc.), a Maryland corporation (the “Company”), and Tier Operating Partnership LP (formerly known as Behringer Harvard Operating Partnership I LP), a Texas limited partnership (the “Operating Partnership” and together with the Company, the “Employers”).

WHEREAS, the Executive and the Employers entered into that certain Employment Agreement, dated September 1, 2012, as amended (the “Agreement”), pursuant to which the Executive is currently employed by the Employers; and

WHEREAS, the Executive and the Employers mutually desire to amend the Term of the Agreement.

NOW THEREFORE, in consideration of the mutual covenants and agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Recitals. The recitals contained in this Amendment are hereby incorporated into, and made an integral part of, this Amendment. All defined terms used herein that are not otherwise defined shall have the same meaning ascribed to them in the Agreement.

2. Long-Term Incentive Awards. The second sentence of Section 2(c) is hereby amended and restated as follows:

“(c) The Executive’s target annual long-term incentive award shall be equal to at least 110% of his combined Base Salary and target annual cash incentive compensation attributable to such calendar year during the Term.”

3. Binding Effect of Amendment. This Amendment shall be binding on all successors and permitted assigns of the parties hereof.

4. Severability. The enforceability or invalidity of any provision of this Amendment shall not affect the enforceability or validity of any other provision.

5. Headings. The headings have been inserted solely as a matter of convenience to the parties and shall not affect the construction or meaning thereof.

6. Ratification. The Executive and the Employers hereby ratify and confirm their respective obligations under the Agreement, as modified by this Amendment. If any inconsistency exists or arises between the terms of the Agreement and the terms of this Amendment, the terms of this Amendment shall prevail.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first set forth above.

TIER REIT, INC.

/s/ Telisa Webb Schelin
By: Telisa Webb Schelin
Its: Chief Legal Officer

TIER OPERATING PARTNERSHIP LP

/s/ Telisa Webb Schelin
By: Telisa Webb Schelin
Its: Chief Legal Officer

EXECUTIVE:

/s/ Scott W. Fordham
Scott W. Fordham

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Section 3: EX-10.22 (EXHIBIT 10.22)

Exhibit 10.22

FOURTH AMENDMENT TO EMPLOYMENT AGREEMENT

This FOURTH AMENDMENT TO EMPLOYMENT AGREEMENT (the "Amendment") is made as of the 8th day of February 2018, between Dallas E. Lucas (the "Executive") and TIER REIT, Inc. (formerly known as Behringer Harvard REIT I, Inc.), a Maryland corporation (the "Company"), and Tier Operating Partnership LP (formerly known as Behringer Harvard Operating Partnership I LP), a Texas limited partnership (the "Operating Partnership" and together with the Company, the "Employers").

WHEREAS, the Executive and the Employers entered into that certain Employment Agreement, dated May 27, 2014, as amended (the "Agreement"), pursuant to which the Executive is currently employed by the Employers; and

WHEREAS, the Executive and the Employers mutually desire to amend the Term of the Agreement.

NOW THEREFORE, in consideration of the mutual covenants and agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Recitals. The recitals contained in this Amendment are hereby incorporated into, and made an integral part of, this Amendment. All defined terms used herein that are not otherwise defined shall have the same meaning ascribed to them in the Agreement.

2. Base Salary. The first sentence of Section 2(a) is hereby amended and restated as follows:

"(a) During the Term, the Executive's annual base salary shall be no less than $375,000."

3. Long-Term Incentive Awards. The second sentence of Section 2(c) is hereby amended and restated as follows:

"(c) The Executive's target annual long-term incentive award shall be equal to at least 100% of his combined Base Salary and target annual cash incentive compensation attributable to such calendar year during the Term."

4. Binding Effect of Amendment. This Amendment shall be binding on all successors and permitted assigns of the parties hereof.

5. Severability. The enforceability or invalidity of any provision of this Amendment shall not affect the enforceability or validity of any other provision.

6. Headings. The headings have been inserted solely as a matter of convenience to the parties and shall not affect the construction or meaning thereof.

7. Ratification. The Executive and the Employers hereby ratify and confirm their respective obligations under the Agreement, as modified by this Amendment. If any inconsistency exists or arises between the terms of the Agreement and the terms of this Amendment, the terms of this Amendment shall prevail.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first set forth above.

TIER REIT, INC.

/s/ Scott W. Fordham

By: Scott W. Fordham

Its: Chief Executive Officer and President

TIER OPERATING PARTNERSHIP LP

/s/ Scott W. Fordham

By: Scott W. Fordham

Its: Chief Executive Officer and President

EXECUTIVE:

/s/ Dallas E. Lucas

Dallas E. Lucas

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Section 4: EX-10.28 (EXHIBIT 10.28)

Exhibit 10.28

FIFTH AMENDMENT TO EMPLOYMENT AGREEMENT

This FIFTH AMENDMENT TO EMPLOYMENT AGREEMENT (the "Amendment") is made as of the 8th day of February 2018, between William J. Reister (the "Executive") and TIER REIT, Inc. (formerly known as Behringer Harvard REIT I, Inc.), a Maryland corporation (the "Company"), and Tier Operating Partnership LP (formerly known as Behringer Harvard Operating Partnership I LP), a Texas limited partnership (the "Operating Partnership" and together with the Company, the "Employers").

WHEREAS, the Executive and the Employers entered into that certain Employment Agreement, dated September 1, 2012, as amended (the "Agreement"), pursuant to which the Executive is currently employed by the Employers; and

WHEREAS, the Executive and the Employers mutually desire to amend the Term of the Agreement.

NOW THEREFORE, in consideration of the mutual covenants and agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Recitals. The recitals contained in this Amendment are hereby incorporated into, and made an integral part of, this Amendment. All defined terms used herein that are not otherwise defined shall have the same meaning ascribed to them in the Agreement.

2. Base Salary. The first sentence of Section 2(a) is hereby amended and restated as follows:

"(a) During the Term, the Executive's annual base salary shall be no less than $310,000."

3. Cash Incentive Compensation. The second sentence of Section 2(b) is hereby amended and restated as follows:

"(b) The Executive's target annual cash incentive compensation shall be 90% of his Base Salary."

4. Long-Term Incentive Awards. The second sentence of Section 2(c) is hereby amended and restated as follows:

"(c) The Executive's target annual long-term incentive award shall be equal to at least 80% of his combined Base Salary and target annual cash incentive compensation attributable to such calendar year during the Term."

5. Binding Effect of Amendment. This Amendment shall be binding on all successors and permitted assigns of the parties hereof.

6. Severability. The enforceability or invalidity of any provision of this Amendment shall not affect the enforceability or validity of any other provision.

7. Headings. The headings have been inserted solely as a matter of convenience to the parties and shall not affect the construction or meaning thereof.

8. Ratification. The Executive and the Employers hereby ratify and confirm their respective obligations under the Agreement, as modified by this Amendment. If any inconsistency exists or arises between the terms of the Agreement and the terms of this Amendment, the terms of this Amendment shall prevail.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first set forth above.

TIER REIT, INC.

/s/ Scott W. Fordham

By: Scott W. Fordham

Its: Chief Executive Officer and President

TIER OPERATING PARTNERSHIP LP

/s/ Scott W. Fordham

By: Scott W. Fordham

Its: Chief Executive Officer and President

EXECUTIVE:

/s/ William J. Reister

William J. Reister

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Section 5: EX-10.34 (EXHIBIT 10.34)

Exhibit 10.34

FIFTH AMENDMENT TO EMPLOYMENT AGREEMENT

This FIFTH AMENDMENT TO EMPLOYMENT AGREEMENT (the “Amendment”) is made as of the 8th day of February 2018, between Telisa Webb Schelin (the “Executive”) and TIER REIT, Inc. (formerly known as Behringer Harvard REIT I, Inc.), a Maryland corporation (the “Company”), and Tier Operating Partnership LP (formerly known as Behringer Harvard Operating Partnership I LP), a Texas limited partnership (the “Operating Partnership” and together with the Company, the “Employers”).

WHEREAS, the Executive and the Employers entered into that certain Employment Agreement, dated September 1, 2012, as amended (the “Agreement”), pursuant to which the Executive is currently employed by the Employers; and

WHEREAS, the Executive and the Employers mutually desire to amend the Term of the Agreement.

NOW THEREFORE, in consideration of the mutual covenants and agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Recitals. The recitals contained in this Amendment are hereby incorporated into, and made an integral part of, this Amendment. All defined terms used herein that are not otherwise defined shall have the same meaning ascribed to them in the Agreement.

2. Base Salary. The first sentence of Section 2(a) is hereby amended and restated as follows:

"(a) During the Term, the Executive's annual base salary shall be no less than $330,000."

3. Long-Term Incentive Awards. The second sentence of Section 2(c) is hereby amended and restated as follows:

"(c) The Executive's target annual long-term incentive award shall be equal to at least 80% of her combined Base Salary and target annual cash incentive compensation attributable to such calendar year during the Term."

4. Binding Effect of Amendment. This Amendment shall be binding on all successors and permitted assigns of the parties hereof.

5. Severability. The enforceability or invalidity of any provision of this Amendment shall not affect the enforceability or validity of any other provision.

6. Headings. The headings have been inserted solely as a matter of convenience to the parties and shall not affect the construction or meaning thereof.

7. Ratification. The Executive and the Employers hereby ratify and confirm their respective obligations under the Agreement, as modified by this Amendment. If any inconsistency exists or arises between the terms of the Agreement and the terms of this Amendment, the terms of this Amendment shall prevail.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first set forth above.

TIER REIT, INC.

/s/ Scott W. Fordham

By: Scott W. Fordham

Its: Chief Executive Officer and President

TIER OPERATING PARTNERSHIP LP

/s/ Scott W. Fordham

By: Scott W. Fordham

Its: Chief Executive Officer and President

EXECUTIVE:

/s/ Telisa Webb Schelin

Telisa Webb Schelin

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Section 6: EX-10.42 (EXHIBIT 10.42)

Exhibit 10.42

SEVENTH AMENDMENT TO EMPLOYMENT AGREEMENT

This SEVENTH AMENDMENT TO EMPLOYMENT AGREEMENT (the "Amendment") is made as of the 8th day of February 2018, between James E. Sharp (the "Executive") and TIER REIT, Inc. (formerly known as Behringer Harvard REIT I, Inc.), a Maryland corporation (the "Company"), and Tier Operating Partnership LP (formerly known as Behringer Harvard Operating Partnership I LP), a Texas limited partnership (the "Operating Partnership" and together with the Company, the "Employers").

WHEREAS, the Executive and the Employers entered into that certain Employment Agreement, dated September 1, 2012, as amended (the "Agreement"), pursuant to which the Executive is currently employed by the Employers; and

WHEREAS, the Executive and the Employers mutually desire to amend the Term of the Agreement.

NOW THEREFORE, in consideration of the mutual covenants and agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Recitals. The recitals contained in this Amendment are hereby incorporated into, and made an integral part of, this Amendment. All defined terms used herein that are not otherwise defined shall have the same meaning ascribed to them in the Agreement.

2. Base Salary. The first sentence of Section 2(a) is hereby amended and restated as follows:

"(a) During the Term, the Executive's annual base salary shall be no less than $320,000."

3. Long-Term Incentive Awards. The second sentence of Section 2(c) is hereby amended and restated as follows:

"(c) The Executive's target annual long-term incentive award shall be equal to at least 70% of his combined Base Salary and target annual cash incentive compensation attributable to such calendar year during the Term."

4. Binding Effect of Amendment. This Amendment shall be binding on all successors and permitted assigns of the parties hereof.

5. Severability. The enforceability or invalidity of any provision of this Amendment shall not affect the enforceability or validity of any other provision.

6. Headings. The headings have been inserted solely as a matter of convenience to the parties and shall not affect the construction or meaning thereof.

7. Ratification. The Executive and the Employers hereby ratify and confirm their respective obligations under the Agreement, as modified by this Amendment. If any inconsistency exists or arises between the terms of the Agreement and the terms of this Amendment, the terms of this Amendment shall prevail.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first set forth above.

TIER REIT, INC.

/s/ Scott W. Fordham
By: Scott W. Fordham
Its: Chief Executive Officer and President

TIER OPERATING PARTNERSHIP LP

/s/ Scott W. Fordham
By: Scott W. Fordham
Its: Chief Executive Officer and President

EXECUTIVE:

/s/ James E. Sharp
James E. Sharp

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Section 7: EX-21.1 (EXHIBIT 21.1)

Exhibit 21.1

LIST OF SUBSIDIARIES

Entity [(1)]	***Jurisdiction of Incorporation***
Tier Partners, LLC	Delaware
Tier GP, Inc.	Delaware
Tier BT, Inc. [(2)]	Delaware
Tier Business Trust	Maryland
Tier Operating Partnership LP[(3)]	Texas

____
(1) Does not include subsidiaries of Tier Operating Partnership LP, which holds our investment assets.
(2) Tier BT, Inc. owns 100% of the interests of Tier Business Trust.
(3) Tier GP, Inc. is the sole general partner in Tier Operating Partnership LP, our operating partnership. Tier Business Trust and Tier Partners, LLC are limited partners in Tier Operating Partnership LP.

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Section 8: EX-23.1 (EXHIBIT 23.1)

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-208321 on Form S-8 and Registration Statement No. 333-213285 on Form S-3 of our reports dated February 12, 2018, relating to the consolidated financial statements and financial statement schedules of TIER REIT, Inc. and subsidiaries (which report expresses an unqualified opinion and includes an explanatory paragraph regarding the early adoption of Financial Accounting Standards Board Accounting Standards Update No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business and the 2015 adoption of Financial Accounting Standards Board Accounting Standards Update No. 2014-08, Presentation of Financial Statements and Property, Plant, and Equipment (Topics 205 and 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity), and the effectiveness of TIER REIT, Inc.'s internal control over financial reporting, appearing in this Annual Report on Form 10-K of TIER REIT, Inc. and subsidiaries for the year ended December 31, 2017.

/s/ Deloitte & Touche LLP

Dallas, Texas

February 12, 2018

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Section 9: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Scott W. Fordham, certify that:

1. I have reviewed this annual report on Form 10-K of TIER REIT, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated this 12th day of February, 2018	/s/ Scott W. Fordham
	Scott W. Fordham
	Chief Executive Officer

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Section 10: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Dallas E. Lucas, certify that:

1. I have reviewed this annual report on Form 10-K of TIER REIT, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated this 12th day of February, 2018	/s/ Dallas E. Lucas
	Dallas E. Lucas
	Chief Financial Officer

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Section 11: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

SECTION 1350 CERTIFICATION

This Certificate is being delivered pursuant to the requirements of Section 1350 of Chapter 63 (Mail Fraud) of Title 18 (Crimes and Criminal Procedures) of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed for purposes of Section 18 of the Securities Act of 1934, as amended.

The undersigned, who are the Chief Executive Officer and Chief Financial Officer of TIER REIT, Inc. (the "Company"), each hereby certifies to his knowledge as follows:

The Annual Report on Form 10-K of the Company (the "Report"), which accompanies this Certificate, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and all information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated this 12th day of February, 2018	/s/ Scott W. Fordham
	Scott W. Fordham
	Chief Executive Officer
Dated this 12th day of February, 2018	/s/ Dallas E. Lucas
	Dallas E. Lucas
	Chief Financial Officer

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