STAG Industrial, Inc.
Form 10-Q
July 23, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2015

OR

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

For the transition period from to .

Commission file number 1-34907

STAG INDUSTRIAL, INC.

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	27-3099608 (IRS Employer Identification No.)
One Federal Street, 23rd Floor Boston, Massachusetts (Address of principal executive offices)	 02110 (Zip Code)

(617) 574-4777

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common and preferred stock as of the latest practicable date.

Class	Outstanding at July 20, 2015
Common Stock ($0.01 par value)	68,077,685
9.0 % Series A Cumulative Redeemable Preferred Stock ($0.01 par value)	2,760,000
6.625 % Series B Cumulative Redeemable Preferred Stock ($0.01 par value)	2,800,000

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Part I. Financial Information

Item 1. Financial Statements

STAG Industrial, Inc.

Consolidated Balance Sheets

(unaudited, in thousands, except share data)

	June 30, 2015	December 31, 2014
Assets		
Rental Property:		
Land	$ 213,732	$ 191,238
Buildings and improvements, net of accumulated depreciation of $129,332 and $105,789, respectively	1,213,895	1,118,938
Deferred leasing intangibles, net of accumulated amortization of $176,789 and $146,026, respectively	256,413	247,904
Total rental property, net	1,684,040	1,558,080
Cash and cash equivalents	11,530	23,878
Restricted cash	7,959	6,906
Tenant accounts receivable, net	19,407	16,833
Prepaid expenses and other assets	24,810	22,531
Interest rate swaps	1,897	959
Due from related parties	99	130
Total assets	$ 1,749,742	$ 1,629,317
Liabilities and Equity		
Liabilities:		
Unsecured credit facility	$ 87,000	$ 131,000
Unsecured term loans	150,000	150,000
Unsecured notes	300,000	180,000
Mortgage notes payable	227,904	225,347
Accounts payable, accrued expenses and other liabilities	23,778	21,558
Interest rate swaps	1,117	873
Tenant prepaid rent and security deposits	12,085	11,480
Dividends and distributions payable	8,032	7,355
Deferred leasing intangibles, net of accumulated amortization of $7,916 and $6,565, respectively	10,090	10,180
Total liabilities	820,006	737,793
Commitments and contingencies (Note 10)		
Equity:		

Preferred stock, par value $0.01 per share, 10,000,000 shares authorized,		
Series A, 2,760,000 shares (liquidation preference of $25.00 per share) issued and outstanding at June 30, 2015 and December 31, 2014	69,000	69,000
Series B, 2,800,000 shares (liquidation preference of $25.00 per share) issued and outstanding at June 30, 2015 and December 31, 2014	70,000	70,000
Common stock, par value $0.01 per share, 100,000,000 shares authorized, 67,925,438 and 64,434,825 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	679	644
Additional paid-in capital	1,010,379	928,242
Common stock dividends in excess of earnings	(258,897)	(203,241)
Accumulated other comprehensive income (loss)	97	(489)
Total stockholders’ equity	891,258	864,156
Noncontrolling interest	38,478	27,368
Total equity	929,736	891,524
Total liabilities and equity	$ 1,749,742	$ 1,629,317

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

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STAG Industrial, Inc.

Consolidated Statements of Operations

(unaudited, in thousands, except per share data)

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Revenue				
Rental income	$ 45,220	$ 35,203	$ 88,470	$ 69,321
Tenant recoveries	7,485	6,279	15,072	11,695
Other income	131	200	283	409
Total revenue	52,836	41,682	103,825	81,425
Expenses				
Property	10,071	8,606	20,316	16,591
General and administrative	7,495	8,283	15,024	13,758
Property acquisition costs	1,187	688	1,505	1,247
Depreciation and amortization	27,257	20,769	53,386	40,623
Loss on impairment	2,645	—	2,645	—
Other expenses	478	193	666	430
Total expenses	49,133	38,539	93,542	72,649
Other income (expense)				
Interest income	2	4	5	8
Interest expense	(8,933)	(5,813)	(16,943)	(11,479)
Gain on sale of rental property	—	—	—	50
Total other income (expense)	(8,931)	(5,809)	(16,938)	(11,421)
Net loss from continuing operations	$ (5,228)	$ (2,666)	$ (6,655)	$ (2,645)
Net loss	$ (5,228)	$ (2,666)	$ (6,655)	$ (2,645)
Less: loss attributable to noncontrolling interest after preferred stock dividends	(397)	(310)	(592)	(766)
Net loss attributable to STAG Industrial, Inc.	$ (4,831)	$ (2,356)	$ (6,063)	$ (1,879)
Less: preferred stock dividends	2,712	2,712	5,424	5,424
Less: amount allocated to unvested restricted stockholders	95	83	196	171
Net loss attributable to common stockholders	$ (7,638)	$ (5,151)	$ (11,683)	$ (7,474)
Weighted average common shares outstanding — basic and diluted	65,285,388	52,865,801	64,788,561	49,023,985
Loss per share — basic and diluted				
Loss from continuing operations attributable to common stockholders	$ (0.12)	$ (0.10)	$ (0.18)	$ (0.15)
Loss per share — basic and diluted	$ (0.12)	$ (0.10)	$ (0.18)	$ (0.15)

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

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STAG Industrial, Inc.

Consolidated Statements of Comprehensive Loss

(unaudited, in thousands)

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Net loss	$ (5,228)	$ (2,666)	$ (6,655)	$ (2,645)
Other comprehensive income (loss):				
Income (loss) on interest rate swaps	4,621	(2,177)	616	(3,260)
Other comprehensive income (loss):	4,621	(2,177)	616	(3,260)
Comprehensive loss	(607)	(4,843)	(6,039)	(5,905)
Net loss attributable to noncontrolling interest after preferred stock dividends	397	310	592	766
Other comprehensive (income) loss attributable to noncontrolling interest	(232)	125	(30)	309
Comprehensive loss attributable to STAG Industrial, Inc.	$ (442)	$ (4,408)	$ (5,477)	$ (4,830)

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

STAG Industrial, Inc.

Consolidated Statements of Equity

(unaudited, in thousands, except share data)

	Preferred Stock	Common Stock Shares	Amount	Additional Paid-in Capital	Common Stock Dividends in Excess of Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Noncontrolling Interest — Unit Holders in Operating Partnership	Total Equity
Six months ended June 30, 2015									
Balance, December 31, 2014	$ 139,000	64,434,852	$ 644	$ 928,242	$ (203,241)	$ (489)	$ 864,156	$ 27,368	$ 891,524
Proceeds from sale of common stock	—	3,305,397	33	71,793	—	—	71,826	—	71,826
Offering costs	—	—	—	(1,154)	—	—	(1,154)	—	(1,154)
Issuance of restricted stock, net	—	87,336	1	(1)	—	—	—	—	—
Issuance of common stock	—	7,029	—	—	—	—	—	—	—
Dividends and distributions, net	(5,424)	—	—	—	(44,169)	—	(49,593)	(2,413)	(52,006)
Non-cash compensation	—	—	—	1,417	—	—	1,417	2,330	3,747
Redemption of common units to common stock	—	90,824	1	1,002	—	—	1,003	(1,003)	—
Redemption of common units for cash	—	—	—	—	—	—	—	(64)	(64)
Issuance of units	—	—	—	—	—	—	—	21,902	21,902
Rebalancing of noncontrolling interest	—	—	—	9,080	—	—	9,080	(9,080)	—
	—	—	—	—	—	586	586	30	616

Other comprehensive income									
Net income (loss)	5,424	—	—	—	(11,487)	—	(6,063)	(592)	(6,655)
Balance, June 30, 2015	$ 139,000	67,925,438	$ 679	$ 1,010,379	$ (258,897)	$ 97	$ 891,258	$ 38,478	$ 929,736
Six months ended June 30, 2014									
Balance, December 31, 2013	$ 139,000	44,764,377	$ 447	$ 577,039	$ (116,877)	$ 3,440	$ 603,049	$ 71,515	$ 674,564
Proceeds from sales of common stock	—	5,188,072	52	119,313	—	—	119,365	—	119,365
Offering costs	—	—	—	(1,944)	—	—	(1,944)	—	(1,944)
Issuance of restricted stock, net	—	101,934	1	(1)	—	—	—	—	—
Issuance of common stock	—	6,015	—	—	—	—	—	—	—
Dividends and distributions, net	(5,424)	—	—	—	(31,731)	—	(37,155)	(2,902)	(40,057)
Non-cash compensation	—	—	—	1,098	—	—	1,098	3,116	4,214
Redemption of common units to common stock	—	5,093,584	51	54,425	—	—	54,476	(54,476)	—
Redemption of common units for cash	—	—	—	—	—	—	—	(342)	(342)
Rebalancing of noncontrolling interest	—	—	—	(5,682)	—	—	(5,682)	5,682	—
Other comprehensive loss	—	—	—	—	—	(2,951)	(2,951)	(309)	(3,260)
Net income (loss)	5,424	—	—	—	(7,303)	—	(1,879)	(766)	(2,645)
Balance, June 30, 2014	$ 139,000	55,153,982	$ 551	$ 744,248	$ (155,911)	$ 489	$ 728,377	$ 21,518	$ 749,895

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

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STAG Industrial, Inc.

Consolidated Statements of Cash Flows

(unaudited, in thousands)

	Six months ended June 30, 2015	2014
Cash flows from operating activities:		
Net loss	$ (6,655)	$ (2,645)
Adjustment to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	53,386	40,623
Non-cash portion of interest expense	507	658
Intangible amortization in rental income, net	4,280	3,019
Straight-line rent adjustments, net	(2,708)	(1,622)
Dividends on forfeited equity compensation	11	128
Loss on impairment	2,645	—
Gain on sale of rental property	—	(50)
Non-cash compensation expense	3,747	4,245
Change in assets and liabilities:		
Tenant accounts receivable, net	37	1,267
Restricted cash	(508)	(500)
Prepaid expenses and other assets	(3,183)	(2,438)
Accounts payable, accrued expenses and other liabilities	1,753	(2,968)
Tenant prepaid rent and security deposits	605	1,068
Due from related parties	31	29
Total adjustments	60,603	43,459
Net cash provided by operating activities	53,948	40,814
Cash flows from investing activities:		
Acquisitions of land and buildings and improvements	(108,893)	(92,402)
Additions to building and other capital improvements	(4,594)	(3,811)
Additions to other assets	(565)	—
Proceeds from sale of rental property, net	—	473
Restricted cash	(545)	781
Acquisition deposits, net	1,095	(178)
Acquisitions of deferred leasing intangibles	(32,907)	(25,472)
Net cash used in investing activities	(146,409)	(120,609)
Cash flows from financing activities:		
Redemption of common units for cash	(64)	(342)
Proceeds from unsecured credit facility	100,000	51,500
Repayment of unsecured credit facility	(144,000)	(96,500)
Proceeds from unsecured term loans	—	50,000
Proceeds from unsecured notes	120,000	—
Repayment of mortgage notes payable	(14,124)	(2,208)
Payment of loan fees and costs	(1,038)	(1,386)

Dividends and distributions	(51,339)	(39,349)
Proceeds from sales of common stock	71,827	119,365
Offering costs	(1,149)	(1,944)
Net cash provided by financing activities	80,113	79,136
Decrease in cash and cash equivalents	(12,348)	(659)
Cash and cash equivalents—beginning of period	23,878	6,690
Cash and cash equivalents—end of period	$ 11,530	$ 6,031
Supplemental disclosure:		
Cash paid for interest	$ 14,412	$ 10,858
Supplemental schedule of non-cash investing and financing activities		
Issuance of units for acquisitions of land and buildings and improvements	$ 16,873	$ —
Issuance of units for acquisitions of deferred leasing intangibles	$ 5,029	$ —
Acquisitions of land and buildings and improvements	$ (29,731)	$ —
Acquisitions of deferred leasing intangibles	$ (8,940)	$ —
Change in additions of land and building and improvements included in accounts payable, accrued expenses, and other liabilities	$ (646)	$ (1,405)
Assumption of mortgage notes payable	$ 16,624	$ —
Fair market value adjustment to mortgage notes payable acquired	$ 145	—
Change in loan fees and costs and offering costs included in accounts payable, accrued expenses, and other liabilities	$ (82)	$ (102)
Dividends and distributions declared but not paid	$ 8,032	$ 6,003

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

STAG Industrial, Inc.

Notes to Consolidated Financial Statements

(unaudited)

1. Organization and Description of Business

STAG Industrial, Inc. (the “Company”) is an industrial real estate operating company focused on the acquisition and management of single-tenant industrial properties throughout the United States. The Company was formed as a Maryland corporation and has elected to be treated and intends to continue to qualify as a real estate investment trust (“REIT”) under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the “Code”). The Company is structured as an umbrella partnership REIT, commonly called an UPREIT, and owns substantially all of its assets and conducts substantially all of its business through its operating partnership, STAG Industrial Operating Partnership, L.P., a Delaware limited partnership (the “Operating Partnership”). As of June 30, 2015 and December 31, 2014, the Company owned a 95.13% and 96.36%, respectively, common equity interest in the Operating Partnership. The Company, through its wholly owned subsidiary, is the sole general partner of the Operating Partnership. As used herein, the “Company” refers to STAG Industrial, Inc. and its consolidated subsidiaries and partnerships, including the Operating Partnership, except where context otherwise requires.

As of June 30, 2015, the Company owned 265 buildings in 37 states with approximately 50.0 million square feet, consisting of 194 warehouse/distribution buildings, 51 light manufacturing buildings and 20 flex/office buildings. The Company also owned four vacant land parcels adjacent to four of the Company’s buildings. Subject to receipt of any required governmental permits, these vacant parcels may be used for building expansion or otherwise sold as developable parcels. The Company’s buildings were approximately 95.0% leased to 242 tenants as of June 30, 2015.

2. Summary of Significant Accounting Policies

Interim Financial Information

The accompanying interim financial statements have been presented in conformity with accounting principles generally accepted in the United States of America (“GAAP”) and with the instructions to Form 10-Q and Regulation S-X for interim financial information. Accordingly, these statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, the accompanying interim financial statements include all adjustments, consisting of normal recurring items, necessary for their fair presentation in conformity with GAAP. Interim results are not necessarily indicative of results for a full year. The year-end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the Company's consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Basis of Presentation

The Company's consolidated financial statements include the accounts of the Company, the Operating Partnership and their subsidiaries. Interests in the Operating Partnership not owned by the Company are referred to as "Noncontrolling Common Units." These Noncontrolling Common Units are held by other limited partners in the form of common units and long term incentive plan units ("LTIP units") issued pursuant to the STAG Industrial, Inc. 2011 Equity Incentive Plan, as amended (the "2011 Plan"). All significant intercompany balances and transactions have been eliminated in the consolidation of entities. The financial statements of the Company are presented on a consolidated basis, for all periods presented.

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Reclassifications and New Accounting Pronouncements

Certain prior year amounts have been reclassified to conform to the current year presentation.

In April of 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-03, Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires incremental debt issuance costs paid to third parties other than the lender to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. Prior to this standard, debt issuance costs paid to third parties other than the lender were presented as an asset on the balance sheet. ASU 2015-03 is effective for the annual period ending December 31, 2016 and for annual periods and interim periods thereafter with early adoption permitted. Upon the adoption of ASU 2015-03, the Company will present debt issuance costs paid to third parties other than the lender as a direct deduction from the carrying value of the associated debt liability.

In August of 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. ASU 2014-15 requires management to evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern, and to provide certain disclosures when it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. ASU 2014-15 is effective for the annual period ending December 31, 2016 and for annual periods and interim periods thereafter with early adoption permitted. The adoption of ASU 2014-15 is not expected to materially impact the Company's consolidated financial statements.

In May of 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. Revenue from a lease contract with a tenant is not within the scope of this revenue standard. In adopting ASU 2014-09, companies may use either a full retrospective or a modified retrospective approach. Additionally, this guidance requires improved disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 is effective for the first interim period within annual reporting periods beginning after December 15, 2017. Early adoption is permitted for the first interim period within annual reporting periods beginning after December 15, 2016. The Company is currently in the process of evaluating the impact the adoption of ASU 2014-09 will have on the Company's financial position or results of operations.

Tenant Accounts Receivable, net

Tenant accounts receivable, net on the Consolidated Balance Sheets, includes both tenant accounts receivable, net and accrued rental income, net. The Company provides an allowance for doubtful accounts against the portion of tenant accounts receivable that is estimated to be uncollectible. As of June 30, 2015 and December 31, 2014, the Company had an allowance for doubtful accounts of $0.3 million and $0.1 million, respectively.

The Company accrues rental income earned, but not yet receivable, in accordance with GAAP. As of June 30, 2015 and December 31, 2014, the Company had accrued rental income of $15.4 million and $12.8 million, respectively. The Company maintains an allowance for estimated losses that may result from those revenues. If a tenant fails to make contractual payments beyond any allowance, the Company may recognize additional bad debt expense in future periods equal to the amount of unpaid rent and accrued rental income. As of June 30, 2015 and December 31, 2014, the Company had an allowance for estimated losses on accrued rental income of $0 and $0, respectively.

As of June 30, 2015 and December 31, 2014, the Company had a total of approximately $6.2 million and $6.7 million, respectively, of total lease security deposits available in the form of existing letters of credit, which are not reflected on the Company's Consolidated Balance Sheets; and $3.9 million and $3.5 million, respectively, of lease security deposits available in cash, which are included in cash and cash equivalents and restricted cash on the accompanying Statements of Consolidated Balance Sheets. These funds may be used to settle tenant accounts receivables in the event of a default under the related lease.

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Revenue Recognition

Tenant Recoveries

By the terms of their leases, certain tenants are obligated to pay directly the costs of their properties' insurance, real estate taxes, ground lease payments, and certain other expenses, and these costs are not reflected on the Company's consolidated financial statements. To the extent any tenant responsible for these costs under its respective lease defaults on its lease or it is deemed probable that the tenant will fail to pay for such costs, the Company would record a liability for such obligation. The Company estimates that real estate taxes, which are the responsibility of these certain tenants, were approximately $2.7 million, $5.2 million, $2.5 million and $5.0 million for the three and six months ended June 30, 2015 and June 30, 2014, respectively. These amounts would have been the maximum expense of the Company had the tenants not met their contractual obligations for these periods. The Company does not recognize recovery revenue related to leases where the tenant has assumed the cost for real estate taxes, insurance, ground lease payments and certain other expenses.

Termination Income

On December 17, 2014, the Company entered into a first lease amendment with the tenant located at the Belfast, ME buildings. The terms of the amendment renewed 90,051 square feet of the premise and early terminated the remaining 228,928 square feet effective November 30, 2015. The tenant is required to pay a termination fee for the returned premise on or before October 31, 2015 in the amount of $2.1 million. On May 18, 2015, the Company entered into a second amendment with the tenant. The terms of the second lease amendment accelerated the termination of 35,295 square feet to April 30, 2015. The Company recognized the termination fee associated with the 35,295 square feet through the shortened lease life of April 30, 2015. The Company continues to recognize the remaining termination fee over the shortened lease life of the remaining 193,633 square feet through November 30, 2015. The termination fee of $0.7 million and $1.2 million for the three and six months ended June 30, 2015, respectively, is included in rental income on the accompanying Consolidated Statements of Operations.

Taxes

Federal Income Taxes

The Company elected to be taxed as a REIT under the Code commencing with its taxable year ended December 31, 2011 and intends to continue to qualify as a REIT. As a REIT, the Company is required to distribute at least 90% of its REIT taxable income to its stockholders and meet the various other requirements imposed by the Code relating to such matters as operating results, asset holdings, distribution levels and diversity of stock ownership. The Company is generally not subject to corporate level income tax on the earnings distributed currently to its stockholders that it derives from its REIT qualifying activities.

The Company will not be required to make distributions with respect to income derived from the activities conducted through subsidiaries that the Company elects to treat as taxable REIT subsidiaries ("TRS") for federal income tax purposes. Certain activities that the Company undertakes must or should be conducted by a TRS, such as performing non-customary services for its tenants and holding assets that it cannot hold directly. A TRS is subject to federal and state income taxes. The Company's TRS had no activity during the three and six months ended June 30, 2015 and June 30, 2014.

State and Local Income, Excise, and Franchise Tax

The Company and certain of its subsidiaries are subject to certain state and local income, excise and franchise taxes. Taxes in the amount of $0.4 million, $0.5 million, $0.1 million and $0.3 million have been recorded in other expenses in the accompanying Consolidated Statements of Operations for the three and six months ended June 30, 2015 and June 30, 2014, respectively.

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Uncertain Tax Positions

Tax benefits of uncertain tax positions are recognized only if it is more likely than not that the tax position will be sustained based solely on its technical merits, with the taxing authority having full knowledge of all relevant information. The measurement of a tax benefit for an uncertain tax position that meets the “more likely than not” threshold is based on a cumulative probability model under which the largest amount of tax benefit recognized is the amount with a greater than 50% likelihood of being realized upon ultimate settlement with the taxing authority having full knowledge of all the relevant information. As of June 30, 2015 and December 31, 2014, there were no liabilities for uncertain tax positions.

3. Rental Property

The following table summarizes the components of rental property as of June 30, 2015 and December 31, 2014 (in thousands):

	June 30, 2015	December 31, 2014
Land	$ 213,732	$ 191,238
Buildings, net of accumulated depreciation of $90,883 and $75,116, respectively	1,129,601	1,042,086
Tenant improvements, net of accumulated depreciation of $24,070 and $20,943, respectively	22,339	22,619
Building and land improvements, net of accumulated depreciation of $14,379 and $9,730, respectively	61,955	54,233
Deferred leasing intangibles, net of accumulated amortization of $176,789 and $146,026, respectively	256,413	247,904
Total rental property, net	$ 1,684,040	$ 1,558,080

Acquisitions

The following table summarizes the acquisitions of the Company during the six months ended June 30, 2015:

Location of property	Square Feet	Buildings		Purchase Price (in thousands)
Burlington, NJ(1)	503,490	1	$	34,883
Greenville, SC	157,500	1		4,800
North Haven, CT	824,727	3		57,400
Three months ended March 31, 2015	1,485,717	5	$	97,083
Plymouth, MI	125,214	1		6,000
Oakwood Village, OH	75,000	1		4,398
Stoughton, MA	250,213	2		10,675
Oklahoma City, OK	223,340	1		12,135
Clinton, TN(1)	166,000	1		5,000
Knoxville, TN	108,400	1		4,750
Fairborn, OH	258,680	1		9,100
El Paso, TX	126,456	1		9,700
Phoenix, AZ	102,747	1		9,500
Charlotte, NC	123,333	1		7,500
Machesney Park, IL	80,000	1		5,050
Three months ended June 30, 2015	1,639,383	12	$	83,808
Six months ended June 30, 2015	3,125,100	17	$	180,891

(1) The Company also acquired a vacant land parcel adjacent to the building. Subject to receipt of any required governmental permits, this vacant parcel may be used for building expansion or otherwise sold as a developable parcel.

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The following table summarizes the allocation of the consideration paid at the date of acquisition during the six months ended June 30, 2015 for the acquired assets and liabilities in connection with the acquisitions of buildings identified in the table above.

Acquired assets and liabilities (dollars in thousands)	Six Months Ended June 30, 2015	Weighted Average Amortization Period (years) Intangibles
Land	$ 23,229	N/A
Buildings	104,906	N/A
Tenant improvements	2,860	N/A
Building and land improvements	7,629	N/A
Deferred leasing intangibles - In-place leases	25,177	5.9
Deferred leasing intangibles - Tenant relationships	13,365	8.5
Deferred leasing intangibles - Above market leases	4,566	7.7
Deferred leasing intangibles - Below market leases	(1,261)	6.5
Above market assumed debt adjustment	(145)	1.1
Other assets	565	N/A
Total purchase price	$ 180,891	
Less: Mortgage notes payable assumed	(16,624)	N/A
Net assets acquired	$ 164,267	

On January 22, 2015, the Company acquired a property located in Burlington, NJ for approximately $34.9 million. As partial consideration for the property acquired, the Company granted 812,676 Noncontrolling Common Units in the Operating Partnership with a fair value of approximately $21.9 million, and the remaining purchase price of approximately $13.0 million was paid by $1.2 million in cash and the assumption of an $11.8 million mortgage note. The mortgage note was immediately paid in full in conjunction with the acquisition. For a discussion of the method used to determine the fair value of the Noncontrolling Common Units issued, see Note 7.

On June 25, 2015, the Company assumed a mortgage note of approximately $4.9 million in connection with the acquisition of the property located in Charlotte, NC. For a discussion of the method used to determine the fair value of the mortgage note, see Note 4.

The table below sets forth the results of operations for the properties acquired during the six months ended June 30, 2015 included in the Company's Consolidated Statements of Operations from the date of acquisition:

Results of operations (in thousands)	For the three months ended June 30, 2015	For the six months ended June 30, 2015
Revenue	$ 3,187	$ 4,071
Property acquisition costs	$ 1,028	$ 1,274
Net loss	$ (827)	$ (1,074)

The following tables set forth pro forma information for the six months ended June 30, 2015 and June 30, 2014, respectively. The below pro forma information does not represent what the actual results of operations of the Company would have been had the acquisitions outlined above occurred on the first day of the applicable reporting period, nor do they predict the results of operations of future periods. The pro forma information has not been adjusted for property sales.

	Six months ended June 30, 2015		
Pro Forma	(in thousands, except share data) (1)		
Total revenue	$	108,134	
Net loss	$	(5,143)	(2)
Net loss attributable to common stockholders	$	(10,245)	

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	Six months ended June 30, 2014		
Pro Forma	(in thousands, except share data) (3)		
Total revenue	$	93,707	
Net loss	$	(4,247)	(2)
Net loss attributable to common stockholders	$	(8,924)	

(1) The pro forma information for the six months ended June 30, 2015 is presented as if the acquisition of the properties acquired during the six months ended June 30, 2015 had occurred at January 1, 2014, the beginning of the reporting period prior to acquisition.
(2) The net loss for the six months ended June 30, 2015 excludes $1.3 million of property acquisition costs related to the acquisition of properties that closed during the six months ended June 30, 2015, and the net loss for the six months ended June 30, 2014 was adjusted to include these acquisition costs. Net loss for the six months ended June 30, 2014 excludes $1.2 million of property acquisition costs related to the acquisition of buildings that closed during the six months ended June 30, 2014.
(3) The pro forma information for the six months ended June 30, 2014 is presented as if the acquisition of the properties acquired during the six months ended June 30, 2015 and the properties acquired during the six months ended June 30, 2014 had occurred at January 1, 2014 and January 1, 2013, respectively, the beginning of the reporting period prior to acquisition.

The Company recorded a loss on impairment for the three and six months ended June 30, 2015 related to a vacant building in Hazelwood, MO. The Company entered into a purchase and sale agreement to sell this property prior to June 30, 2015 to a third party market participant. The Company tested the property for impairment at December 31, 2014 and no impairment was noted. The Company updated the impairment calculation quarterly for changes in assumptions as necessary. The Company tested the property for impairment as of June 30, 2015, and based on the Company's assessment of the various hold and sell scenarios, the Company determined that the property was impaired. Accordingly, the property was written down to its estimated fair value of $4.4 million and the Company recorded a loss on impairment of $2.6 million for the three and six months ended June 30, 2015 on the accompanying Consolidated Statements of Operations. The fair value of the property is based on Level 3 inputs, and this is a non-recurring fair value measurement. Level 3 is defined as unobservable inputs. Since the purchase and sale agreement for the property includes various contingencies, the Company can make no assurance that it will sell the property or, if it does, what the timing of the sale will be.

Deferred Leasing Intangibles

All of the Company's acquisitions are accounted for as a business combination. The Company allocates the purchase price of the property based upon the fair value of the assets and liabilities acquired, which generally consist of land, buildings, tenant improvements, mortgage debt assumed, and deferred leasing intangibles including in place leases, above market and below market leases, and tenant relationships. The portion of the purchase price that is allocated to above and below market leases is valued based on the present value of the difference between prevailing market rates and the in place rates measured over a period equal to the remaining term of the lease for above market leases and the initial term plus the term of any below market lease bargain renewal options. The above market lease values are amortized as a reduction of rental income over the remaining term of the respective leases, and the below market lease values are amortized as an increase to rental income over the remaining term plus the terms of bargain renewal options of the respective leases. The purchase price is further allocated to in place lease values and tenant relationships based on the Company's evaluation of the specific characteristics of each tenant's lease and its overall relationship with the respective tenant. The value of in place lease intangibles and tenant relationships, which are included as components of deferred leasing intangibles, are amortized over the remaining lease term (and expected renewal periods of the respective lease for tenant relationships) as adjustments to depreciation and amortization expense. If a tenant terminates its lease, the unamortized portion of above and below market leases, the in place lease value and tenant relationships are immediately written off.

The purchase price allocated to deferred leasing intangible assets are included in rental property on the accompanying Consolidated Balance Sheets and the purchase price allocated to deferred leasing intangible liabilities are included in the deferred leasing intangibles on the accompanying Consolidated Balance Sheets under the liabilities section.

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Deferred leasing intangibles on the accompanying Consolidated Balance Sheets consist of the following (in thousands):

	June 30, 2015			December 31, 2014		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Above market leases	$ 66,009	$ (28,625)	$ 37,384	63,830	$ (25,381)	$ 38,449
Other intangible lease assets	367,193	(148,164)	219,029	$ 330,100	(120,645)	209,455
Total assets	$ 433,202	$ (176,789)	$ 256,413	$ 393,930	$ (146,026)	$ 247,904
Below market leases	$ 18,006	$ (7,916)	$ 10,090	$ 16,745	$ (6,565)	$ 10,180
Total liabilities	$ 18,006	$ (7,916)	$ 10,090	$ 16,745	$ (6,565)	$ 10,180

The following table sets forth the amortization expense and the net decrease to rental revenue for deferred leasing intangibles amortization during the three and six months ended June 30, 2015 and June 30, 2014, respectively (in millions):

	Three months ended June 30,		Six months ended June 30,	
Deferred Leasing Intangibles Amortization	2015	2014	2015	2014
Net decrease to rental revenue related to above and below market lease amortization	$ 2.2	$ 1.5	$ 4.3	$ 3.0
Amortization expense related to other intangible lease assets	$ 14.7	$ 12.0	$ 29.0	$ 23.5

The amortization of deferred leasing intangibles over the next five years is as follows (in thousands):

	Amortization of Other Intangible Lease Assets	Net Decrease to Rental Revenue Related to Above and Below Market Lease Amortization

Remainder of 2015	$	28,154	$	4,002
2016	$	49,938	$	5,954
2017	$	40,902	$	4,284
2018	$	31,532	$	2,989
2019	$	22,418	$	2,608

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4. Debt

The following table sets forth a summary of the Company's outstanding indebtedness, including borrowings under the Company's unsecured credit facility, unsecured term loans, unsecured notes and mortgage notes payable as of June 30, 2015 and December 31, 2014 (dollars in thousands):

Loan	Interest Rate (1)		Principal outstanding as of June 30, 2015		Principal outstanding as of December 31, 2014		Current Maturity	Pre-payment Terms (2)
Unsecured credit facility:								
$300 Million Wells Fargo Unsecured Credit Facility	L + 1.15	%	$ 87,000		$ 131,000		Dec-18-2019	i
Total unsecured credit facility			$ 87,000		$ 131,000			
Unsecured term loans:								
$150 Million Wells Fargo Unsecured Term Loan A	L + 1.65	%	$ 150,000		$ 150,000		Mar-31-2022	ii
$150 Million Wells Fargo Unsecured Term Loan B	L + 1.70	%	—		—		Mar-21-2021	ii
Total unsecured term loans			$ 150,000		$ 150,000			
Unsecured notes:								
$50 Million Series A Unsecured Notes	4.98	%	$ 50,000		$ 50,000		Oct-1-2024	ii
$50 Million Series B Unsecured Notes	4.98	%	50,000		50,000		Jul-1-2026	ii
$80 Million Series C Unsecured Notes	4.42	%	80,000		80,000		Dec-30-2026	ii
$100 Million Series D Unsecured Notes	4.32	%	100,000		—		Feb-20-2025	ii
$20 Million Series E Unsecured Notes	4.42	%	20,000		—		Feb-20-2027	ii
Total unsecured notes			$ 300,000		$ 180,000			
Mortgage notes payable (secured debt):								
Sun Life Assurance Company of Canada (U.S.)	6.05	%	$ 3,339	(3)	$ 3,445	(3)	Jun-1-2016	ii
Webster Bank, National Association	4.22	%	5,595		5,677		Aug-4-2016	ii

National Life Insurance Company	5.75	%	4,859	(3)	—		Aug-10-2016	iii
Union Fidelity Life Insurance Co.	5.81	%	5,931	(3)	6,103	(3)	Apr-30-2017	ii
Webster Bank, National Association	3.66	%	2,990		3,035		May-29-2017	ii
Webster Bank, National Association	3.64	%	3,221		3,268		May-31-2017	ii
Wells Fargo, National Association	5.90	%	4,148	(3)	4,182	(3)	Aug-1-2017	iv
Connecticut General Life Insurance Company -1 Facility	6.50	%	57,618		58,050		Feb-1-2018	v
Connecticut General Life Insurance Company -2 Facility	5.75	%	58,582		59,065		Feb-1-2018	v
Connecticut General Life Insurance Company -3 Facility	5.88	%	16,526		16,647		Feb-1-2018	v
Wells Fargo Bank, National Association CMBS Loan	4.31	%	64,729		65,567		Dec-1-2022	vi
Total mortgage notes payable			$ 227,538		$ 225,039			
Total unamortized fair market value premium			366	(4)	308	(4)		
Total carrying value mortgage notes payable			$ 227,904		$ 225,347			
Total / weighted average interest rate (5)	4.42	%	$ 764,904		$ 686,347			

(1) Current interest rate as of June 30, 2015. At June 30, 2015 and December 31, 2014, the one-month LIBOR ("L") was 0.18650% and 0.17125%, respectively. The current interest rate presented in the table above are not adjusted to include the amortization of deferred financing fees incurred in obtaining debt or the unamortized fair market value premium.

(2) Prepayment terms consist of (i) pre-payable with no penalty; (ii) pre-payable with penalty; (iii) pre-payable without penalty three months prior to the maturity date; (iv) pre-payable with penalty beginning May 1, 2017, however can be defeased; (v) pre-payable without penalty six months prior to the maturity date; and (vi) not pre-payable, however can be defeased beginning January 1, 2016.

(3) The principal outstanding does not include an unamortized fair market value premium.

(4) Represents total unamortized fair market value premium for the mortgage notes payable referenced by Note (3) above.

(5) The weighted average interest rate was calculated using the fixed interest rate swapped on the current notional amount of $300 million of debt, and excludes fair market value premiums.

As of June 30, 2015, additional borrowing capacity under the unsecured credit facility and the unsecured term loans was $213.0 million and $150.0 million, respectively. The total borrowing capacity on the combined unsecured credit facility and unsecured term loans as of June 30, 2015 was $363.0 million.

On January 22, 2015, the Company assumed a mortgage note of approximately $11.8 million in connection with the acquisition of the Burlington, NJ property. The mortgage note was immediately paid in full at par in conjunction with the acquisition.

On February 20, 2015, the Company issued $100 million of its 4.32% Series D 10-year unsecured notes and $20 million of its 4.42% Series E 12-year unsecured notes.

On June 25, 2015, the Company assumed a mortgage note with National Life Insurance Company of approximately $4.9 million in connection with the acquisition of the property located in Charlotte, NC, which serves as collateral for the debt. The debt matures on August 10, 2016 and bears interest at 5.75% per annum. The assumed debt was recorded at fair value and a fair value premium of approximately $0.1 million was recorded. The fair value of debt was determined by discounting the future cash flows using the current rates (3.05%) at which loans would be made to borrowers with similar credit ratings for loans with similar remaining maturities, similar terms, and similar loan-to-value ratios. The fair value of the debt is based on Level 3 inputs.

Deferred financing fees, net of accumulated amortization were $8.1 million and $7.8 million as of June 30, 2015 and December 31, 2014, respectively, and are included in prepaid expenses and other assets on the accompanying Consolidated Balance Sheets. During the three and six months ended June 30, 2015 and June 30, 2014, amortization of deferred financing fees included in interest expense was $0.3 million, $0.6 million, $0.4 million and $0.7 million, respectively.

Financial Covenant Considerations

The Company's unsecured credit facility, unsecured term loans, unsecured notes, and mortgage notes are subject to ongoing compliance with a number of financial and other covenants. The Company was in compliance with all financial covenants as of June 30, 2015 and December 31, 2014.

Fair Value of Debt

The fair value of the Company's debt was determined by discounting the future cash flows using the current rates at which loans would be made to borrowers with similar credit ratings for loans with similar remaining maturities, similar terms, and similar loan-to-value ratios. The discount rates ranged from 1.34% to 4.66% and 1.32% to 4.27% at June 30, 2015 and December 31, 2014, respectively, and were applied to each individual debt instrument. The fair value of the Company's debt is based on Level 3 inputs. The following table presents the aggregate carrying value of the Company's debt and the corresponding estimate of fair value as of June 30, 2015 and December 31, 2014 (in thousands):

	June 30, 2015		December 31, 2014	
	Principal Outstanding	Fair Value	Principal Outstanding	Fair Value
Unsecured credit facility	$ 87,000	$ 87,000	$ 131,000	$ 131,000
Unsecured term loans	150,000	150,476	150,000	150,000
Unsecured notes	300,000	299,079	180,000	187,587
Mortgage notes payable	227,538	238,021	225,039	237,602
Total principal amount	$ 764,538	$ 774,576	$ 686,039	$ 706,189
Total unamortized fair market value premium	366		308	
Total carrying value	$ 764,904		$ 686,347	

5. Use of Derivative Financial Instruments

Risk Management Objective of Using Derivatives

The Company’s use of derivative instruments is limited to the utilization of interest rate swaps to manage interest rate risk exposure on existing and future liabilities and not for speculative purposes. The principal objective of such arrangements is to minimize the risks and related costs associated with the Company’s operating and financial structure.

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On January 8, 2015, the Company entered into seven interest rate swaps, thereby fixing the interest rates of all of the Company's variable rate debt through debt maturity with the exception of the unsecured credit facility.

The following table details the Company's outstanding interest rate swaps as of June 30, 2015 (collectively, the "Unsecured Debt Swaps") (in thousands):

Interest Rate Derivative Counterparty	Trade Date	Effective Date	Current Notional Amount		Fair Value	Pay Fixed Interest Rate	Receive Variable Interest Rate	Ma
PNC Bank, N.A.	Sep-14-2012	Oct-10-2012	$ 10,000		$ 8	0.7945 %	One-month L	Se
Bank of America	Sep-14-2012	Oct-10-2012	10,000		$ 8	0.7945 %	One-month L	Se
UBS AG	Sep-14-2012	Oct-10-2012	10,000		$ 8	0.7945 %	One-month L	Se
Royal Bank of Canada	Sep-14-2012	Oct-10-2012	10,000		$ 9	0.7945 %	One-month L	Se
RJ Capital Services, Inc.	Sep-14-2012	Oct-10-2012	10,000		$ 8	0.7975 %	One-month L	Se
Bank of America	Sep-20-2012	Oct-10-2012	25,000		$ 45	0.7525 %	One-month L	Se
RJ Capital Services, Inc.	Sep-24-2012	Oct-10-2012	25,000		$ 59	0.7270 %	One-month L	Se
Regions Bank	Mar-01-2013	Mar-01-2013	25,000		$ 202	1.3300 %	One-month L	Fe
Capital One, N.A.	Jun-13-2013	Jul-01-2013	50,000		$ (364)	1.6810 %	One-month L	Fe
Capital One, N.A.	Jun-13-2013	Aug-01-2013	25,000		$ (207)	1.7030 %	One-month L	Fe
Regions Bank	Sep-30-2013	Feb-03-2014	25,000		$ (546)	1.9925 %	One-month L	Fe
Royal Bank of Canada	Jan-08-2015	Mar-20-2015	25,000		$ 49	1.7090 %	One-month L	Ma
The Toronto-Dominion Bank	Jan-08-2015	Mar-20-2015	25,000		$ 46	1.7105 %	One-month L	Ma
Wells Fargo Bank, N.A.	Jan-08-2015	Mar-20-2015	25,000		$ 146	1.8280 %	One-month L	Ma
The Toronto-Dominion Bank	Jan-08-2015	Sep-10-2017	—	(1)	$ 422	2.2255 %	One-month L	Ma
The Toronto-Dominion Bank	Jan-08-2015	Feb-14-2020	—	(1)	$ 203	2.4535 %	One-month L	Ma
Regions Bank	Jan-08-2015	Feb-14-2020	—	(1)	$ 338	2.4750 %	One-month L	Ma
Capital One, N.A.	Jan-08-2015	Feb-14-2020	—	(1)	$ 346	2.5300 %	One-month L	Ma
			$ 300,000					

(1) These interest rate swaps are forward starting swaps and thus have no current notional amounts outstanding. The total notional amount of these interest rate swaps is $225.0 million.

The fair value of the interest rate swaps outstanding as of June 30, 2015 and December 31, 2014 was as follows (in thousands):

	Balance Sheet Line Item	Current Notional Amount June 30, 2015(1)	Fair Value June 30, 2015	Current Notional Amount December 31, 2014	Fair Value December 31, 2014
Unsecured Debt Swaps	Interest Rate Swaps-Asset	$ 200,000	$ 1,897	$ 125,000	$ 959
Unsecured Debt Swaps	Interest Rate Swaps-Liability	$ 100,000	$ (1,117)	$ 100,000	$ (873)

(1) Four of the interest rate swaps have no current notional amount outstanding.

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate swaps are to add stability to interest expense and to manage its exposure to interest rate movements. The Company uses interest rate swaps to fix the rate of its long term variable rate liabilities. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The effective portion of changes in the fair value of derivatives designated and qualified as cash flow hedges is recorded in accumulated other comprehensive loss and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three and six months ended June 30, 2015 and June 30, 2014, the Company recorded a gain of $0.1 million, $0.1 million, $0 and $0, respectively, of hedge ineffectiveness in earnings due to short-term, partial mismatches in notional amounts.

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Amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense in the period that the hedged forecasted transaction affects earnings on the Company’s variable rate debt. The Company estimates that an additional $3.0 million will be reclassified from accumulated other comprehensive loss as an increase to interest expense over the next 12 months.

The table below details the location in the financial statements of the gain or loss recognized on interest rate swaps designated as cash flow hedges for the three and six months ended June 30, 2015 and June 30, 2014, respectively (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Amount of (gain)/loss recognized in accumulated other comprehensive loss on interest rate swaps (effective portion)	$ (3,695)	$ 2,815	$ 976	$ 4,482
Amount of loss reclassified from accumulated other comprehensive loss into loss as interest expense (effective portion)	$ 926	$ 638	$ 1,592	$ 1,222
Amount of gain recognized in interest expense (ineffective portion and amount excluded from effectiveness testing)	$ 92	$ —	$ 92	$ —

Credit-risk-related Contingent Features

The Company has agreements with each of its derivative counterparties that contain a provision where the Company could be declared in default on its derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the Company's default on the indebtedness.

As of June 30, 2015, the fair values of 15 of the Company’s 18 interest rate swaps were in an asset position of $2.0 million and three interest rate swaps were in a liability position of $1.1 million, excluding any adjustment for nonperformance risk related to these agreements. The adjustment for nonperformance risk included in the fair value of the Company’s net asset position and net liability position was $(0.1) million and $(10,000), respectively, as of June 30, 2015. Accrued interest expense for all interest rate swaps was $0.3 million as of June 30, 2015. As of June 30, 2015, the Company had not posted any collateral related to these agreements. If the Company had breached any of its provisions at June 30, 2015, it could have been required to settle its obligations under the agreement of the interest rate swaps in a liability position at their termination value of $1.2 million.

Fair Value of Interest Rate Swaps

The Company's valuation of the interest rate swaps is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs including interest rate curves. The fair values of interest rate swaps are determined by using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of June 30, 2015 and December 31, 2014, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

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The following sets forth the Company's financial instruments that are accounted for at fair value on a recurring basis as of June 30, 2015 and December 31, 2014 (in thousands):

	Balance Sheet Line Item	Fair Value June 30, 2015	Fair Value Measurements as of June 30, 2015 Using Level (1):		
			Level 1	Level 2	Level 3
Unsecured Debt Swaps	Interest Rate Swaps-Asset	$ 1,897	$ —	$ 1,897	$ —
Unsecured Debt Swaps	Interest Rate Swaps-Liability	$ (1,117)	$ —	$ (1,117)	$ —

(1) Level 1 defined as quoted prices in active markets for identical assets. Level 2 defined as significant other observable inputs. Level 3 defined as unobservable inputs.

	Balance Sheet Line Item	Fair Value December 31, 2014	Fair Value Measurements as of December 31, 2014 Using Level (1):		
			Level 1	Level 2	Level 3
Unsecured Debt Swaps	Interest Rate Swaps-Asset	$ 959	$ —	$ 959	$ —
Unsecured Debt Swaps	Interest Rate Swaps-Liability	$ (873)	$ —	$ (873)	$ —

(1) Level 1 defined as quoted prices in active markets for identical assets. Level 2 defined as significant other observable inputs. Level 3 defined as unobservable inputs.

6. Stockholders' Equity

Preferred Stock

Pursuant to its charter, the Company is authorized to issue 10,000,000 shares of preferred stock, par value $0.01 per share.

The table below sets forth the Company’s two outstanding preferred stock issuances:

	Issuance Date	Number of Shares	Price and Liquidation Value per share	Interest rate
Series A Cumulative Redeemable Preferred Stock (1)	November 2, 2011	2,760,000	$ 25.00	9.000 %
Series B Cumulative Redeemable Preferred Stock (2)	April 16, 2013	2,800,000	$ 25.00	6.625 %

(1) Herein defined as the “Series A Preferred Stock”
(2) Herein defined as the “Series B Preferred Stock”

Dividends on the Series A Preferred Stock and Series B Preferred Stock are payable quarterly in arrears on or about the last day of March, June, September and December of each year. The Series A Preferred Stock and Series B Preferred Stock rank on parity with each other and both rank senior to the Company’s common stock with respect to dividend rights and rights upon the liquidation, dissolution or winding up of the Company. The Series A Preferred Stock and Series B Preferred Stock have no stated maturity date and are not subject to mandatory redemption or any sinking fund. Generally, the Company is not permitted to redeem the Series A Preferred Stock and Series B Preferred Stock prior to November 2, 2016 and April 16, 2018, respectively, except in limited circumstances relating to the Company’s ability to qualify as a REIT and in certain other circumstances related to a change of control.

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The table below sets forth the dividends attributable to the Series A Preferred Stock and Series B Preferred Stock, respectively, during the six months ended June 30, 2015 and the year ended December 31, 2014:

Quarter Ended 2015	Declaration Date	Series A Preferred Stock Per Share	Series B Preferred Stock Per Share	Payment Date
June 30	May 4, 2015	$ 0.5625	$ 0.4140625	June 30, 2015
March 31	February 20, 2015	0.5625	0.4140625	March 31, 2015
Total		$ 1.1250	$ 0.8281250	

Quarter Ended 2014	Declaration Date	Series A Preferred Stock Per Share	Series B Preferred Stock Per Share	Payment Date
December 31	October 30, 2014	$ 0.5625	$ 0.4140625	December 31, 2014
September 30	July 29, 2014	0.5625	0.4140625	September 30, 2014
June 30	May 5, 2014	0.5625	0.4140625	June 30, 2014
March 31	February 21, 2014	0.5625	0.4140625	March 31, 2014
Total		$ 2.2500	$ 1.6562500	

On July 21, 2015, the Company’s board of directors declared the Series A Preferred Stock and the Series B Preferred Stock dividend for the quarter ending September 30, 2015 at a quarterly rate of $0.5625 per share and $0.4140625 per share of preferred stock, respectively.

Common Stock

The Company continues to utilize its at-the-market (“ATM”) program as its primary source of equity capital. As a supplement to the ATM activity, the Company has executed discrete marketed overnight common stock offerings. The Company will continue to rely on the ATM in the future as its primary source of equity.

The following sets forth the Company’s ATM common stock offering programs as of June 30, 2015, from which it may from time to time sell its common stock through sales agents:

ATM Stock Offering Program (in thousands)	Date	Maximum Aggregate Offering Price	Aggregate Common Stock Available as of June 30, 2015
2014 $200 million ATM	September 10, 2014	$ 200,000	$ 110,445
2014 $150 million ATM	March 10, 2014	$ 150,000	$ —

The table below sets forth the activity for the ATM common stock offering programs during the six months ended June 30, 2015 and the year ended December 31, 2014, respectively (in millions, except share data):

	Six months ended June 30, 2015				
ATM Stock Offering Program	Shares Sold	Average Price Per Share	Gross Proceeds	Sales Agents' Fee	Net Proceeds
2014 $200 million ATM	2,510,397	$ 21.71	$ 54.5	$ 0.8	$ 53.7
2014 $150 million ATM	795,000	$ 21.79	17.3	0.2	17.1
Total/ weighted average	3,305,397	$ 21.73	$ 71.8	$ 1.0	$ 70.8

	Year ended December 31, 2014				
ATM Stock Offering Program	Shares Sold	Average Price Per Share	Gross Proceeds	Sales Agents' Fee	Net Proceeds
2014 $200 million ATM	1,658,795	$ 21.13	$ 35.0	$ 0.5	$ 34.5
2014 $150 million ATM	5,760,651	$ 23.03	132.7	2.0	130.7
2012 $75 million ATM	661,930	$ 22.47	14.9	0.2	14.7
Total/ weighted average	8,081,376	$ 22.60	$ 182.6	$ 2.7	$ 179.9

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Dividends

The table below sets forth the dividends attributable to the common stock during the six months ended June 30, 2015 and the year ended December 31, 2014, respectively:

Month Ended 2015	Declaration Date	Per Share	Payment Date
June 30	February 20, 2015	$ 0.1125	July 15, 2015
May 31	February 20, 2015	0.1125	June 15, 2015
April 30	February 20, 2015	0.1125	May 15, 2015
March 31	October 30, 2014	0.1125	April 15, 2015
February 28	October 30, 2014	0.1125	March 16, 2015
January 31	October 30, 2014	0.1125	February 17, 2015
Total		$ 0.6750	

Month Ended 2014	Declaration Date	Per Share	Payment Date
December 31	July 29, 2014	$ 0.110	January 15, 2015
November 30	July 29, 2014	0.110	December 15, 2014
October 31	July 29, 2014	0.110	November 17, 2014
September 30	May 5, 2014	0.110	October 15, 2014
August 31	May 5, 2014	0.110	September 15, 2014
July 31	May 5, 2014	0.110	August 15, 2014
June 30	February 21, 2014	0.105	July 15, 2014
May 31	February 21, 2014	0.105	June 16, 2014
April 30	February 21, 2014	0.105	May 15, 2014
March 31	December 18, 2013	0.105	April 15, 2014
February 28	December 18, 2013	0.105	March 17, 2014
January 31	December 18, 2013	0.105	February 17, 2014
Total		$ 1.2900	

On May 4, 2015, the Company's board of directors declared the common stock dividend for the months ending July 31, 2015, August 31, 2015, and September 30, 2015 at a monthly rate of $0.1150 per share of common stock. On July 21, 2015, the Company's board of directors declared the common stock dividend for the months ending October 31, 2015, November 30, 2015 and December 31, 2015 at a monthly rate of $0.1150 per share of common stock.

Board of Director's Compensation

The Company's independent directors are paid annual fees of $50,000 each for serving as members of the Company's board of directors, plus certain additional committee fees. All of the Company's independent directors elected to receive shares of common stock in lieu of cash for their fees for serving as members of the board and/or serving on various committees during 2015 and 2014. The shares of common stock are issued to the independent directors pursuant to the 2011 Plan. The number of shares of common stock granted is calculated based on the trailing 10-day average common stock price ending on the third business day preceding the grant date. The fair value of the shares of the common stock granted is calculated based on the closing stock price per the NYSE on the grant date multiplied by the number of shares of common stock granted. The table below sets forth the grants of common stock for the members' service during the six months ended June 30, 2015 and the year ended December 31, 2014:

Service During Quarter Ended 2015	Grant Date	Shares	Fair Value
June 30	July 15, 2015	4,248	$ 89,000
March 31	April 15, 2015	3,731	84,000
Total		7,979	$ 173,000

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Service During Quarter Ended 2014	Grant Date	Shares	Fair Value
December 31	January 15, 2015	3,298	$ 87,000
September 30	October 15, 2014	3,958	88,000
June 30	July 15, 2014	3,473	83,000
March 31	April 15, 2014	3,471	83,000
Total		14,200	$ 341,000

Restricted Stock-Based Compensation

Pursuant to the 2011 Plan, the Company grants shares of restricted common stock to certain employees of the Company. The shares of restricted common stock are subject to time-based vesting. Shares of restricted common stock granted on January 12, 2015, subject to the recipient's continued employment, will vest in three equal installments on each anniversary date of the grant. Holders of restricted stock have voting rights and rights to receive dividends. Restricted stock may not be sold, assigned, transferred, pledged or otherwise disposed of and is subject to a risk of forfeiture prior to the expiration of the applicable vesting period. The following table summarizes activity related to the Company's unvested restricted common stock:

	Shares	
Unvested at December 31, 2013	214,389	
Granted	103,149	(1)
Vested	(51,885)	
Forfeited	(1,737)	
Unvested at December 31, 2014	263,916	
Granted	94,290	(2)
Vested	(72,185)	
Forfeited	(6,954)	
Unvested at June 30, 2015	279,067	

(1) The grant date fair value per share was $20.13.
(2) The grant date fair value per share was $26.17.

The unrecognized compensation expense associated with the Company's restricted common stock at June 30, 2015 was $4.8 million.

The following table summarizes the fair value at vesting date for the restricted common stock vested during the period (in millions, except share data):

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Restricted common stock vested awards	14,657	14,657	72,185	51,885
Fair value of restricted common stock vested	$ 0.4	$ 0.4	$ 1.8	$ 1.1

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7. Noncontrolling Interest

The Company is structured as an UPREIT, and owns substantially all of its assets and conducts substantially all of its business through its Operating Partnership. The Company’s consolidated financial statements include the accounts of the Company, the Operating Partnership and their subsidiaries. Noncontrolling interests in the Company are interests in the Operating Partnership that are not owned by the Company and LTIP units. The table below summarizes the activity for the six months ended June 30, 2015 and the year ended December 31, 2014:

	Other Noncontrolling Common Units	LTIP Units	Total Noncontrolling Common Units	Noncontrolling Interest	
Balance at December 31, 2013	6,299,186	599,464	6,898,650	13.35	%
Conversions from LTIP units to Common Units	12,000	(12,000)	—	N/A	
Redemptions from Common Units to common stock	(5,105,584)	—	(5,105,584)	N/A	
Issuance/grant	—	719,572	719,572	N/A	
Forfeitures	—	—	—	N/A	
Redemption of Common Units for cash	(80,789)	—	(80,789)	N/A	
Balance at December 31, 2014	1,124,813	1,307,036	2,431,849	3.64	%
Issuance/grant	812,676	323,069	1,135,745	N/A	
Forfeitures	—	—	—	N/A	
Conversions from LTIP units to Common Units	20,000	(20,000)	—	N/A	
Redemptions from Common Units to common stock	(90,824)	—	(90,824)	N/A	
Redemption of Common Units for cash	(2,400)	—	(2,400)	N/A	
Balance at June 30, 2015	1,864,265	1,610,105	3,474,370	4.87	%

The Company adjusts the carrying value of noncontrolling interest to reflect its share of the book value of the Operating Partnership when there has been a change in the Company’s ownership of the Operating Partnership. Such adjustments are recorded to additional paid-in capital as a rebalancing of noncontrolling interest on the accompanying Consolidated Statements of Equity.

Noncontrolling Common Units

Common Units and shares of the Company’s common stock have essentially the same economic characteristics in that Common Units directly and shares of the Company’s common stock indirectly, through the Company’s interest in the Operating Partnership, share equally in the total net income or loss distributions of the Operating Partnership. Subject to certain restrictions, investors who own Noncontrolling Common Units have the right to cause the Operating Partnership to redeem any or all of their Noncontrolling Common Units for cash equal to the then-current market value of one share of the Company’s common stock, or, at the Company’s election, shares of common stock on a one-for-one basis. Each Noncontrolling Common Unit will receive the same monthly distribution as a share of common stock.

As partial consideration for a property acquired on January 22, 2015, the Company granted 812,676 Noncontrolling Common Units in the Operating Partnership with a fair value of approximately $21.9 million based on the Company’s NYSE closing stock price on January 22, 2015. The number of Noncontrolling Common Units granted was calculated based on the trailing 10-day average common stock price ending on the business day that immediately preceded the grant date. The fair value of the shares of the Noncontrolling Common Units granted was calculated based on the closing stock price per the NYSE on the grant date multiplied by the number of Noncontrolling Common Units granted. The issuance of the Noncontrolling Common Units was effected in reliance upon an exemption from registration provided by Section 4(2) under the Securities Act of 1933, as amended. The Company relied on the exemption based on representations given by the holders of the Noncontrolling Common Units.

LTIP Units

Pursuant to the 2011 Plan, the Company may grant LTIP units in the Operating Partnership. LTIP units are granted to certain executive officers and senior employees of the Company as part of their compensation, and to independent directors for their service. LTIP units are valued by reference to the value of the Company’s common stock and are subject to such conditions and restrictions as the compensation committee of the board of directors may determine, including continued employment or service, computation of financial metrics and achievement of pre-established performance goals and

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objectives. LTIP units granted on January 12, 2015 to certain executive officers and senior employees, subject to the recipient's continued employment, will vest quarterly over three years. LTIP units granted on January 12, 2015 to independent directors, subject to the recipient's continued service, will vest on the one year anniversary date of the grant.

Vested LTIP units can be converted to Common Units in the Operating Partnership on a one-for-one basis once a material equity transaction has occurred that results in the accretion of the members' capital account to the economic equivalent of the Common Unit. As of June 30, 2015, 1,387,036 of the 1,610,105 outstanding LTIP units have met the aforementioned criteria and holders have the ability to convert the LTIP units to Common Units. All LTIP units, whether vested or not, will receive the same monthly per unit distributions as Common Units, which equal per share dividends on common stock.

On May 4, 2015, the Company and the Operating Partnership and Benjamin S. Butcher, the Company's Chief Executive Officer, President and Chairman of the Board, entered into an amended and restated employment agreement. The amended and restated agreement is for an initial term of three years. The agreement automatically extends for successive one-year terms unless, not fewer than 60 days before the term's end, either party provides a notice of non-renewal to the other party. In connection with the amended and restated agreement, the compensation committee of the board of directors granted Mr. Butcher a retention award of 100,000 LTIP units that vest one-half on the third anniversary of the grant and one-sixth on the fourth, fifth and sixth anniversaries.

The LTIP units issued under the 2011 Plan were valued using the Monte Carlo lattice binomial option-pricing model at the grant date. The table below sets forth the assumptions used in valuing such LTIP units for six months ended June 30, 2015:

	Assumptions	
Grant date	January 12, 2015	May 4, 2015
Expected term	10 years	10 years
Expected volatility	20.0%	20.0%
Expected dividend yield	6.0%	6.0%
Risk-free interest rate	0.6159%	0.6590%
Fair value of LTIP units at issuance (in millions)	$ 5.4	$ 2.0
LTIP units at issuance	223,069	100,000
Fair value unit price per LTIP unit at issuance	$ 24.43	$ 20.38

The following table summarizes activity related to the Company's unvested LTIP units:

	LTIP Units	
Unvested at December 31, 2013	368,760	
Granted/Issued	719,572	
Vested	(639,445)	(1)
Forfeited	—	
Unvested at December 31, 2014	448,887	
Granted	323,069	
Vested	(140,532)	
Forfeited	—	
Unvested at June 30, 2015	631,424	(2)

(1) On September 23, 2014, the Company issued 397,590 LTIP units, related to the settlement of the 2011 Outperformance Program.
(2) The unrecognized compensation expense associated with the Company's LTIP units at June 30, 2015 was $12.2 million.

The following table summarizes the fair value at vesting date for the LTIP units vested during the period (in millions, except unit data):

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
LTIP units vested awards	89,112	67,547	140,532	108,728
Fair value of awards vested	$ 1.9	$ 1.6	$ 3.1	$ 2.6

8. Equity Incentive Plan

Outperformance Program

On January 12, 2015, the compensation committee of the board of directors of the Company approved the 2015 Outperformance Program (the "2015 OPP") under the 2011 Plan, to provide certain key employees of the Company or its affiliates with incentives to contribute to the growth and financial success of the Company and its affiliates.

Recipients of awards under the 2015 OPP will share in an outperformance pool if the Company's total stockholder return, including both share appreciation and dividends, exceeds an absolute hurdle over a three year measurement period from January 1, 2015 to January 1, 2018 (the "measurement period"), based on a beginning value of $24.49 per share of the Company's common stock, as well as a relative hurdle based on the MSCI US REIT Index. Provided the Company's increase in cumulative absolute total stockholder return over the measurement period equals or exceeds 25% (the "threshold percentage"), the outperformance pool consists of 10% of the excess total stockholder return above an absolute total stockholder return hurdle. The hurdle is equal to the total return of the MSCI US REIT Index plus five percentage points over the measurement period.

The aggregate reward for all recipients collectively is capped at the lesser of (i) 0.24% of the product of the total number of shares of common stock and Noncontrolling Common Units outstanding on January 1, 2018 and the average common stock price of the Company for the 20 trading days ending immediately prior to January 1, 2018, and (ii) $15.4 million.

Each participant's award under the 2015 OPP is designated as a specified percentage of the aggregate outperformance pool. If the threshold percentage and return hurdle were achieved at the end of the measurement period, the outperformance pool will be calculated and then allocated to the award recipients. The 2015 OPP provides that awards will be paid in the form of fully vested shares of the Company's common stock, or, with the award recipient's consent, other securities or cash.

The 2015 OPP awards were valued at approximately $1.6 million utilizing a Monte Carlo simulation to estimate the probability of the conditions being satisfied. The Monte Carlo simulation used a statistical formula underlying the Black Scholes and binomial formulas and such simulation was run approximately 500,000 times. For each simulation, the payoff is calculated at the settlement date, which is then discounted to the award date at a risk free interest rate. The average of the values over all simulations is the expected value of the award on the award date. Assumptions used in the valuations included (i) factors associated with the underlying performance of the Company's stock price and total stockholder return over the term of the performance awards including total stock return volatility and risk free interest and (ii) factors associated with the relative performance of the Company's stock price and total stockholder return when compared to the MSCI US REIT Index. The valuation was performed in a risk neutral framework, so no assumption was made with respect to an equity risk premium. The fair value of the 2015 OPP awards was estimated on the date of grant using the following assumptions in the Monte Carlo valuation: expected price volatility for the Company and the MSCI US REIT Index of 20% and 13.6%, respectively, and a risk free rate of 0.9814%. The expense associated with the value of the 2015 OPP awards will be amortized on a straight-line basis over the measurement period.

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Equity Compensation Expense

The following table summarizes the amount recorded in general and administrative expenses in the accompanying Consolidated Statement of Operations for the amortization of restricted stock, LTIP units, the 2015 OPP, the 2011 Outperformance Program that concluded on September 19, 2014, and the Company’s board of directors’ compensation:

	For the three months ended June 30,					For the six months ended June 30,				
Equity compensation expense (in millions)	2015		2014			2015		2014		
Restricted stock	$	0.5	$	0.3		$	1.0	$	0.6	
LTIP units		1.2		2.6	(1)		2.3		3.2	(1)
Outperformance programs		0.1		0.3	(2)		0.3		0.4	(2)
Board of directors compensation(3)		0.1		0.1			0.2		0.2	
Total equity compensation expense	$	1.9	$	3.3		$	3.8	$	4.4	

(1) Inclusive of $2.0 million of non-cash compensation during the three and six months ended June 30, 2014 associated with the accounting for a consulting agreement with a former executive officer.
(2) Inclusive of $0.2 million of non-cash compensation during the three and six months ended June 30, 2014 associated with the accounting for a consulting agreement with a former executive officer.
(3) All of the Company’s independent directors elected to receive shares of common stock in lieu of cash for their service during the three and six months ended June 30, 2015 and June 30, 2014.

9. Earnings Per Share

The Company uses the two class method of computing earnings per common share, which is an earnings allocation formula that determines earnings per share for common stock and any participating securities according to dividends declared (whether paid or unpaid) and participation rights in undistributed earnings. A participating security is defined by GAAP as an unvested stock-based payment award containing non-forfeitable rights to dividends and must be included in the computation of earnings per share pursuant to the two-class method. Unvested restricted stock awards are considered participating securities as these stock-based awards contain non-forfeitable rights to dividends, unless and until a forfeiture occurs, irrespective of whether the awards ultimately vest or expire. During the three and six months ended June 30, 2015 and June 30, 2014, there were 286,280, 288,269, 267,659 and 273,626, respectively, unvested shares of restricted stock on a weighted average basis that were considered participating securities, which were not dilutive.

The following tables set forth the computation of basic and diluted earnings per common share for the three and six months ended June 30, 2015 and June 30, 2014, respectively (in thousands, except share data).

	Three months ended June 30, 2015
Numerator	
Net loss	$ (5,228)
Less: preferred stock dividends	2,712
Less: amount allocated to unvested restricted stockholders	95
Less: loss attributable to noncontrolling interest after preferred stock dividends	(397)
Loss from continuing operations attributable to common stockholders	$ (7,638)
Denominator	
Weighted average common shares outstanding—basic and diluted	65,285,388
Loss per share—basic and diluted	$ (0.12)

	Six months ended June 30, 2015
Numerator	
Net loss	$ (6,655)
Less: preferred stock dividends	5,424
Less: amount allocated to unvested restricted stockholders	196
Less: loss attributable to noncontrolling interest after preferred stock dividends	(592)
Loss from continuing operations attributable to common stockholders	$ (11,683)
Denominator	
Weighted average common shares outstanding—basic and diluted	64,788,561
Loss per share—basic and diluted	$ (0.18)

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	Three months ended June 30, 2014
Numerator	
Net loss	$ (2,666)
Less: preferred stock dividends	2,712
Less: amount allocated to unvested restricted stockholders	83
Less: loss attributable to noncontrolling interest after preferred stock dividends	(310)
Loss from continuing operations attributable to common stockholders	$ (5,151)
Denominator	
Weighted average common shares outstanding—basic and diluted	52,865,801
Loss per share—basic and diluted	$ (0.10)

	Six months ended June 30, 2014
Numerator	
Net loss	$ (2,645)
Less: preferred stock dividends	5,424
Less: amount allocated to unvested restricted stockholders	171
Less: loss attributable to noncontrolling interest after preferred stock dividends	(766)
Loss from continuing operations attributable to common stockholders	$ (7,474)
Denominator	
Weighted average common shares outstanding—basic and diluted	49,023,985
Loss per share—basic and diluted	$ (0.15)

10. Commitments and Contingencies

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance subject to deductible requirements. Management believes that the ultimate settlement of these actions will not have a material adverse effect on the Company’s financial position, results of operations or cash flows.

The Company is subject to a one-time incentive fee based on aggregate performance thresholds of the acquired buildings sourced by Columbus Nova Real Estate Acquisition Group, LLC. At June 30, 2015 and December 31, 2014, the fair value of the incentive fee was zero. The fair value was calculated using the following key Level 3 inputs: discount rate of approximately 9.5%, exit capitalization rate of 9.8%, and annual market rent and expense growth rates of 1% to 3%.

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11. Concentrations of Credit Risk

Concentrations of credit risk relevant to the Company may arise when a number of financing arrangements, including revolving credit facilities or derivatives, are entered into with the same lenders or counterparties, and have similar economic features that would cause their inability to meet contractual obligations. Concentration of credit risk may also arise when a number of tenants related to the Company’s investments or rental operations are engaged in similar business activities, are located in the same geographic region, or have similar economic features that would cause their inability to meet contractual obligations, including those to the Company, to be similarly affected.

The Company mitigates the concentration of credit risk as it relates to financing arrangements by entering into loan syndications with multiple, reputable financial institutions. The Company also reduces exposure by diversifying its derivatives across multiple counterparties who meet established credit and capital guidelines, with nine different counterparties comprising the 15 outstanding derivatives in an asset position as of June 30, 2015.

Concentrations of credit risk relevant to the Company may arise when the Company enters into leases with multiple tenants concentrated in the same industry, or into a significant lease or multiple leases with a single tenant. The Company regularly monitors its tenant base to assess potential concentrations of credit risk. Management believes the current credit risk portfolio is reasonably well diversified and does not contain any unusual concentration of credit risk. No single tenant accounted for more than approximately 2.8% of annualized base rental revenue, defined as the contractual monthly base rent as of June 30, 2015 multiplied by 12, for the six months ended June 30, 2015. If a tenant is in a free rent period as of June 30, 2015, the annualized base rental revenue is calculated based on the first contractual monthly base rent amount multiplied by 12. The Company has tenants concentrated in various industries that may experience adverse effects from certain economic conditions and the Company could be adversely affected if such tenants default on their leases. The Company has tenants concentrated in three industries, Air Freight & Logistics, Automotive, and Industrial Equipment, Component and Metals. There is no tenant industry in the Company’s portfolio that is greater than approximately 11.9% of annualized base rental revenue as of June 30, 2015.

12. Subsequent Events

GAAP requires an entity to disclose certain events that occur after the balance sheet date but before financial statements are issued (“subsequent events”). There are two types of subsequent events. The first type consists of events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements (“recognized subsequent events”). No significant recognized subsequent events were noted.

The second type consists of events that provide evidence about conditions that did not exist at the date of the balance sheet but arose subsequent to that date (“non-recognized subsequent events”). No significant non-recognized subsequent events were noted.

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Item 2.Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion with the financial statements and related notes included elsewhere in Item 1 of this report and the audited financial statements and related notes thereto included in our most recent Annual Report on Form 10-K.

As used herein, except where the context otherwise requires, "Company," "we," "our" and "us," refer to STAG Industrial, Inc. and our consolidated subsidiaries and partnerships, including our operating partnership, STAG Industrial Operating Partnership, L.P. ("Operating Partnership").

Forward-Looking Statements

This report contains "forward-looking statements" within the meaning of the safe harbor from civil liability provided for such statements by the Private Securities Litigation Reform Act of 1995 (set forth in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act")). You can identify forward-looking statements by the use of words such as "anticipates," "believes," "estimates," "expects," "intends, "may," "plans," "projects," "seeks," "should," "will," and variations of such words or similar expressions. Forward-looking statements in this report include, among others, statements about our future financial condition, results of operations, our business strategy and objectives, including our acquisition strategy, occupancy and leasing rates and trends, capitalization rates, and expected liquidity needs and sources (including capital expenditures and the ability to obtain financing or raise capital). Our forward-looking statements reflect our current views about our plans, intentions, expectations, strategies and prospects, which are based on the information currently available to us and on assumptions we have made. Although we believe that our plans, intentions, expectations, strategies and prospects as reflected in or suggested by our forward-looking statements are reasonable, we can give no assurance that our plans, intentions, expectations, strategies or prospects will be attained or achieved and you should not place undue reliance on these forward-looking statements. Furthermore, actual results may differ materially from those described in the forward-looking statements and may be affected by a variety of risks and factors including, without limitation:

- the factors included in this report and in our most recent Annual Report on Form 10-K, including those set forth under the headings "Business," "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations;"

- the competitive environment in which we operate;

- real estate risks, including fluctuations in real estate values and the general economic climate in local markets and competition for tenants in such markets;

- decreased rental rates or increased vacancy rates;

- potential defaults (including bankruptcies or insolvency) on or non-renewal of leases by tenants;

- acquisition risks, including our ability to identify and complete accretive acquisitions and/or failure of such acquisitions to perform in accordance with projections;

- the timing of acquisitions and dispositions;

- potential natural disasters and other potentially catastrophic events such as acts of war and/or terrorism;

- international, national, regional and local economic conditions;

- the general level of interest rates and currencies;

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- potential changes in the law or governmental regulations that affect us and interpretations of those laws and regulations, including changes in real estate and zoning or real estate investment trust (“REIT”) tax laws, and potential increases in real property tax rates;

- financing risks, including the risks that our cash flows from operations may be insufficient to meet required payments of principal and interest and we may be unable to refinance our existing debt upon maturity or obtain new financing on attractive terms or at all;

- credit risk in the event of non-performance by the counterparties to the interest rate swaps and revolving and unfunded debt;

- lack of or insufficient amounts of insurance;

- our ability to maintain our qualification as a REIT;

- our ability to retain key personnel;

- litigation, including costs associated with prosecuting or defending claims and any adverse outcomes; and

- possible environmental liabilities, including costs, fines or penalties that may be incurred due to necessary remediation of contamination of properties presently owned or previously owned by us.

Any forward-looking statement speaks only as of the date on which it is made. New risks and uncertainties arise over time, and it is not possible for us to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

We are a REIT focused on the acquisition and operation of single-tenant, industrial properties throughout the United States. We endeavor to (i) identify relative value investments across all locations, single-tenant industrial property types, and tenants through the principled application of our proprietary risk assessment model, (ii) operate our properties in an institutional manner, and (iii) capitalize our business appropriately given the characteristics of our assets. We are a Maryland corporation and our common stock is publicly traded on the New York Stock Exchange (“NYSE”) under the symbol “STAG.”

We are organized and conduct our operations to qualify as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"), and generally are not subject to federal income tax to the extent we currently distribute our income to our stockholders and maintain our qualification as a REIT. We remain subject to state and local taxes on our income and property and to U.S. federal income and excise taxes on our undistributed income.

Factors That May Influence Future Results of Operations

Our ability to increase revenues or cash flow will depend in part on our (i) external growth, specifically acquisition activity and (ii) internal growth, specifically occupancy and rental rates on our portfolio. A variety of other factors, including those noted below, also affect our future results of operations.

Outlook

The outlook for our business remains positive. The combination of attractive capital markets and the availability of attractively priced properties has and should continue to allow us to deploy our capital on an attractive "spread investing" basis. While it is not a certainty, many market participants believe that interest rates are likely to rise in the near to medium term. If interest rates rise as a result of Federal Reserve policy action (short-term interest rates) or changes in market expectations and capital flows (long-term interest rates), we believe strengthening economic conditions are likely to

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accompany these changes. This strengthening of economic conditions combined with the currently favorable industrial supply demand environment should translate to a net positive result for our business. Specifically, our existing portfolio should benefit from rising rental rates and our acquisition activity should benefit from higher yields. Furthermore, we believe certain characteristics of our business should position us well in a rising interest rate environment including the fact that we have minimal floating rate debt exposure and the fact that many of our are competitors for the assets we purchase tend to be smaller local investors who are likely to be more heavily impacted by interest rate increases.

Other notable developments in recent months are the strength of the U.S. dollar versus competing currencies including the euro and yen and the Greek debt crisis. A strong U.S. dollar can harm U.S. exporters and U.S. multi-nationals; however, it can also benefit foreign multi-nationals positively which support U.S. subsidiaries and operate U.S. industrial properties. In Greece, the country's financial troubles led to a missed debt repayment to the International Monetary Fund, spurred additional bailout talks and increased the probability of it potentially leaving the Eurozone. The length and outcome of the Greek debt crisis may have an impact on currencies, credit spreads, interest rates, and general global economic conditions, particularly businesses with exposure to Europe. However, we note U.S. exports to Greece are a very small percentage of total U.S. export volume and Greece's percentage of Eurozone's total gross domestic product ("GDP") is insignificant. We will continue to monitor these trends.

Several economic indicators and other factors provide insight into the U.S. economic environment and industrial demand. Presently, we believe the key factors include GDP growth rate, unemployment rate, non-farm payrolls, Conference Board consumer confidence index, manufacturing-purchasing manager index ("ISM"), the 10-year Treasury yield, U.S. total vehicle sales, and durable goods new orders. Below are recent trends in each of these factors:

Economic Indicators(1)	Q2 2015		Q1 2015		Q4 2014		Q3 2014		Q2 2014
GDP Growth Rate (2)	N/A		(0.2)	%	2.2	%	5.0	%	4.6
	June 30, 2015		March 31, 2015		December 31, 2014		September 30, 2014		June 30, 2014
Unemployment Rate	5.3	%	5.5	%	5.6	%	5.9	%	6.1
Change in Non-Farm Employment (in thousands)	223.0		119.0		329.0		250.0		286.0
Consumer Confidence Index	101.4		101.3		93.1		89.0		86.4
Purchasing Managers Index	53.5	%	51.5	%	55.1	%	56.1	%	55.7

(ISM)(3)					
10-year Treasury Yield	2.35 %	1.94 %	2.17 %	2.52 %	2.53
Seasonally Adjusted Annualized Rate US Total Vehicle Sales (in thousands)	17,600	17,500	17,200	16,800	17,200
Manufacturing New Orders: Durable Goods (in thousands)(2)	N/A	236,671	226,739	238,191	242,127

(1) Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Conference Board, Board of Governors of the Federal Reserve System, U.S. Census Bureau, and Institute for Supply Management. Each statistic is the latest revision available at the time of publishing this report.
(2) GDP Growth Rate and Manufacturing New Orders: Durable Goods were not available at the time of publishing this report.
(3) ISM is a composite index based on a survey of over 300 purchasing and supply executives from across the country who respond to a monthly questionnaire about changes in production, new orders, new export orders, imports, employment, inventories, prices, lead-times, and timelines of supplier deliveries in their companies. When the index is over 50, it indicates expansion, while a reading below 50 signals contraction.

Currently, the positive non-farm payrolls, strong consumer confidence, an expansionary ISM index level, solid U.S. total vehicle sales, and low interest rates are positive fundamental signs for industrial demand. Expanding job count and increasing consumer confidence suggests consumers will be spending more money in the foreseeable future. We expect this to lead to an increase in industrial activity and more demand for industrial space.

We believe the recovery of the U.S. economy and specifically the improving dynamic for U.S. industrial production is expected to continue to increase demand for industrial space in the United States. Several trends and other factors contribute to the expected demand increase, including:

· an increasing attractiveness of the U.S. as a manufacturing and distribution location because of the size of the United States consumer market, an increase in overseas labor costs and the overall cost of supplying and shipping goods (i.e. the shortening and fattening of the supply chain);

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- the overall quality of the transportation infrastructure in the United States; and
- the rise of e-commerce (as compared to the traditional retail store distribution model) and the concomitant demand by e-commerce industry participants for well-located, functional distribution space.

Furthermore, the lack of material speculative development in our markets and the more broad failure of supply to keep pace with demand in our markets may improve occupancy levels and rental rates in our owned portfolio. We believe, however, that industrial supply, more so than other real estate property types, has historically had a short lead time and can appear quickly.

Conditions in Our Markets

The buildings in our portfolio are located in markets throughout the United States. Positive or negative changes in economic or other conditions, new supply, adverse weather conditions and natural disasters and other factors in these markets may affect our overall performance.

Rental Revenue

We receive income primarily in the form of rental revenue from the tenants who occupy our buildings. The amount of rental revenue generated by the buildings in our portfolio depends principally on occupancy and rental rates. As of June 30, 2015, our buildings were approximately 95.0% leased and our lease rates as defined by accounting principles generally accepted in the Unites States of America (“GAAP”) on new and renewal leases together grew 8.5% and 7.1% during the three and six months ended June 30, 2015, respectively. Future economic downturns or regional downturns affecting our submarkets that impair our ability to renew or re-lease space and the ability of our tenants to fulfill their lease commitments, as in the case of tenant bankruptcies, could adversely affect our ability to maintain or increase rental rates at our buildings. Our ability to lease our properties and the attendant rental rate is dependent upon, among other things, (i) the overall economy, regional, and local economy, (ii) the supply/demand dynamic in our markets, (iii) the quality of our properties, including age, clear height, and configuration, and (iv) our tenants’ ability to meet their contractual obligations to us.

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During the three months ended June 30, 2015, we executed 15 leases totaling 2,096,640 square feet comprised of 385,295 square feet of new and expansion leases, 1,346,025 square feet of renewal leases, and 365,320 square feet of temporary leases. During the six months ended June 30, 2015, we executed 24 leases comprised of 552,495 square feet of new and expansion leases, 1,482,678 square feet of renewal leases, and 610,600 square feet of temporary leases. The following table provides a summary of leases executed for the three and six months ended June 30, 2015. The table does not include month to month leases or leases with initial terms less than 12 months.

	Square Feet	Cash Basis Rent Per Square Foot	GAAP Basis Rent Per Square Foot	Total Turnover Costs Per Square Foot (1)	Cash Basis Rent Growth (2)	GAAP Basis Rent Growth (2)(3)	Weighted Average Lease Term (4)
Three months ended June 30, 2015							
New Leases	385,295	$ 5.09	$ 5.20	$ 1.94	35.1%	37.8%	8.7
Renewal Leases	1,346,025	$ 3.71	$ 3.93	$ 0.67	(2.1)%	4.2%	4.6
Total / weighted average	1,731,320	$ 4.02	$ 4.21	$ 0.95	2.8%	8.5%	5.5
Temporary Leases	365,320						
Total Leasing Activity	2,096,640						
Six months ended June 30, 2015							
New Leases	552,495	$ 4.58	$ 4.61	$ 1.83	29.3%	29.5%	7.0
Renewal Leases	1,482,678	$ 4.03	$ 4.24	$ 0.63	(2.5)%	3.5%	4.5
Total / weighted average	2,035,173	$ 4.18	$ 4.34	$ 0.96	1.9%	7.1%	5.2
Temporary Leases	610,600						
Total Leasing Activity	2,645,773						

(1) Turnover costs are comprised of the costs incurred or capitalized for improvements of vacant and renewal spaces, as well as the commissions paid and costs capitalized for leasing transactions. Turnover costs per square foot represent the total turnover costs expected to be incurred on the leases signed during the period and do not reflect actual expenditures for the period.
(2) Excludes 176,000 square feet and 273,200 square feet of new leases, where there were no prior comparable leases, due to extended downtime or materially different lease structures, during the three and six months ended June 30, 2015, respectively.
(3) GAAP basis rent growth is a ratio of the change in net effective rent (including straight-line rent adjustments as required by GAAP) of the comparable lease.
(4) The lease term is expressed in years. Assumes no exercise of lease renewal or termination options, if any.

Certain leases contain rental concessions. Any such rental concessions are accounted for on a straight-line basis over the term of the lease. The following table provides a summary of leases with rental concessions executed for the three and six months ended June 30, 2015. The table does not include month to month leases or leases with initial terms less than 12 months.

	Square Feet	Rental Concessions(1)	Weighted Average Lease Term (years)
Three months ended June 30, 2015			
New Leases	235,295	$ 270,887	6.6
Renewal Leases	300,000	169,610	7.2
Total/weighted average	535,295	$ 440,497	6.9
Six months ended June 30, 2015			
New Leases	402,495	$ 365,504	5.1
Renewal Leases	300,000	169,610	7.2
Total/weighted average	702,495	$ 535,114	6.0

(1) Represents the total concession for the entire lease term.

Of the 0.5 million square feet of leases that expired during the three months ended June 30, 2015, we have renewed 0.1 million square feet of leases, resulting in a 29.2% retention rate. Of the 2.0 million square feet of leases that expired during the six months ended June 30, 2015, we have renewed 1.1 million square feet of leases, resulting in a 55.9% tenant retention rate. For more detail on tenant retention, see “Tenant Retention” below.

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Property Operating Expenses

Our rental expenses generally consist of utilities, real estate taxes, management fees, insurance and site repair and maintenance costs. For the majority of our tenants, our rental expenses are controlled, in part, by the triple net provisions in tenant leases. In our triple net leases, the tenant is responsible for all aspects of and costs related to the building and its operation during the lease term, including utilities, taxes, insurance and maintenance costs. However, we also have modified gross leases and gross leases in our building portfolio. The terms of those leases vary and on some occasions we may absorb building related expenses of our tenants. In our modified gross leases, we are responsible for some building related expenses during the lease term, but the cost of most of the expenses is passed through to the tenant for reimbursement to us. In our gross leases, we are responsible for all costs related to the building and its operation during the lease term. Our overall performance will be affected by the extent to which we are able to pass-through rental expenses to our tenants.

Scheduled Lease Expirations

Our ability to re-lease space subject to expiring leases will impact our results of operations and is affected by economic and competitive conditions in our markets and by the desirability of our individual buildings. Leases that comprise approximately 8.2% of our annualized base rental revenue will expire during the period from July 1, 2015 to June 30, 2016, excluding month to month leases. As used herein, “annualized base rental revenue” refers to the contractual monthly base rent as of June 30, 2015 (which differs from rent calculated in accordance with GAAP) multiplied by 12. If a tenant is in a free rent period as of June 30, 2015, the annualized base rental revenue is calculated based on the first contractual monthly base rent amount multiplied by 12. We assume, based upon internal renewal probability estimates that some of our tenants will renew and others will vacate and the associated space will be re-let subject to downtime assumptions. In the vacate and re-let cases, we did not assume that market rents would grow from our current property estimates. Using the aforementioned assumptions, we expect that the rental rates on the respective new leases will generally be lower than the rates under existing leases, thereby resulting in lower revenue from the same space.

The following table sets forth a summary of lease expirations for leases in place as of June 30, 2015, plus available space, for each of the ten calendar years beginning with 2015 and thereafter in our portfolio. The information in the table assumes that tenants exercise no renewal options and no early termination rights.

Lease Expiration Year	Number of Leases Expiring	Total Rentable Square Feet(1)	% of Occupied Square Feet	Total Annualized Base Rental Revenue (in thousands)	% of Total Annualized Base Rental Revenue	Average Annualized Base Rental Revenue per Expiring Square Foot
Available	—	2,478,936	—	—	—	—
MTM(2)	7	624,702	1.3%	$ 2,278	1.2%	$ 3.65

2015	8	1,300,053	2.7%	5,118	2.7%	$ 3.94
2016	49	6,084,843	12.8%	25,606	13.6%	$ 4.21
2017	45	6,788,154	14.3%	26,798	14.2%	$ 3.95
2018	49	9,019,975	19.0%	34,504	18.3%	$ 3.83
2019	32	5,997,827	12.6%	23,778	12.6%	$ 3.96
2020	24	4,784,059	10.1%	19,044	10.1%	$ 3.98
2021	21	3,788,343	8.0%	16,557	8.8%	$ 4.37
2022	14	1,992,855	4.2%	7,671	4.1%	$ 3.85
2023	8	2,097,866	4.4%	7,685	4.1%	$ 3.66
2024	7	1,423,071	3.0%	5,666	3.0%	$ 3.98
Thereafter	19	3,573,335	7.6%	13,800	7.3%	$ 3.86
Total/weighted average	283	49,954,019	100.0%	$ 188,505	100.0%	$ 3.97

(1) During the three months ended June 30, 2015, we evaluated our the rentable square feet in our portfolio, and determined that approximately 219,000 square feet is not considered leasable in the opinion of the Company to a third party tenant, and is no longer included in rentable square feet.

(2) Month to month leases.

On December 17, 2014, Bank of America, N.A. signed a lease amendment that renewed 90,051 square feet and terminated 228,928 square feet of their premises effective November 30, 2015. Pursuant to the lease amendment, on or before

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October 31, 2015, Bank of America, N.A. will pay a termination fee in the amount of $2.1 million. This termination fee along with the reimbursement of certain miscellaneous costs per the lease amendment was being recorded on a straight-line basis for GAAP purposes from December 17, 2014 through the relinquishment of the space on November 30, 2015. On May 18, 2015, Bank of America, N.A. entered into a second lease amendment that accelerated the termination of 35,296 square feet to April 30, 2015, in order for a new tenant to lease the space. The termination fee associated with the 35,295 square feet was recognized through the shortened lease life of April 30, 2015. The remaining termination fee continues be recorded on a straight-line basis for GAAP purposes through November 30, 2015.

As of June 30, 2015, for the period July 1, 2015 to June 30, 2016, the Bank of America, N.A. lease discussed above is the only one of our top ten leases, based on annualized base rental revenue, that will be expiring.

Portfolio Summary

The characteristics of the properties within our portfolio as of June 30, 2015 and December 31, 2014 are shown in the table below:

Portfolio characteristics