Risk Factors Comparison 2024-02-20 to 2023-02-23 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text Moved Text Section

Risks Related to Our Business and Operations Economic, regulatory, socio- economic or technology changes that impact the real estate market generally, or that could affect patterns of use of commercial office space, may cause our operating results to suffer and decrease the value of our ~~real estate~~ properties. The investment returns available from equity investments in real estate depend on the amount of income earned and capital appreciation generated by the properties, as well as the expenses incurred in connection with the properties. If our properties do not generate income sufficient to meet operating expenses, including debt service and capital expenditures, then our ability to make distributions to our stockholders could be adversely affected. In addition, there are significant expenditures associated with an investment in real estate (such as debt payments, real estate taxes, insurance, and maintenance costs) that generally do not decline when circumstances reduce the income from the property. The following factors, among others, may adversely affect the operating performance and long- or short- term value of our properties: • changes in the national, regional, or local economic climate, particularly in markets in which we have a concentration of properties; • local office market conditions such as employment rates and changes in the supply of, or demand for, space in properties similar to those that we own within a particular area; • changes in the patterns of office or parking garage use due to work- from- home arrangements, ~~or~~ remote work technology (e. g. ~~Metaverse~~ **Artificial Intelligence** , Zoom, etc) becoming more prevalent **,** or other changes that reduce the demand for office workers or parking spaces generally; • increased demand for" co- working", open workspaces, or sharing of office space with other companies; • increased supply of office space due to the conversion of other asset classes such as shopping malls and other retail establishments to office space; • the attractiveness of our properties to potential tenants and competition from other available properties; • changes in interest rates and availability of permanent financing sources that may render the sale of a property difficult or unattractive or otherwise reduce returns to stockholders; • changes in market rental rates and related concessions granted to tenants, including free rent and tenant improvement allowances; • the financial stability of our tenants ~~or groups of tenants in specific industry sectors (such as the oil and gas, hospitality, travel, retail, and co- working sectors)~~ , including bankruptcies, financial difficulties, or lease defaults by our tenants; • the inability to finance property development or acquisitions on favorable terms; • changes in operating costs and expenses, including costs for maintenance, insurance, and real estate taxes, and our inability to timely adjust rents in light of such changes; • the need to periodically fund the costs to repair, renovate, and re- let space; • earthquakes, tornadoes, hurricanes and other natural disasters, civil unrest, terrorist acts or acts of war, any of which may result in uninsured or under- insured losses; • health crises such as the spread of communicable diseases and governmental or private measures taken to combat such health crises; • changes in, or increased costs of compliance with, governmental regulations, including those governing usage, zoning, the environment, and taxes; and • significant changes in accounting standards and tax laws. In addition, periods of economic slowdown or recession, rising interest rates, or declining demand for real estate could result in a general decrease in rents or an increased occurrence of defaults under existing leases, which would adversely affect our financial condition and results of operations. Any of the above factors may prevent us from generating sufficient cash flow to operate our business, make distributions to our stockholders, or maintain the value of our ~~real estate~~ properties. Index to Financial Statements We face considerable competition in the leasing market and may be unable to renew existing leases or re- let space on terms similar to the existing leases, ~~or~~ **and** we may expend significant capital in our efforts to re- let space. Every year, we compete with a number of other developers, owners, and operators of office and office- oriented, mixed- use properties to renew leases with our existing tenants and to attract new tenants. The competition for credit worthy corporate tenants is intense, and we may have difficulty competing, especially with competitors who have purchased properties at discounted prices allowing them to offer space at reduced rental rates, or those that have the ability to offer superior amenities or more flexible leasing terms. If our competitors offer office accommodations at rental rates below current market rates or below the rental rates we currently charge our tenants, we may lose potential tenants, and we may be pressured to reduce our rental rates below those we currently charge in order to retain tenants upon expiration of their existing leases. Even if our tenants renew their leases or we are able to re- let the space to new tenants, the terms and other costs of renewal or re- letting, including the cost of required renovations or additional amenities, increased tenant improvement allowances, leasing commissions, declining rental rates, and other potential concessions, may be less favorable than the terms of our current leases or require significant capital outlays. If we are unable to renew leases or re- let space in a reasonable time, or if rental rates decline or tenant improvements, leasing commissions, or other costs increase, our financial condition, operating results, or cash flows could be adversely affected. Our rental revenues will be significantly influenced by the conditions of the office market in general and of the specific markets in which we operate. Because our portfolio consists exclusively of office properties, we are subject to risks inherent in investments in a single property type. This concentration exposes us to the risk of economic downturns in the office sector to a greater extent than if our portfolio also included other sectors of the real estate industry. Collectively, **approximately 70 %** ~~over two- thirds~~ of our ALR is generated from our properties located in our Sunbelt markets as of December 31, ~~2022~~ **2023** . As a result, we are particularly susceptible to adverse ~~market~~ conditions in these markets, including any reduction in demand for office properties, industry slowdowns, civil unrest, natural disasters **, health crises** , governmental cut backs, relocation of businesses, business layoffs or downsizing, and changing demographics. Our operations may also be affected if competing properties are built in any of these markets. Adverse economic or real estate developments in these markets, or in any of the other markets in which we operate, or any decrease in demand for office space resulting from the local or national government and business climates or changing office market trends, could adversely affect our rental revenues and operating results, and the value of our properties. We may be adversely affected by trends in the office real estate industry. Businesses have increasingly implemented remote work and flexible work arrangements. There has also been a trend of businesses utilizing open workspaces and " co- working " spaces. These practices enable businesses to reduce their space requirements ~~. These trends~~ , **thereby eroding** ~~some of which could accelerate as a result of changes in work practices during the COVID- 19 pandemic, could erode~~ demand for commercial office space and, in turn, ~~place~~ **placing** downward pressure on occupancy, rental rates and property valuations. We depend on tenants for our revenue, and accordingly, lease terminations or tenant defaults, particularly by one of our significant lead tenants, could adversely affect the income produced by our properties. The success of our investments materially depends on the financial stability of our tenants, any of whom may experience a change in their business at any time. If any of our tenants, or groups of tenants in specific industry sectors, experience or anticipate an adverse change in their respective businesses for any reason, they may delay lease commencements, decline to extend or renew their leases upon expiration, fail to make rental payments when due, or declare bankruptcy. Any of these actions could result in the termination of the tenants' leases, or expiration of existing leases without renewal, and the loss of rental income attributable to the terminated or expired leases. In the event of a tenant default or bankruptcy, we may experience delays in enforcing our rights as a landlord and may incur substantial costs in protecting our investment and re- letting our property. If any leases are terminated or defaulted upon, we may also be unable to re- lease the property for the rent previously received or to sell the property without incurring a loss. In addition, significant expenditures related to debt payments, real estate taxes, insurance, and maintenance costs are generally fixed or may not decrease immediately when revenues at the related property decrease. The occurrence of any of the situations described above, particularly if it involves one of our significant lead tenants, could seriously harm our operating performance ~~. As of December 31, 2022, our two largest tenants were: US Bancorp (5. 0 % of ALR) and State of New York (4. 6 % of ALR)~~ . The revenues generated by the properties that any of our lead tenants occupy are substantially dependent upon the financial condition of these tenants and, accordingly, any event of bankruptcy, insolvency, or a general downturn in the business of any of these tenants may result in the failure or delay of such tenant' s rental payments, which may have a substantial adverse effect on our operating performance. Some of our leases provide tenants with the right to terminate their leases early. Certain of our leases permit our tenants to terminate their leases of all or a portion of the leased premises prior to their stated lease expiration dates under certain circumstances, such as providing notice by a certain date and, in many cases, paying a termination fee. In certain cases, such early terminations can be effectuated by our tenants with little or no termination fee being paid to us. To the extent that our tenants exercise early termination rights, our cash flow and earnings will be adversely affected, and we can provide no assurances that we will be able to generate an equivalent amount of net rental income by leasing the vacated space to new tenants. We may face additional risks and costs associated with directly managing properties occupied by government tenants. We currently own six properties in which at least one of the tenants is a federal government agency. Lease agreements with these federal government agencies contain certain provisions required by federal law, which require, among other things, that the lessor or the owner of the property complies with certain rules and regulations ~~, rules and regulations~~ related to anti- kickback procedures, examination of records, audits and records, equal opportunity provisions, prohibitions against segregated facilities, certain executive orders, subcontractor costs or pricing data, and certain provisions intended to assist small businesses. Through one of our wholly- owned subsidiaries, we directly manage properties with federal government agency tenants and, therefore, we are subject to additional risks associated with compliance with all such federal rules and regulations. We face additional risks and costs associated with directly managing properties occupied by government tenants, including an increased risk of default by such tenants during periods in which state or federal governments are shut down or on furlough. There are certain additional requirements relating to the potential application of the Employment Standards Administration' s Office of Federal Contract Compliance Programs and the related requirement to prepare written affirmative action plans applicable to government contractors and subcontractors. Some of the factors used to determine whether such requirements apply to a company that is affiliated with the actual government contractor (the legal entity that is the lessor under a lease with a federal government agency) include whether such company and the government contractor are under common ownership, have common management, and are under common control. One of our wholly- owned subsidiaries is considered a government contractor, increasing the risk that requirements of these equal opportunity provisions, including the requirement to prepare affirmative action plans, may be determined to be applicable to the entire operations of our company. Adverse market and economic conditions may cause us to recognize impairment charges on tangible real estate and related lease intangible assets or otherwise impact our performance. We continually monitor events and changes in circumstances that could indicate that the carrying value of the real estate and related lease intangible assets in which we have an ownership interest, either directly or through investments in joint ventures, may not be recoverable. When indicators of potential impairment are present which indicate that the carrying value of real estate and related lease intangible assets may not be recoverable, we assess the recoverability of these assets by determining whether the carrying value will be recovered through the undiscounted future operating cash flows expected from the use of the asset and its eventual disposition. In the event that such expected undiscounted future cash flows do not exceed the carrying value, we adjust the real estate and related lease intangible assets to their estimated fair value and recognize an impairment loss. Projections of expected future cash flows require management to make assumptions to estimate future market rental income amounts subsequent to the expiration of current lease agreements, property operating expenses, the number of months it takes to re- lease the property, and the number of years the property is held for investment, among other factors. The subjectivity of assumptions used in the future cash flow analysis, including discount rates, could result in an incorrect assessment of the property' s estimated fair value and, therefore, could result in the misstatement of the carrying value of our real estate and related lease intangible assets and our net income. In addition, adverse economic conditions could also cause us to recognize additional asset impairment charges in the future, which could materially and adversely affect our business, financial condition and results of operations. Adverse market and economic conditions could cause us to recognize impairment charges on our goodwill. We review the value of our goodwill on an annual basis and when events or changes in circumstances indicate that the carrying value of goodwill may exceed the estimated fair value of such assets. Such interim events could be adverse changes in legal matters or in the business climate, adverse action or assessment by a regulator, the loss of key personnel, or persistent declines in our stock price below our carrying value. Volatility in the overall market could cause the price of our common stock to fluctuate and cause the carrying value of our company to exceed the estimated fair value. If that occurs, our goodwill could potentially be impaired. Impairment charges recognized in order to reduce our goodwill could materially and adversely affect our results of operations. ~~In conjunction with the performance of our goodwill impairment assessment during the year ended December 31, 2022, we recognized an impairment charge related to our goodwill of approximately $ 16. 0 million.~~ See Note ~~2~~ **6** to our accompanying consolidated financial statements for more information. Our earnings growth will partially depend upon future acquisitions of properties, and we may not be successful in identifying and consummating suitable acquisitions that meet our investment criteria. Our business strategy primarily involves the acquisition of high- quality office properties in selected markets. This strategy requires us to identify suitable acquisition candidates or investment opportunities that meet our criteria and are compatible with our growth strategy. We may not be successful in identifying suitable properties or other assets that meet our acquisition criteria or in consummating acquisitions on satisfactory terms, if at all. Failure to identify or consummate acquisitions could slow our growth. Likewise, we may incur costs pursuing acquisitions that we are ultimately unsuccessful in completing. We also face significant competition for attractive investment opportunities from a large number of other real estate investors, including investors with significant capital resources such as domestic and foreign corporations and financial institutions, other 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, the purchase price may be significantly elevated, or we may have to accept lease- up risk for a property with lower occupancy, any of which could adversely affect our financial condition, results of operations or cash flows. Future acquisitions of properties may not yield anticipated returns, may disrupt our business, and may strain management resources. We intend to continue acquiring high- quality office properties, subject to ~~:~~ the availability of attractive properties, our ability to arrange financing, and our ability to consummate acquisitions on satisfactory terms. In deciding whether to acquire a particular property, we make certain assumptions regarding the expected future performance of that property. However, newly acquired properties may fail to perform as expected for a variety of reasons. For example, costs necessary to bring acquired properties up to standards established for their intended market position may exceed our expectations, which may result in the properties' failure to achieve projected returns. To the extent that we engage in acquisition activities, ~~they~~ **we** will ~~pose~~ **face** the following risks, among others: • we may acquire properties or other real estate- related investments that are not initially accretive to our results upon acquisition or accept lower cash flows in anticipation of longer- term appreciation, and we may not successfully manage and lease those properties to meet our expectations; • we may not achieve expected cost savings and operating efficiencies; • we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations; • management attention may be diverted to the integration of acquired properties, which in some cases may turn out to be less compatible with our operating strategy than originally anticipated; • we may not be able to support the acquired property through one of our existing property management offices and may not successfully open new satellite offices to serve additional markets; • the acquired properties may not perform as well as we anticipate due to various factors, including changes in macro- economic conditions and the demand for office space; and • we may acquire properties without any recourse, or with only limited recourse, for liabilities, whether known or unknown, such as clean- up of environmental contamination, unknown / undisclosed latent structural issues or maintenance problems, claims by tenants, vendors or others against the former owners of the properties, and claims for indemnification by general partners, directors, officers, and others indemnified by the former owners of the properties. We may acquire properties in new markets, where we may face risks associated with investing in an unfamiliar market. We **have in the past and** may **in the future** acquire properties located in markets in which we do not have an established presence. ~~We may~~ **To the extent we acquire any such properties, we will** face risks associated with a lack of market knowledge or understanding of the local economy, acquiring additional properties in the new market and achieving economies of scale, forging new business relationships in the area and unfamiliarity with local government and permitting procedures. As a result, the operating performance of properties acquired in new markets may be less than we anticipate, and we may have difficulty integrating such properties into our existing portfolio. In addition, the time and resources that may be required to obtain market knowledge or integrate such properties into our existing portfolio could divert our management' s attention from our existing business or other attractive opportunities. The illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our properties. Because real estate investments are relatively illiquid and large- scale office properties such as those in our portfolio are particularly illiquid, our ability to promptly sell one or more properties in our portfolio in response to changing economic, financial, investment and other conditions is limited. The real estate market is affected by many forces, such as general economic conditions, availability of financing, interest rates, and other factors, including supply and demand, that are beyond our control. We cannot predict whether we will be able to sell any property for the price or on the terms set by us or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property. We may be required to expend funds to correct defects or to make improvements before a property can be sold. We cannot provide any assurances that we will have funds available to correct such defects or to make such improvements. Our inability to dispose of assets at opportune times or on favorable terms could adversely affect our cash flows and results of operations. We may not be able to dispose of properties that no longer meet our strategic plans or to timely and efficiently apply the proceeds from any disposition of properties. We may seek to dispose of properties that no longer meet our strategic plans with the intent to use the proceeds generated from such potential disposition to acquire additional properties better aligned with our investment criteria and growth strategy, to reduce debt, or to fund other operational needs. We may not be able to dispose of these properties for the proceeds we expect, or at all, and we may incur costs and divert management attention from our ongoing operations as part of efforts to dispose of these properties, regardless of whether such efforts are ultimately successful. In addition, if we are able to dispose of those properties, we may not be able to re- deploy the proceeds in a timely or more efficient manner, if at all. As such, we may not be able to adequately time any decrease in revenues from the sale of properties with a corresponding increase in revenues associated with the acquisition of new properties. The failure to dispose of properties, or to timely and efficiently apply the proceeds from any disposition of properties, could have an adverse effect on our cash flows and results of operations. Our real estate redevelopment and development strategies may not be successful. From time to time, we engage in various development and re- development activities to the extent attractive projects become available. When we engage in development activities, we are subject to risks associated with those activities that could adversely affect our financial condition, results of operations and cash flows, including: • uncertainties associated with zoning, land- use, building, occupancy and other governmental permits and authorizations, as well as, environmental concerns of governmental entities or community groups; • our builders' ability to build in conformity with plans, specifications, budgeted costs and timetables; • delays in completing construction could give tenants the right to terminate pre- construction leases; • risks associated with making progress payments or other advances to builders before they complete construction; • unanticipated additional costs related to disputes with existing tenants during redevelopment projects; • normal lease- up risks relating to newly constructed projects; • projects with long lead times may increase leasing risk due to changes in market conditions; • development projects in which we have invested may be abandoned and the related investment will be impaired; • we may not be able to obtain land on which to develop; • we may not be able to obtain financing for development projects on favorable terms (if at all); • construction costs of a project may exceed the original estimates or construction may not be concluded on schedule, making the project less profitable than originally estimated or not profitable at all (including the possibility of errors or omissions in the project' s design, contract default, contractor or subcontractor default, performance bond surety default, the effects of local weather conditions, the possibility of local or national strikes and the possibility of shortages in materials, building supplies or energy and fuel for equipment); • tenants which pre- lease space or contract with us for a build- to- suit project may default prior to occupying the project; • upon completion of construction, we may not be able to obtain, or obtain on advantageous terms, permanent financing for activities that we financed through construction loans; • we may not achieve sufficient occupancy levels and / or obtain sufficient rents to make a completed project profitable; and • substantial renovation and development activities may require a significant amount of management' s time and attention, diverting their attention from our other operations. Actual or threatened public health epidemics or outbreaks such as the ~~recent~~ COVID- 19 pandemic, as well as governmental and private measures taken to combat such health crises, could have a material adverse effect on our business operations and financial results. Actual or threatened public health epidemics or outbreaks, and the actions taken to combat such epidemics or outbreaks, may adversely impact the global economy or the economic and other conditions in the markets in which we operate ~~. In particular, the recent COVID- 19 pandemic and its associated variants adversely impacted the global economy and the regional U. S. economies in which we operate, and negatively impacted some of our tenants' ability to pay their rent. The recent COVID- 19 pandemic also accelerated some company' s adoption of remote work platforms and may result in a longer- term decrease in the need for office space among some companies. While some effects of the COVID- 19 pandemic have begun to subside, the rise of additional viral variants could cause a resurgence of the pandemic and its adverse impacts in the future~~ . Among other effects, any restrictions put in place to combat public health epidemics or outbreaks could cause some of our tenants to close or operate at reduced capacity for an extended period of time, in some cases causing such tenants to default on their leases ~~,~~ **.** ~~or~~ **For example, the COVID- 19 pandemic and its associated variants adversely impacted the global economy and the regional U. S. economies in which we operate, and negatively impacted some of our tenants' ability to pay their rent. The COVID- 19 pandemic also accelerated some companies' adoption of remote work platforms and** could result in **longer term** technological and social changes that reduce the **demand** ~~long- term necessity~~ for office space among companies generally. Our tenants' inability to pay rent under our leases and any declines in demand for office space could adversely affect our own liquidity and operating results. Future terrorist attacks, armed hostilities, or civil unrest in the major metropolitan areas in which we own properties could significantly impact the demand for, and value of, our properties. Our portfolio of properties is primarily located in the following major metropolitan areas: Atlanta, Dallas, ~~Washington, D. C. /~~ Northern Virginia **/ Washington, D. C.** , Boston, Orlando, Minneapolis, and New York, any of which could be, and some of which have been, the target of terrorist attacks, armed hostilities, or civil unrest. Future terrorist attacks and other acts of hostility, civil unrest, or war could severely impact the demand for, and value of, our properties. Terrorist attacks, other armed hostilities, or civil unrest in and around any of the major metropolitan areas in which we own properties also could directly impact the value of our properties through damage, destruction, loss, or increased security costs, and could thereafter materially impact the availability or cost of insurance to protect against such acts. Attacks, armed conflicts, or civil unrest could result in increased operating costs including building security, property and casualty insurance, and property maintenance. As a result of terrorist activities, other armed hostilities or civil unrest, the cost of insurance coverage for our properties could also increase. In addition, our insurance policies may not recover all our property replacement costs and lost revenue resulting from an attack. A decrease in demand could also make it difficult to renew or re- lease our properties at lease rates equal to or above historical rates. To the extent that any future terrorist attacks, armed hostilities, or civil unrest otherwise disrupt our tenants' businesses, it may impair our tenants' ability to make timely payments under their existing leases with us, which would harm our operating results. We face risks related to the occurrence of ~~cyber~~ **cybersecurity** incidents, or a deficiency in our ~~cybersecurity~~ **information systems** , which could negatively impact our business by causing a disruption to our operations, a compromise or corruption of our confidential information, and / or damage to our business relationships, all of which could negatively impact our financial results. A ~~cyber~~ **cybersecurity** incident is considered to be **an unauthorized occurrence, or a series of related unauthorized occurrences, on or conducted through our information systems that jeopardizes the confidentiality, integrity, or availability of our**

information systems or any ~~adverse event that threatens the confidentiality, integrity, functionality, or availability of our~~ information **residing therein** ~~resources and systems. More specifically, a cyber incident is an intentional attack or an unintentional event that can include gaining unauthorized access to systems to disrupt building or corporate operations, corrupt data, or steal confidential information~~ . While we have not experienced any material ~~cyber~~ **cybersecurity** incidents in the past, the risk of **such an incident** ~~a security breach or disruption, particularly through cyber attacks or cyber intrusion~~ , including ~~by~~ **as a result of** computer hackers, foreign governments and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. As our reliance on technology has increased, so have the risks posed to our systems, both internal and those we have outsourced. Risks that could directly result from the occurrence of a ~~cyber~~ **cybersecurity** incident include physical harm to occupants of our buildings, physical damage to our buildings, actual cash loss, operational interruption **, regulatory investigations, fines and orders, litigation** , damage to our relationship and reputation with our tenants, potential errors from misstated financial reports, violations of loan covenants, missed reporting deadlines, and private data exposure, among others. Any or all of the preceding risks could have a material adverse effect on our results of operations, financial condition and cash flows. Insider or employee cyber and security threats **, including as a result of social engineering and phishing attempts,** are increasingly a concern for all companies, including ours. ~~In addition, social engineering and phishing are a particular concern for companies with employees.~~ We are continuously working to install new networks and to upgrade our existing networks, building operating and information technology systems, and to train employees against phishing, malware and other cyber risks to ensure that we are protected, to the greatest extent possible, against ~~cyber~~ **cybersecurity** risks and **incidents** ~~security breaches~~ . However, such upgrades, new technology and training may not be sufficient to protect us from all risks. We are continuously developing and enhancing our controls, processes, and practices designed to protect our systems, computers, software, data, and networks from attack, damage, or unauthorized access. This continued development and enhancement will require us to expend additional resources, including to investigate and remediate any information security vulnerabilities that may be detected. Although we make efforts to maintain the security and integrity of these types of information technology networks and related systems, and despite various measures we have implemented to manage the risk of a security breach or disruption, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well protected information, networks, systems and facilities remain potentially vulnerable because the techniques used in such attempted security breaches evolve and generally are not recognized until launched against a target, and in some cases are designed to not be detected. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is impossible for us to entirely mitigate this risk. Further, one or more of our tenants could experience a cyber incident which could impact their operations and ability to perform under the terms of their lease with us. Uninsured losses or losses in excess of our insurance coverage could adversely affect our financial condition and our cash flow, and there can be no assurance as to future costs and the scope of coverage that may be available under insurance policies. We carry comprehensive general liability, fire, rental loss, environmental, cybersecurity, and umbrella liability coverage on all of our properties and earthquake, wind, and flood coverage on properties in areas where such coverage is warranted. We believe the policy specifications and insured limits of these policies are adequate and appropriate given the relative risk of loss, the cost of the coverage, and industry practice. However, we may be subject to certain types of losses, those that are generally catastrophic in nature, such as losses due to wars, conventional or cyber terrorism, armed hostilities, chemical, biological, nuclear and radiation (" CBNR ") acts of terrorism and, in some cases, earthquakes, hurricanes, and flooding, either because such coverage is not available or is not available at commercially reasonable rates. If we experience a loss that is uninsured or that exceeds policy limits, we could lose a significant portion of the capital we have invested in the damaged property, as well as the anticipated future revenue from the property. Inflation, changes in building codes and ordinances, environmental considerations, and other factors also might make it impractical or undesirable to use insurance proceeds to replace a property after it has been damaged or destroyed. In addition, if the damaged properties are subject to recourse indebtedness, we would continue to be liable for the indebtedness, even if these properties were irreparably damaged. Furthermore, we may not be able to obtain adequate insurance coverage at reasonable costs in the future, as the costs associated with property and casualty renewals may be higher than anticipated. In addition, insurance risks associated with potential terrorist acts could sharply increase the premiums we pay for coverage against property and casualty claims. Under the Terrorism Risk Insurance Act, which is currently effective through December 31, 2027, United States insurers cannot exclude conventional (non- CBNR) terrorism losses and must make terrorism insurance available under their property and casualty insurance policies. However, this legislation does not regulate the pricing of such insurance. In some cases, lenders may insist that commercial property owners purchase coverage against terrorism as a condition of providing financing. Such insurance policies may not be available at a reasonable cost, which could inhibit our ability to finance or refinance our properties. In such instances, we may be required to provide other financial support, either through financial assurances or self- insurance, to cover potential losses. We may not have adequate coverage for such losses. Should one of our insurance carriers become insolvent, we would be adversely affected. We carry several different lines of insurance, placed with several large insurance carriers. If any one of these large insurance carriers were to become insolvent, we would be forced to replace the existing insurance coverage with another suitable carrier, and any outstanding claims would be at risk for collection. In such an event, we cannot be certain that we would be able to replace the coverage at similar or otherwise favorable terms. Replacing insurance coverage at unfavorable rates and the potential of uncollectible claims due to carrier insolvency could adversely impact our results of operations and cash flows. Our joint venture investments could be adversely affected by a lack of sole decision- making authority and our reliance on joint venture partners' financial condition. From time to time we may enter into strategic joint ventures with institutional investors to acquire, develop, or improve properties, thereby reducing the amount of capital required by us to make investments and diversifying our capital sources for growth. Such joint venture investments involve risks not otherwise present in a wholly- owned property, development, or redevelopment project, including the following: • in these investments, we may not have exclusive control over the development, financing, leasing, management, and other aspects of the project, which may prevent us from taking actions that are opposed by our joint venture partners; • joint venture agreements often restrict the transfer of a co- venturer' s interest or may otherwise restrict our ability to sell the interest when we desire or on advantageous terms; • we may not be in a position to exercise sole decision- making authority regarding the property or joint venture, which could create the potential risk of creating impasses on decisions, such as acquisitions or sales; • such co- venturer may, at any time, have economic or business interests or goals that are, or that may become, inconsistent with our business interests or goals; • such co- venturer may be in a position to take action contrary to our instructions, requests, policies or objectives, including our current policy with respect to maintaining our qualification as a REIT; • the possibility that our co- venturer in an investment might become bankrupt, which would mean that we and any other remaining co- venturers would generally remain liable for the joint venture' s liabilities; • our relationships with our co- venturers are contractual in nature and may be terminated or dissolved under the terms of the applicable joint venture agreements and, in such event, we may not continue to own or operate the interests or assets underlying such relationship or may need to purchase such interests or assets at a premium to the market price to continue ownership; • disputes between us and our co- venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and board of directors from focusing their time and efforts on our business and could result in subjecting the properties owned by the applicable joint venture to additional risk; or • we may, in certain circumstances, be liable for the actions of our co- venturers, and the activities of a joint venture could adversely affect our ability to qualify as a REIT, even though we do not control the joint venture. Any of the above might subject a property to liabilities in excess of those contemplated and thus reduce the returns to our investors. Costs of complying with governmental laws and regulations may reduce our net income **and cash flows** . 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. In addition, under the Americans with Disabilities Act (" ADA"), places of public accommodation must meet certain federal requirements related to access and use by disabled persons. Tenants' ability to operate and to generate income to pay their lease obligations may be affected by permitting and compliance obligations arising under such laws and regulations. Some of these laws and regulations may impose joint and several liability on tenants, owners, or operators for the costs to investigate or remediate contaminated properties, regardless of fault or whether the acts causing the contamination were legal. Noncompliance with ADA could result in the imposition of fines by the federal government or the award of damages to private litigants. In addition, the presence of hazardous substances, or the failure to properly remediate these substances, may hinder our ability to sell, rent, or pledge such property as collateral for future borrowings. Compliance with new laws or regulations or stricter interpretation of existing laws by agencies or the courts may require us to incur material expenditures or may impose additional liabilities on us, including environmental liabilities. In addition, there are various local, state, and federal fire, health, life- safety, and similar regulations with which we may be required to comply, and which may subject us to liability in the form of fines or damages for noncompliance. Although we believe that our properties are currently in material compliance with these regulatory requirements, we have not conducted an audit or investigation of all of our properties to determine our compliance, and we cannot predict the ultimate cost of compliance. Any material expenditures, liabilities, fines, or damages we must pay will reduce our net income and cash flows. As the present or former owner or operator of real property, we could become subject to liability for environmental contamination, regardless of whether we caused such contamination. Under various federal, state, and local environmental laws, ordinances, and regulations, a current or former owner or operator of real property may be liable for the cost to remove or remediate hazardous or toxic substances, wastes, or petroleum products on, under, from, or in such property. These costs could be substantial and liability under these laws may attach whether or not the owner or operator knew of, or was responsible for, the presence of such contamination. As a result, our tenants' operations, the existing condition of land when we buy it, operations in the vicinity of our properties such as the presence of underground storage tanks or activities of unrelated third parties may affect our properties. Even if more than one party may have been responsible for the contamination, each liable party may be held entirely responsible for all of the clean- up costs incurred. In addition, third parties may sue the owner or operator of a property for damages based on personal injury, natural resources, or property damage and / or for other costs, including investigation and clean- up costs, resulting from the environmental contamination. The presence of contamination on one of our properties, or the failure to properly remediate a contaminated property, could give rise to a lien in favor of the government for costs it may incur to address the contamination, or otherwise adversely affect our ability to sell or lease the property or borrow using the property as collateral. In addition, if contamination is discovered on our properties, environmental laws may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require substantial expenditures or prevent us from entering into leases with prospective tenants. Some of our properties are adjacent to or near other properties that have contained or currently contain underground storage tanks used to store petroleum products or other hazardous or toxic substances. In addition, certain of our properties are on, adjacent to, or near sites upon which others, including former owners or tenants of our properties, have engaged, or may in the future engage, in activities that have released or may have released petroleum products or other hazardous or toxic substances. The cost of defending against claims of liability, of remediating any contaminated property, or of paying personal injury claims could reduce our net income and cash flows. We could become subject to liability for adverse environmental conditions in the buildings on our property. Some of our properties have building materials that contain asbestos. Environmental laws require that owners or operators of buildings containing asbestos properly manage and maintain the asbestos, adequately inform or train those who may come into contact with asbestos, and undertake special precautions, including removal or other abatement, in the event that asbestos is disturbed during building renovation or demolition. These laws may impose fines and penalties on building owners or operators who fail to comply with these requirements. In addition, environmental laws and the common law may allow third parties to seek recovery from owners or operators for personal injury associated with exposure to asbestos. Our properties also may contain or develop harmful mold or suffer from other air quality issues. Any of these materials or conditions could result in liability for personal injury and costs of remediating adverse conditions, which could have an adverse effect on our results of operations or cash flows. As the owner of real property, we could become subject to liability for a tenant' s failure to comply with environmental requirements regarding the handling and disposal of regulated substances and wastes or for non-compliance with health and safety requirements, which requirements are subject to change. Some of our tenants may handle regulated substances and wastes as part of their operations at our properties. Environmental laws regulate the handling, use, and disposal of these materials and subject our tenants, and potentially us, to liability resulting from non- compliance with these requirements. The properties in our portfolio also are subject to various federal, state, and local health and safety requirements, such as state and local fire requirements. If we or our tenants fail to comply with these various requirements, we might incur governmental fines or private damage awards. Moreover, we do not know whether or the extent to which existing requirements or their enforcement will change or whether future requirements will require us to make significant unanticipated expenditures, either of which could materially and adversely impact our financial condition, results of operations or cash flows. If our tenants become subject to liability for noncompliance, it could affect their ability to make rental payments to us. We face risks associated with the physical effects of climate change. The physical effects of climate change could have a material adverse effect on our properties, operations, and business. The majority of our portfolio of properties is located along the Eastern coast of the United States. Our markets could experience increases in rainfall, storm intensity, larger flood zones, water shortages, hurricanes, changing temperature averages or extremes, or rising sea- levels as a result of global climate change. Over time, these conditions could result in physical damage to our buildings or a decline in demand for office space in our buildings. Climate change could also indirectly negatively impact our business by causing increased costs associated with energy, storm cleanup, or property and casualty or flood insurance premiums, deductibles, claims or liabilities, or a decrease in or unavailability of coverage, for properties in areas subject to severe weather. We may face risks associated with the transition to a lower- carbon economy. Transitioning to a lower- carbon economy may entail extensive policy, legal, technological, and market changes to address mitigation and adaption requirements related to climate change. Depending on the nature, speed, and focus of these changes, transition risks may pose varying levels of financial and reputational risk to us or our tenants. Policy action around climate change such as implementing carbon- pricing mechanisms to reduce green house gas emission, shifting energy use toward lower emission sources, adopting energy- efficiency solutions, encouraging greater water efficiency measures, and promoting more sustainable land- use practices can result in financial impacts to both us and our tenants, including additional costs of auditing and reporting such data. Alterations to third- party certifications / ratings may impact investor or tenant demand and consequential valuation for buildings with lower scoring. Climate related litigation claims can result in financial and reputational damage. Technology improvements or innovations that support the transition to a lower- carbon, energy efficient economic system and shifts in supply and demand for certain commodities, products, and services as climate- related risks and opportunities are increasingly taken into account may affect the strength and competitiveness of our tenants' business, and ultimately their ability to meet their rental obligations to us. Climate change has also been identified as a potential source of reputational risk tied to changing customer or community perceptions of an organization' s contribution to or detraction from the transition to a lower- carbon economy. We depend on key personnel, each of whom would be difficult to replace. Our continued success depends to a significant degree upon the continued contributions of certain key personnel, each of whom would be difficult to replace. Our ability to retain our management team, or to attract suitable replacements should any member of the management team leave, is dependent on the competitive nature of the employment market. The loss of services of one or more key members of our management team could adversely affect our results of operations and slow our future growth. While we have planned for the succession of each of the key members of our management team, our succession plans may not effectively prevent any adverse effects from the loss of any member of our management team. We have not obtained and do not expect to obtain " key person " life insurance on any of our key personnel. We may be subject to litigation, which could have a material adverse effect on our financial condition. From time to time, we may be subject to legal action arising in the ordinary course of our business or otherwise. Such action could distract key personnel from management of the company and result in additional expenses which, if uninsured, could adversely impact our earnings and cash flows, thereby impacting our ability to service our debt and make distributions to our stockholders. There can be no assurance that our insurance policies will fully cover any payments or legal costs associated with any potential legal action. Further, the ultimate resolution of such action could impact the availability or cost of some of our insurance coverage, which could adversely impact our results of operations and cash flows, expose us to increased risks that would be uninsured, or adversely impact our ability to attract officers and candidates for our board of directors. If our disclosure controls or internal controls over financial reporting are not effective, investors could lose confidence in our reported financial information. The design and effectiveness of our disclosure controls and procedures and our internal control over financial reporting may not prevent all errors, misstatements, or misrepresentations. Although management will continue to review the effectiveness of our disclosure controls and procedures and our internal control over financial reporting, there can be no guarantee that these processes will be effective in accomplishing all control objectives all of the time. Deficiencies, including any material weakness, in our internal control over financial reporting which may occur in the future could result in misstatements of our results of operations, restatements of our financial statements, a decline in the trading price of our common stock, or otherwise materially adversely affect our business, reputation, results of operations, financial condition, or liquidity. Risks Related to Our Organization and Structure Our organizational documents contain provisions that may have an anti- takeover effect, which may discourage third parties from conducting a tender offer or seeking other change of control transactions that could involve a premium price for our common stock or otherwise benefit our stockholders. Our charter and bylaws contain provisions that may have the effect of delaying, deferring, or preventing a change in control of our company (including an extraordinary transaction such as a merger, tender offer, or sale of all or substantially all of our assets) that might provide a premium price for our common stock or otherwise be in the best interest of our stockholders. These provisions include, among other things, restrictions on the ownership and transfer of our stock, advance notice requirements for stockholder nominations for our board of directors and other business proposals, and our board of directors' power to classify or reclassify unissued shares of common or preferred stock and issue additional shares of common or preferred stock. In order to preserve our REIT status, our charter limits the number of shares a person may own, which may discourage a takeover that could result in a premium price for our common stock or otherwise benefit our stockholders. Our charter, with certain exceptions, authorizes our board of directors to take such actions as are necessary and desirable to preserve our qualification as a REIT for federal income tax purposes. Unless exempted by our board of directors, no person may actually or constructively own more than 9. 8 % (by value or number of shares, whichever is more restrictive) of the outstanding shares of our common stock or the outstanding shares of any class or series of our preferred stock, which may inhibit large investors from desiring to purchase our stock. This restriction may have the effect of delaying, deferring, or preventing a change in control, including an extraordinary transaction (such as a merger, tender offer, or sale of all or substantially all of our assets) that might provide a premium price for our common stock or otherwise be in the best interest of our stockholders. Our board of directors can take many actions without stockholder approval. Our board of directors has overall authority to oversee our operations and determine our major corporate policies. This authority includes significant flexibility. For example, our board of directors can do the following: • within the limits provided in our charter, prevent the ownership, transfer, or accumulation of stock in order to protect our status as a REIT or for any other reason deemed to be in our best interest and the interest of our stockholders; • issue additional shares of stock without obtaining stockholder approval, which could dilute the ownership of our then- current stockholders; • amend our charter to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue, without obtaining stockholder approval; • classify or reclassify any unissued shares of our common or preferred stock and set the preferences, rights and other terms of such classified or reclassified shares, without obtaining stockholder approval; • employ and compensate affiliates; • direct our resources toward investments, which ultimately may not appreciate over time; • change creditworthiness standards with respect to our tenants; • change our investment or borrowing policies; and • determine that it is no longer in our best interest to attempt to qualify, or to continue to qualify, as a REIT. Any of these actions could increase our operating expenses, impact our ability to make distributions, or reduce the value of our assets without giving our stockholders the right to vote. Our charter permits our board of directors to issue stock with terms that may subordinate the rights of our common stockholders, which may discourage a third party from acquiring us in a manner that could result in a premium price for our common stock or otherwise benefit our stockholders. Our board of directors may, without stockholder approval, issue authorized but unissued shares of our common or preferred stock and amend our charter to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue. In addition, our board of directors may, without stockholder approval, classify or reclassify any unissued shares of our common or preferred stock and set the preferences, rights and other terms of such classified or reclassified shares. Thus, our board of directors could authorize the issuance of preferred stock with terms and conditions that could have priority with respect to distributions and amounts payable upon liquidation over the rights of the holders of our common stock. Such preferred stock also could have the effect of delaying, deferring, or preventing a change in control, including an extraordinary transaction (such as a merger, tender offer, or sale of all or substantially all of our assets) that might provide a premium price for our common stock, or otherwise be in the best interest of our stockholders. Our board of directors could elect for us to be subject to certain Maryland law limitations on changes in control that could have the effect of preventing transactions in the best interest of our stockholders. Certain provisions of Maryland law may have the effect of inhibiting a third party from making a proposal to acquire us, or these certain provisions may also impede a change of control under certain circumstances that otherwise could provide the holders of shares of our common stock with the opportunity to realize a premium over the then- prevailing market price of such shares, including: • " business combination " provisions that, subject to limitations, prohibit certain business combinations between us and an " interested stockholder " (defined generally as any person who beneficially owns 10 % or more of the voting power of our outstanding voting stock or any affiliate or associate of ours who, at any time within the two- year period prior to the date in question, was the beneficial owner of 10 % or more of the voting power of our then outstanding stock) or an affiliate thereof for five years after the most recent date on which the stockholder becomes an interested stockholder and thereafter impose supermajority voting requirements on these combinations; and • " control share " provisions that provide that " control shares " of our company (defined as shares which, when aggregated with other shares controlled by the stockholder, except solely by virtue of a revocable proxy, entitle the stockholder to exercise one of three increasing ranges of voting power in electing candidates for the board of directors) acquired in a " control share acquisition " (defined as the direct or indirect acquisition of ownership or control of " control shares ") have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two- thirds of all the votes entitled to be cast on the matter, excluding all interested shares. Our bylaws contain a provision exempting any acquisition by any person of shares of our stock from the control share acquisition statute, and our board of directors has adopted a resolution exempting any business combination with any person from the business combination statute. As a result, these provisions currently will not apply to a business combination or control share acquisition involving our company. However, our board of directors still has the ability to opt into the business combination provisions and the control share provisions of Maryland law in the future. Our charter, our bylaws, the limited partnership agreement of our operating partnership, and Maryland law also contain other provisions that may delay, defer, or prevent a transaction or a change of control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders. In addition, the employment agreements with certain of our executive officers contain, and grants under our incentive plan also may contain, change- in- control provisions that might similarly have an anti- takeover effect, inhibit a change of our management, or inhibit in certain circumstances tender offers for our common stock or proxy contests to change our board. Our rights and the rights of our stockholders to recover claims against our board of directors and officers are limited, which could reduce our recovery and our stockholders' recovery against them if they negligently cause us to incur losses. Maryland law provides that a director or officer has no liability in that capacity if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interest and with the care that an ordinarily prudent person in a like position would use under similar circumstances. Our charter eliminates our board of 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 board of 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 members of the board of 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 board of directors and officers than might otherwise exist under common law, which could reduce our and our stockholders' recovery from these persons if they act in a negligent manner. In addition, we may be obligated to fund the defense costs incurred by our board of directors and officers (as well as by our employees and agents) in some cases. Risks Related to Tax Matters Our failure to qualify as a REIT could adversely affect our operations and our ability to make distributions. We are owned and operated in a manner intended to qualify us as a REIT for U. S. federal income tax purposes; however, we do not have a ruling from the IRS as to our REIT status. In addition, we own all of the common stock of a subsidiary that has elected to be treated as a REIT, and if our subsidiary REIT were to fail to qualify as a REIT, it is possible that we also would fail to qualify as a REIT unless we (or the subsidiary REIT) could qualify for certain relief provisions. Our qualification and the qualification of our subsidiary REIT as a REIT will depend on satisfaction, on an annual or quarterly basis, of numerous requirements set forth in highly technical and complex provisions of the Code for which there are only limited judicial or administrative interpretations. A determination as to whether such requirements are satisfied involves various factual matters and circumstances not entirely within our control. The fact that we hold substantially all of our assets through our operating partnership and its subsidiaries further complicates the application of the REIT requirements for us. No assurance can be given that we, or our subsidiary REIT, will qualify as a REIT for any particular year. If we, or our subsidiary REIT, were to fail to qualify as a REIT in any taxable year for which a REIT election has been made, the non- qualifying REIT would not be allowed a deduction for dividends paid to its stockholders in computing its taxable income and would be subject to U. S. federal income tax on its taxable income at corporate rates. Moreover, unless the non- qualifying REIT were to obtain relief under certain statutory provisions, the non- qualifying REIT also would be disqualified from treatment as a REIT for the four taxable years following the year during which qualification is lost. This treatment would reduce our net earnings available for investment or distribution to our stockholders because of the additional tax liability to us for the years involved. As a result of such additional tax liability, we might need to borrow funds or liquidate certain investments on terms that may be disadvantageous to us in order to pay the applicable tax. Failure of our operating partnership to be treated as a disregarded entity or a partnership would have serious adverse consequences to our stockholders. If the IRS were to successfully challenge the tax status of the operating partnership or any of its subsidiary partnerships or real estate ventures for federal income tax purposes, the operating partnership or the affected partnership or real estate venture would be taxable as a corporation. In such event, we would cease to qualify as a REIT and the imposition of a corporate tax on the operating partnership, subsidiary partnership, or real estate venture would reduce the amount of cash available for distribution from the operating partnership to us and ultimately to our stockholders. Changes in tax laws may eliminate the benefits of REIT status, prevent us from maintaining our qualification as a REIT, or otherwise adversely affect our stockholders. New legislation, regulations, administrative interpretations or court decisions could change the tax laws or interpretations of the tax laws regarding qualification as a REIT, or the federal income tax consequences of that qualification, in a manner that is materially adverse to our stockholders. In particular, the Tax Cuts and Jobs Act (" H. R. 1"), which was effective for us for tax year 2018, made many significant changes to the U. S. federal income tax laws. A number of the changes that affected noncorporate taxpayers will expire at the end of 2025 unless Congress acts to extend them. These changes impacted us, our stockholders, and our tenants in various ways and the IRS continues to issue clarifying guidance with respect to certain of the provisions of H. R. 1, any of which may be adverse or potentially adverse compared to prior law. Additional changes to tax laws are likely to continue to occur in the future. Accordingly, there is no assurance that we can continue to operate with the current benefits of our REIT status or that a change to the tax laws will not adversely affect the taxation of our stockholders. If there is a change in the tax laws that prevents us from qualifying as a REIT, that eliminates REIT status generally, or that requires REITs generally to pay corporate level income taxes, our results of operations may be adversely affected and we may not be able to make the same level of distributions to our stockholders, and changes to the taxation of our stockholders could have an adverse effect on an investment in our common stock. Investors are urged to consult with their own tax advisor with respect to the impact of recent legislation on ownership of shares and the status of legislative, regulatory, or administrative developments and proposals, and their potential effect on ownership of shares. Even if we qualify as a REIT, we may incur certain tax liabilities that would reduce our cash flow and impair our ability to make distributions. Even if we maintain our status as a REIT, we may be subject to U. S. federal income taxes or state taxes, which would reduce our cash available for distribution to our stockholders. For example, we will be subject to federal income tax on any undistributed REIT taxable income. Further, if we fail to distribute during each calendar year at least the sum of (a) 85 % of our ordinary income for such year, (b) 95 % of our net capital gain income for such year, and (c) any undistributed taxable income from prior periods, we will be subject to a 4 % excise tax on the excess of the required distribution over the sum of (i) the amounts actually distributed by us, plus (ii) retained amounts on which we pay income tax at the corporate level. If we realize net income from foreclosure properties that we hold primarily for sale to customers in the ordinary course of business, we must pay tax thereon at the highest corporate income tax rate, and if we sell a property, other than foreclosure property, that we are determined to have held for sale to customers in the ordinary course of business, any gain realized would be subject to a 100 % " prohibited transaction " tax. The term " prohibited transaction " generally includes a sale or other disposition of property (other than foreclosing property) that is held primarily for sale to customers in the ordinary course of a trade or business. The determination as to whether or not a particular sale is a prohibited transaction depends on the facts and circumstances related to that sale. We cannot guarantee that sales of our properties would not be prohibited transactions unless we comply with certain safe- harbor provisions. The need to avoid prohibited transactions could cause us to forgo or defer sales of properties that might otherwise be in our best interest to sell. In addition, we own interests in certain taxable REIT subsidiaries that are subject to federal income taxation and we and our subsidiaries may be subject to state and local taxes on our income or property. Differences between the recognition of taxable income and the actual receipt of cash could require us to sell assets or borrow funds on a short- term or long- term basis to meet the distribution requirements of the Code. We intend to make distributions to our stockholders to comply with the requirements of the Code for REITs and to minimize or eliminate our corporate tax obligations; however, differences between the recognition of taxable income and the actual receipt of cash could require us to sell assets or borrow funds on a short- term or long- term basis to meet the distribution requirements of the Code. Certain types of assets generate substantial disparity between taxable income and available cash, such as real estate that has been financed through financing structures which require some or all of available cash flows to be used to service borrowings. In addition, changes made by H. R. 1 will require us to accrue certain income for U. S. federal income tax purposes no later than when such income is taken into account as revenue on our financial statement (subject to an exception for certain income that is already subject to a special method of accounting under the Code). This could cause us to recognize taxable income prior to the receipt of the associated cash. H. R. 1 also includes limitations on the deductibility of certain compensation paid to our executives, certain interest payments, and certain net operating loss carryforwards, each of which could potentially increase our taxable income and our required distributions. Under H. R. 1, federal net operating losses incurred in taxable years beginning after December 31, 2017 can be carried forward indefinitely. Net operating losses of a REIT may not be carried back to any taxable year, regardless of whether the taxpayer qualified as a REIT in such taxable year. In addition, for taxable years beginning after December 31, 2017, H. R. 1 limits the deduction of net operating losses to 80 % of current year taxable income (determined without regard to the deduction for dividends paid). Additionally, Section 163 (j) of the Code, as amended by H. R. 1, limits the deductibility of net interest expense paid or accrued on debt properly allocable to a trade or business to 30 % of " adjusted taxable income, " subject to certain exceptions, plus the taxpayer' s business interest income for the tax year. As a result, the requirement to distribute a substantial portion of our taxable income could cause us to: (1) sell assets in adverse market conditions, (2) borrow on unfavorable terms, or (3) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures, or repayment of debt, in order to comply with REIT requirements. Any such actions could increase our costs and reduce the value of our common stock. Further, we may be required to make distributions to our stockholders when it would be more advantageous to reinvest cash in our business or when we do not have funds readily available for distribution. Compliance with REIT qualification requirements may, therefore, hinder our ability to operate solely on the basis of maximizing profits. Distributions made by REITs do not qualify for the reduced tax rates that apply to certain other corporate distributions. The maximum federal income tax rate for certain dividends paid by domestic corporations to individuals, trusts and estates is generally 20 %. Dividends paid by REITs, however, (other than distributions we properly designate as capital gain dividends or as qualified dividend income) are taxed at the normal income tax rate applicable to the individual recipient (currently a maximum rate of 37 %) rather than the 20 % preferential rate, subject to a deduction equal to 20 % of the amount of certain " qualified REIT dividends " (generally, dividends received by a REIT stockholder that are not designated as capital gain dividends or qualified dividend income) that is available to noncorporate taxpayers through 2025, which has the effect of reducing the maximum effective income tax rate on qualified REIT dividends to 29. 6 %. The more favorable rates applicable to regular corporate dividends could cause investors who are individuals to perceive investments in REITs to be relatively less attractive than investments in non- REIT corporations that make distributions, particularly after the scheduled expiration of the 20 % deduction applicable to qualified REIT dividends on December 31, 2025. A recharacterization of transactions undertaken by our operating partnership may result in lost tax benefits or prohibited transactions, which would diminish cash distributions to our stockholders, or even cause us to lose REIT status. The IRS could recharacterize transactions consummated by our operating partnership, which could result in the income realized on certain transactions being treated as gain realized from the sale of property that is held as inventory or otherwise held primarily for the sale to customers in the ordinary course of business. In such event, the gain would constitute income from a prohibited transaction and would be subject to a 100 % tax. If this were to occur, our ability to make cash distributions to our stockholders would be adversely affected. Moreover, our operating partnership may purchase properties and lease them back to the sellers of such properties. While we will use our best efforts to structure any such sale- leaseback transaction such that the lease will be characterized as a " true lease, " thereby allowing us to be treated as the owner of the property for federal income tax purposes, we can give stockholders no assurance that the IRS will not attempt to challenge such characterization. In the event that any such sale- leaseback transaction is challenged and recharacterized as a financing transaction or loan for U. S. federal income tax purposes, deductions for depreciation and cost recovery relating to such property would be disallowed. If a sale- leaseback transaction were so recharacterized, the amount of our adjusted REIT taxable income could be recalculated, which might cause us to fail to meet the distribution requirement for a taxable year. We also might fail to satisfy the REIT qualification asset tests or income tests and, consequently, lose our REIT status. Even if we maintain our status as a REIT, an increase in our adjusted REIT taxable income could cause us to be subject to additional federal and state income and excise taxes. Any federal or state taxes we pay will reduce our cash available for distribution to our stockholders. We face possible adverse changes in state and local tax laws regarding the treatment of REITs and their stockholders, which may result in an increase in our tax liability. From time to time, changes in state and local tax laws or regulations are enacted, including changes to a state' s treatment of REITs and their stockholders, which may result in an increase in our tax liability. Any shortfall in tax revenues for states and municipalities may lead to an increase in the frequency and size of such changes. If such changes occur, we may be required to pay additional taxes on our assets or income. These increased tax costs could adversely affect our financial condition and results of operations and the amount of cash available for distributions to our stockholders. Property taxes may decrease returns on real estate. Real property owned by us will be subject to real property taxes and, in some instances, personal property taxes or franchise taxes. Such real and personal property taxes and franchise taxes may increase as property tax or franchise tax rates change and as the properties are assessed or reassessed by taxing authorities. An increase in property taxes on or franchise taxes related to our real property could affect adversely our financial condition, results of operations, cash flow and ability to make distributions to stockholders and could decrease the value of that real property. Risks Associated with Debt Financing We have incurred and are likely to continue to incur mortgage and other indebtedness, which may increase our business risks. As of December 31, ~~2022~~ **2023** , we had total outstanding indebtedness of approximately $ 2. ~~0~~ **1** billion, including $ 197. 0 million of mortgage debt. Although the instruments governing our indebtedness limit our ability to incur additional indebtedness, these restrictions are subject to a number of qualifications and exceptions and, under certain circumstances, debt incurred in compliance with these restrictions could be substantial. We may incur additional indebtedness to acquire properties or other real estate- related investments, to fund property improvements, and other capital expenditures or for other corporate purposes ~~, such as to repurchase shares of our common stock through repurchase programs that our board of directors have authorized or to fund future distributions to our stockholders~~ . Significant borrowings by us increase the risks of investors' willingness to make an investment in us. Our ability to make payments on our indebtedness and to fund our operations, working capital and capital expenditures, depends on our ability to generate cash in the future. Our cash flow is subject to general economic, industry, financial, competitive, operating, legislative, regulatory and other factors, many of which are beyond our control. Our failure to pay amounts due with respect to any of our indebtedness may constitute an event of default under the instrument governing that indebtedness, which could permit the holders of that indebtedness to require the immediate repayment of that indebtedness in full. Moreover, any acceleration of, or default, with respect to any of our indebtedness could, in turn, constitute an event of default under other debt instruments or agreements, thereby resulting in the acceleration and required repayment of that other indebtedness. Periodically, we may need to refinance all or a portion of our indebtedness on or before maturity. Our ability to refinance our indebtedness or obtain additional financing will depend on, among other things our financial condition, results of operations and market conditions at the time; and restrictions in the agreements governing our indebtedness. As a result, we may not be able to refinance our indebtedness on commercially reasonable terms, or at all. If we do not generate sufficient cash flow from operations, and additional borrowings or refinancings or proceeds of assets sales or other sources of cash are not available to us, we may not have sufficient cash to enable us to meet all of our obligations. Accordingly, if we cannot service our indebtedness, we may have to take actions such as seeking additional equity financing, delaying capital expenditures or strategic acquisitions and alliances. Any of these events or circumstances could have a material adverse effect on our financial condition, results of operations, cash flows, the trading price of our securities and our ability to satisfy our debt service obligations. Rising interest rates may make it difficult for us to finance or refinance properties, which could reduce the number of properties we can acquire, our net income, and the amount of cash distributions we can make. If debt financing is unavailable at reasonable rates, we may not be able to finance the purchase of properties. If we place mortgage debt on properties, we run the risk of being unable to refinance the properties when the loans become due, or of being unable to refinance on favorable terms. If interest rates are higher when we refinance our properties, our income could be reduced. If any of these events occur, our cash flow could be reduced. This, in turn, could reduce cash available for distribution to our stockholders and may hinder our ability to raise more capital by issuing more stock or by borrowing more money. Agreements governing our existing indebtedness contain, and future financing arrangements will likely contain, restrictive covenants relating to our operations, which could limit our ability to make distributions to our stockholders. We are subject to certain restrictions pursuant to the restrictive covenants of our outstanding indebtedness, which may affect our distribution and operating policies and our ability to incur additional debt. Loan documents evidencing our existing indebtedness contain, and loan documents entered into in the future will likely contain, certain operating covenants that limit our ability to mortgage a property or discontinue insurance coverage. In addition, the agreements governing our existing indebtedness contain financial covenants, including certain coverage ratios and limitations on our ability to incur secured and unsecured debt, make dividend payments, sell all or substantially all of our assets, and engage in mergers and consolidations and certain acquisitions. Covenants under our existing indebtedness do, and under any future indebtedness likely will, restrict our ability to pursue certain business initiatives or certain acquisition transactions. In addition, failure to meet any of these covenants, including the financial coverage ratios, could cause an event of default under or accelerate some or all of our indebtedness, which would have a material adverse effect on us. Increases in interest rates would cause the amount of our variable- rate debt payments to also increase and could limit our ability to make distributions to our stockholders. Currently, any outstanding draws on our $ 600 Million Unsecured 2022 Line of Credit and our variable- rate debt instruments which are not subject to hedging under interest rate swap agreements represent our exposure to interest rate changes. In addition, any outstanding draws under the $ 600 Million Unsecured 2022 Line of Credit are subject to Adjusted SOFR locks of various length. However, increases in interest rates could increase our interest costs associated with this variable rate debt to the extent our current locks expire and new balances are drawn under the facility. Such increases would reduce our cash flows and could impact our ability to make distributions to our stockholders. In addition, if we are required to repay existing debt during periods of higher interest rates, we may need to sell one or more of our investments in order to repay the debt, which might not permit realization of the maximum return on such investments. Changes in interest rates could have adverse effects on our cash flows as a result of our interest rate derivative contracts. We have entered into various interest rate derivative agreements to effectively fix our exposure to interest rates under certain of our existing debt facilities. To the extent interest rates are higher than the fixed rate in the respective contract, we would realize cash savings as compared to other market participants. However, to the extent interest rates are below the fixed rate in the respective contract, we would make higher cash payments than other similar market participants, which would have an adverse effect on our cash flows as compared to other market participants. Additionally, there is counterparty risk associated with entering into interest rate derivative contracts. Should market conditions lead to insolvency or make a merger necessary for one or more of our counterparties, or potential future counterparties, it is possible that the terms of our interest rate derivative contracts will not be honored in their current form with a replacement counterparty. The potential termination or renegotiation of the terms of the interest rate derivative contracts as a result of changing counterparties through insolvency or merger could result in an adverse impact on our results of operations and cash flows. ~~The replacement of LIBOR with SOFR may adversely affect our results of operations. The United Kingdom' s Financial Conduct Authority, which regulates LIBOR, has publicly announced that it intends to stop persuading or compelling banks to submit LIBOR rates and will cease publication of USD LIBOR as of June 30, 2023. The Federal Reserve Board (" FRB"), Federal Deposit Insurance Corporation (" FDIC"), and Office of the Comptroller of the Currency (" OCC") have issued supervisory guidance encouraging banks to cease entering into new contracts that use USD LIBOR as a reference rate. The Alternative Reference Rates Committee, which was convened by the Federal Reserve Board and the Federal Reserve Bank of New York, has identified SOFR as its preferred alternative for USD LIBOR. As of December 31, 2022, our $ 250 Million Unsecured 2018 Term Loan had interest rate payments determined based on LIBOR. In addition, we currently have interest rate swaps with a notional value of $ 100 million that also use LIBOR as a reference rate. Even if our financial instruments are successfully transitioned to SOFR, the interest rate payments determined using SOFR may differ from what such interest rate payments would have been using LIBOR, and the interest expense associated with our $ 250 Million Unsecured 2018 Term Loan may increase relative to what such interest expense would have been had LIBOR continued to have been used as the reference rate. Additionally, SOFR may not align with our assets, liabilities, and hedging instruments, which could reduce the effectiveness of certain of our interest rate hedges, and could cause increased volatility in our earnings. We may also incur expenses to amend and adjust our indebtedness and swaps to eliminate any differences caused by the replacement of LIBOR with SOFR. Any of these occurrences could materially and adversely affect our borrowing costs, business and results of operations.~~ A downgrade in our credit ~~rating~~ **ratings , the credit ratings of the Operating Partnership or the credit ratings of our or the Operating Partnership' s unsecured debt securities** could materially adversely affect our business and financial condition. The credit ratings assigned to **us, to the Operating Partnership and to** our **and their** unsecured debt securities could change based upon, among other things, our results of operations and financial condition. If any of the credit rating agencies that have rated **us, the Operating Partnership** ~~our~~ - **or our or their** unsecured debt securities downgrades or lowers ~~its~~ **these** credit ~~rating~~ **ratings** , or if any credit rating agency indicates that it has placed any such rating on a so- called " watch list " for ~~a~~ possible downgrading or lowering or otherwise indicates that its outlook for that rating is negative, it could have a material adverse effect on our costs **(including by increasing interest expense as a result of increases in the state interest rate spreads over reference rates or increased interest rate step- ups on certain of our or the Operating Partnership' s debt instruments)** and availability of capital, which could in turn have a material adverse effect on our financial condition, results of operations, cash flows and our ability to satisfy our debt service obligations. General Risks Any change in our dividend policy could have a material adverse effect on the market price of our common stock. Distributions are authorized and determined by our board of directors in its sole discretion and depend upon a number of factors, including: • cash available for distribution; • our results of operations and anticipated future results of operations; • our financial condition, especially in relation to our anticipated future capital needs of our properties; • the level of reserves we establish for future capital expenditures; • the distribution requirements for REITs under the Code; • the level of distributions paid by comparable listed REITs; • our operating expenses; and • other factors our board of directors deems relevant. We expect to continue to pay quarterly distributions to our stockholders; however, we bear all expenses incurred by our operations, and our funds generated by operations, after deducting these expenses, may not be sufficient to cover desired levels of distributions to our stockholders. Any change in our dividend policy could have a material adverse effect on the market price of our common stock. There are significant price and volume fluctuations in the public markets, including on the exchange which we listed our common stock. The U. S. stock markets, including the NYSE on which our common stock is listed, have historically experienced significant price and volume fluctuations. The market price of our common stock may be highly volatile and could be subject to wide fluctuations and investors in our common stock may experience a decrease in the value of their shares, including decreases unrelated to our operating performance or prospects. If the market price of our common stock declines significantly, stockholders may be unable to resell their shares at or above their purchase price. We cannot assure stockholders that the market price of our common stock will not fluctuate or decline significantly in the future. Some of the factors that could negatively affect our stock price or result in fluctuations in the price or trading volume of our common stock include, but are not limited to, the following: • changes in the perceived demand for office space; • actual or anticipated variations in our quarterly operating results; • changes in our earnings estimates or publication of research reports about us or the real estate industry, although no assurance can be given that any research reports about us will be published or the accuracy of such reports; • changes in our dividend policy; • future sales of substantial amounts of our common stock by our existing or future stockholders; • increases in market interest rates, which may lead purchasers of our stock to demand a higher yield; • changes in market valuations of similar companies; • adverse market reaction to any increased indebtedness we incur in the future; • **change in the credit ratings assigned to us, the Operating Partnership or our or their unsecured debt securities; •** additions or departures of key personnel; • actions by institutional stockholders; • material, adverse litigation judgments; • speculation in the press or investment community; • general market and economic conditions; and • the realization of any of the other risk factors described in this report. Future offerings of debt securities, which would be senior to our common stock upon liquidation, or equity securities, which would dilute our existing stockholders and may be senior to our common stock for the purposes of distributions, may adversely affect the market price of our common stock. We may attempt to increase our capital resources by making additional offerings of debt or equity securities, including medium term notes, senior or subordinated notes and classes of preferred or common stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our common stock or both. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our common stock and diluting their proportionate ownership. Market interest rates may have an effect on the value of our common stock. One of the factors that investors may consider in deciding whether to buy or sell our common stock is our dividend distribution rate as a percentage of our share price, relative to market interest rates. If market interest rates continue to increase, prospective investors may desire a higher yield on our common stock or seek securities paying higher dividends or yields. It is likely that the public valuation of our common stock will be based primarily on our earnings and cash flows and not from the underlying appraised value of the properties themselves. As a result, interest rate fluctuations and capital market conditions can affect the market value of our common stock. For instance, if interest rates continue to rise, it is possible that the market price of our common stock will decrease, because potential investors may require a higher dividend yield on our common stock as market rates on interest- bearing securities, such as bonds, rise. If securities analysts do not publish research or reports about our business or if they downgrade our common stock or our sector, the price of our common stock could decline. The trading market for our common stock relies in part on the research and reports that industry or financial analysts publish about us or our business. We do not control these analysts. Furthermore, if one or more of the analysts who do cover us downgrades our shares or our industry, or the stock of any of our competitors, the price of our shares could decline. If one or more of these analysts ceases coverage of our company, we could lose attention in the market, which in turn could cause the price of our common stock to decline. **The failure of any bank in which we deposit our funds could reduce the amount of cash we have available to pay distributions and make additional investments. The Federal Deposit Insurance Corporation only insures amounts up to $ 250, 000 per depositor. We have cash and cash equivalents and restricted cash deposited in certain financial institutions in excess of federally insured levels. Recently, we have seen the abrupt failure of more than one regional bank. Although we hold cash primarily in the top ten banks in the United States and we did not experience any loss related to the recent bank failures, if any of the banking institutions in which we deposit funds ultimately fails, we may lose amounts of our deposits over federally insured levels. The loss of our deposits could reduce the amount of cash we have available to distribute, to pay down maturing debt, or to invest, and could result in a decline in the value of our stockholders' investment.**