FRANKLIN STREET PROPERTIES CORP /MA/
Form 10-K
February 12, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2018

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

For the transition period from to

Commission File No. 001-32470

FRANKLIN STREET PROPERTIES CORP.

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	04-3578653 (I.R.S. Employer Identification No.)

401 Edgewater Place, Suite 200, Wakefield, Massachusetts	01880
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (781) 557-1300

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

Title of each class:	Name of each exchange on which registered:
Common Stock, $.0001 par value per share	NYSE American

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates based on the closing sale price as reported on NYSE American, as of the last business day of the registrant's most recently completed second fiscal quarter, June 30, 2018, was approximately $880,955,282.

There were 107,231,155 shares of common stock of the registrant outstanding as of February 7, 2019.

Documents incorporated by reference: The registrant intends to file a definitive proxy statement pursuant to Regulation 14A, promulgated under the Securities Exchange Act of 1934, as amended, to be used in connection with the registrant's Annual Meeting of Stockholders to be held on May 9, 2019 (the "Proxy Statement"). The information required in response to Items 10 — 14 of Part III of this Form 10-K, other than that contained in Part I under the caption, "Directors and Executive Officers of FSP Corp.," is hereby incorporated by reference to the Proxy Statement.

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PART I

Item 1.Business

History

Our company, Franklin Street Properties Corp., which we refer to as FSP Corp., the Company, we or our, is a Maryland corporation that operates in a manner intended to qualify as a real estate investment trust, or REIT, for federal income tax purposes. Our common stock is traded on the NYSE American under the symbol “FSP”. FSP Corp. is the successor to Franklin Street Partners Limited Partnership, or the FSP Partnership, which was originally formed as a Massachusetts general partnership in January 1997 as the successor to a Massachusetts general partnership that was formed in 1981. On January 1, 2002, the FSP Partnership converted into FSP Corp., which we refer to as the conversion. As a result of this conversion, the FSP Partnership ceased to exist and we succeeded to the business of the FSP Partnership. In the conversion, each unit of both general and limited partnership interests in the FSP Partnership was converted into one share of our common stock. As a result of the conversion, we hold, directly and indirectly, 100% of the interest in three former subsidiaries of the FSP Partnership: FSP Investments LLC, FSP Property Management LLC, and FSP Holdings LLC. We operate some of our business through these subsidiaries.

Our Business

We are a REIT focused on commercial real estate investments primarily in office markets and currently operate in only one segment: real estate operations. The principal revenue sources for our real estate operations include rental income from real estate leasing, interest income from secured loans made on office properties, property dispositions and fee income from asset/property management and development.

Our current strategy is to invest in select urban infill and central business district properties, with primary emphasis on our five core markets of Atlanta, Dallas, Denver, Houston and Minneapolis. We believe that our five core markets have macro-economic drivers that have the potential to increase occupancies and rents. We will also monitor other markets for opportunistic investments. We seek value-oriented investments with an eye towards long-term growth and appreciation, as well as current income.

Previously we also operated in an investment banking segment, which was discontinued in December 2011. Our investment banking segment generated brokerage commissions, loan origination fees, development services and other fees related to the organization of single-purpose entities that own real estate and the private placement of equity in those entities. We refer to these entities, which are organized as corporations and operated in a manner intended to qualify as REITs, as Sponsored REITs. On December 15, 2011, we announced that our broker/dealer subsidiary, FSP Investments LLC, would no longer sponsor the syndication of shares of preferred stock in newly-formed Sponsored REITs. On July 15, 2014, FSP Investments LLC withdrew its registration as a broker/dealer with FINRA.

From time-to-time we may acquire real estate or invest in real estate by making secured loans on real estate. We may also pursue on a selective basis the sale of our properties to take advantage of the value creation and demand for our properties, or for geographic or property specific reasons.

Real Estate

We own and operate a portfolio of real estate consisting of 35 office properties as of December 31, 2018, consisting of 32 operating properties and 3 redevelopment properties. We derive rental revenue from income paid to us by tenants of these properties. See Item 2 of this Annual Report on Form 10-K for more information about our properties. From time-to-time we dispose of properties generating gains or losses in an ongoing effort to improve and upgrade our portfolio.

We provide asset management, property management, property accounting, investor and/or development services to our portfolio and certain of our Sponsored REITs through our subsidiaries FSP Investments LLC and FSP Property Management LLC. FSP Corp. recognizes revenue from its receipt of fee income from Sponsored REITs that

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have not been consolidated or acquired by us. Neither FSP Investments LLC nor FSP Property Management LLC receives any rental income.

From time-to-time we may make secured loans to Sponsored REITs in the form of mortgage loans or revolving lines of credit to fund construction costs, capital expenditures, leasing costs and for other purposes. We anticipate that these loans will be repaid at their maturity or earlier from long-term financings of the underlying properties, cash flows from the underlying properties or some other capital event. We refer to these loans as Sponsored REIT Loans. We had four Sponsored REIT Loans secured by real estate outstanding as of December 31, 2018, from which we derive interest income.

Investment Objectives

Our investment objectives are to create shareholder value by increasing revenue from rental, dividend, interest and fee income and net gains from sales of properties and increase the cash available for distribution in the form of dividends to our stockholders. We expect that we will continue to derive real estate revenue from owned properties and Sponsored REIT Loans and fees from asset management, property management and investor services. We may also acquire additional real properties.

We may acquire, and have acquired, real properties in any geographic area of the United States and of any property type. We own 35 office properties that are located in 10 different states as of December 31, 2018, which consist of 32 operating properties and 3 redevelopment properties. See Item 2 of this Annual Report on Form 10-K for more information about our properties.

From time to time, as market conditions warrant, we may sell properties owned by us. We sold no properties during 2018. We sold an office property located in Milpitas, California on January 6, 2017 at a $2.3 million gain and an office property located in Baltimore, Maryland on October 20, 2017 at a $20.8 million loss. We sold an office property located in Maryland Heights, Missouri on April 5, 2016 at a $4.2 million gain and an office property located in Federal Way, Washington on December 16, 2016 at a $7.1 million loss. When we sell a property, we either distribute some or all of the sale proceeds to our stockholders as a distribution or retain some or all of such proceeds for investment in real properties or other corporate activities.

We rely on the following principles in selecting real properties for acquisition by FSP Corp. and managing them after acquisition:

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we seek to buy or develop investment properties at a price which produces value for investors and avoid overpaying for real estate merely to outbid competitors;

- we seek to buy or develop properties in excellent locations with substantial infrastructure in place around them and avoid investing in locations where the future construction of such infrastructure is speculative;
- we seek to buy or develop properties that are well-constructed and designed to appeal to a broad base of users and avoid properties where quality has been sacrificed for cost savings in construction or which appeal only to a narrow group of users;
- we aggressively manage, maintain and upgrade our properties and refuse to neglect or undercapitalize management, maintenance and capital improvement programs; and
- we believe that we have the ability to hold properties through down cycles because we generally do not have mortgage debt on the Company, which could place the properties at risk of foreclosure. As of February 7, 2019, none of our owned properties were subject to mortgage debt.

Competition

With respect to our real estate investments, we face competition in each of the markets where our properties are located. In order to establish, maintain or increase the rental revenues for a property, it must be competitive on location, cost and amenities with other buildings of similar use. Some of our competitors may have significantly more resources than we do and may be able to offer more attractive rental rates or services. On the other hand, some of our competitors may be smaller or have less fixed overhead costs, less cash or other resources that make them willing or able to accept lower rents in order to maintain a certain occupancy level. In markets where there is not currently significant existing property competition, our competitors may decide to enter the market and build new buildings to compete with our existing projects or those in a development stage. Our competition is not only with other developers, but also with property users who choose to own their building or a portion of the building in the form of an office condominium. Competitive conditions are affected by larger market forces beyond our control, such as general economic conditions, which may increase competition among landlords for quality tenants, and individual decisions by tenants that are beyond our control.

Employees

We had 38 employees as of February 7, 2019 and December 31, 2018.

Available Information

We make available, free of charge through our website http://www.fspreit.com our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with the Securities and Exchange Commission, or SEC.

We will voluntarily provide paper copies of our filings and code of ethics upon written request received at the address on the cover of this Annual Report on Form 10-K, free of charge.

Directors and Executive Officers of FSP Corp.

The following table sets forth the names, ages and positions of all our directors and executive officers as of February 7, 2019.

Name	Age	Position
George J. Carter (6)	70	Chief Executive Officer and Chairman of the Board
John N. Burke (1) (2) (3) (5) (7)	57	Director
Brian N. Hansen (1) (2) (3) (4) (9)	47	Director
Kenneth Hoxsie (1) (3) (5)	68	Director

Dennis J. McGillicuddy (1) (4)	77	Director
Georgia Murray (1) (2) (6) (8) (10)	68	Director
Kathryn P. O'Neil (2) (3) (5)	55	Director
Jeffrey B. Carter	47	President and Chief Investment Officer
Scott H. Carter	47	Executive Vice President, General Counsel and Secretary
John G. Demeritt	58	Executive Vice President, Chief Financial Officer and Treasurer
John F. Donahue	52	Executive Vice President
Eriel Anchondo	41	Executive Vice President and Chief Operating Officer

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Nominating and Corporate Governance Committee
(4) Class I Director
(5) Class II Director
(6) Class III Director
(7) Chair of the Audit Committee
(8) Chair of the Compensation Committee
(9) Chair of the Nominating and Corporate Governance Committee
(10) Lead Independent Director

George J. Carter, age 70, is Chief Executive Officer and has been Chairman of the Board of Directors of FSP Corp. since 2002. Mr. Carter also was the President of FSP Corp. from 2002 to May 2016. Mr. Carter is

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responsible for all aspects of the business of FSP Corp. and its affiliates, with special emphasis on the evaluation, acquisition and structuring of real estate investments. Prior to the conversion, he was President of the general partner of the FSP Partnership and was responsible for all aspects of the business of the FSP Partnership and its affiliates. From 1992 through 1996 he was President of Boston Financial Securities, Inc. ("Boston Financial"). Prior to joining Boston Financial, Mr. Carter was owner and developer of Gloucester Dry Dock, a commercial shipyard in Gloucester, Massachusetts. From 1979 to 1988, Mr. Carter served as Managing Director in charge of marketing at First Winthrop Corporation, a national real estate and investment banking firm headquartered in Boston, Massachusetts. Prior to that, he held a number of positions in the brokerage industry including those with Merrill Lynch & Co. and Loeb Rhodes & Co. Mr. Carter is a graduate of the University of Miami (B.S.).

John N. Burke, age 57, has been a Director of FSP Corp. since 2004 and Chair of the Audit Committee since June 2004. Mr. Burke is a certified public accountant with over 30 years of experience in the practice of public accounting working with both private and publicly traded companies with extensive experience serving clients in the real estate and REIT industry. His experience includes analysis and evaluation of financial reporting, accounting systems, internal controls and audit matters. Mr. Burke has been involved as an advisor on several public offerings, private equity and debt financings and merger and acquisition transactions. Mr. Burke's consulting experience includes a wide range of accounting, tax and business planning matters. Prior to starting his own firm in 2003, Mr. Burke was an Audit Partner in the Boston office of BDO USA, LLP. Mr. Burke is a member of the American Institute of Certified Public Accountants and the Massachusetts Society of CPAs. Mr. Burke earned an M.S. in Taxation and studied undergraduate accounting at Bentley University.

Brian N. Hansen, age 47, has been a Director of FSP Corp. since 2012 and Chair of the Nominating and Corporate Governance Committee since 2013. Since 2007, Mr. Hansen has served as President and Chief Operating Officer of Confluence Investment Management LLC, a St. Louis based Registered Investment Advisor. Prior to founding Confluence in 2007, Mr. Hansen served as a Managing Director in A.G. Edwards' Financial Institutions & Real Estate Investment Banking practice. While at A.G. Edwards, Mr. Hansen advised a wide variety of Real Estate Investment Trusts on numerous capital markets transactions, including public and private offerings of debt and equity securities as well as the analysis of various merger & acquisition opportunities. Prior to joining A.G. Edwards, Mr. Hansen served as a Manager in Arthur Andersen LLP's Audit & Business Advisory practice. Mr. Hansen has served on the boards of a number of non-profit entities and currently serves on the Investment Committee of the Archdiocese of St. Louis and as a member of the St. Louis County Retirement Board. Mr. Hansen earned his M.B.A. from the Kellogg School of Management at Northwestern University and his Bachelor of Science in Commerce from DePaul University. Mr. Hansen is a Certified Public Accountant.

Kenneth A. Hoxsie, age 68, has been a Director of FSP Corp. since January 2016. Mr. Hoxsie was a Partner at the international law firm of Wilmer Cutler Pickering Hale and Dorr LLP ("WilmerHale") until his retirement on December 31, 2015. He joined Hale and Dorr (the predecessor of WilmerHale) in 1981, subsequently worked at Copley Real Estate Advisors, an institutional real estate investment advisory firm, and rejoined Hale and Dorr in 1994. Mr. Hoxsie has over 30 years' experience in real estate capital markets transactions, fund formation, public company counseling and mergers and acquisitions and has advised the Company since its formation in 1997. Mr. Hoxsie earned his J.D. (Cum Laude) from Harvard Law School, his M.A. from Harvard University and his B.A. (Summa Cum Laude) from Amherst College, where he was elected to Phi Beta Kappa.

Dennis J. McGillicuddy, age 77, has been a Director of FSP Corp. since May 2002. Mr. McGillicuddy graduated from the University of Florida with a B.A. degree and from the University of Florida Law School with a J.D. degree. In 1968, Mr. McGillicuddy joined Barry Silverstein in founding Coaxial Communications, a cable television company. In 1998 and 1999, Coaxial sold its cable systems. Mr. McGillicuddy has served on the boards of various charitable organizations. He is currently president of the Board of Trustees of Florida Studio Theater, a professional non-profit theater organization, and he serves as a Co-Chair, together with his wife, of Embracing Our Differences, an annual month-long art exhibit that promotes the values of diversity and inclusion. Mr. McGillicuddy also is a director of All-Star Children's Foundation, an organization engaged in creating a new paradigm for foster care.

Georgia Murray, age 68, has been a Director of FSP Corp. since April 2005, Chair of the Compensation Committee since October 2006 and Lead Independent Director since February 2014. Ms. Murray is retired from Lend

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Lease Real Estate Investments, Inc., where she served as a Principal from November 1999 until May 2000. From 1973 through October 1999, Ms. Murray worked at The Boston Financial Group, Inc., serving as Senior Vice President and a Director at times during her tenure. Boston Financial was an affiliate of the Boston Financial Group, Inc. She is a past Trustee of the Urban Land Institute and a past President of the Multifamily Housing Institute. Ms. Murray previously served on the Board of Directors of Capital Crossing Bank. She also serves on the boards of numerous non-profit entities. Ms. Murray is a graduate of Newton College.

Kathryn P. O’Neil, age 55, has been a Director of FSP Corp. since January 2016. Ms. O’Neil was a Director at Bain Capital in the Investor Relations area where she focused on Private Equity and had oversight of the Investment Advisory sector from 2011 until her retirement in 2014. From 1999 to 2007, Ms. O’Neil was a Partner at FLAG Capital Management LLC, a manager of fund-of-funds investment vehicles in private equity, venture capital, real estate and natural resources. Previously, Ms. O’Neil was an Investment Consultant at Cambridge Associates where she specialized in Alternative Assets. Ms. O’Neil currently serves on a variety of non-profit boards, including the Peabody Essex Museum where she is a Director and a member of the Finance, Audit, and Investment Committees, Horizon’s for Homeless Children where she is a Director and serves on the Executive and Finance Committees, and the Trustees of Reservations where she serves on the President’s Council and Investment Committee. Ms. O’Neil is a Trustee Emeritus of Colby College and a former member of the Board of Overseers of the Boston Museum of Science. Ms. O’Neil holds a B.A. (Summa Cum Laude) and M.A. (Honorary) from Colby College where she was elected to Phi Beta Kappa. Ms. O’Neil received her M.B.A. from The Harvard Graduate School of Business Administration.

Jeffrey B. Carter, age 47, is President and Chief Investment Officer of FSP Corp. Mr. Carter served as Executive Vice President and Chief Investment Officer from February 2012 until May 2016, when he was appointed as President in addition to his position as Chief Investment Officer. Previously, Mr. Carter served as Senior Vice President and Director of Acquisitions of FSP Corp. from 2005 to 2012 and as Vice President - Acquisitions from 2003 to 2005. Mr. Carter oversees the day-to-day execution of the Company’s strategic objectives and business plan. In addition, Mr. Carter is primarily responsible for developing and implementing the Company’s investment strategy, including coordination of acquisitions and dispositions. Prior to joining FSP Corp., Mr. Carter worked in Trust Administration for Northern Trust Bank in Miami, Florida. Mr. Carter is a graduate of Arizona State University (B.A.), The George Washington University (M.A.) and Cornell University (M.B.A.). Mr. Carter’s father, George J. Carter, serves as Chief Executive Officer and Chairman of the Board of Directors of FSP Corp. and Mr. Carter’s brother, Scott H. Carter, serves as Executive Vice President, General Counsel and Secretary of FSP Corp.

Scott H. Carter, age 47, is Executive Vice President, General Counsel and Secretary of FSP Corp. Mr. Carter has served as General Counsel since February 2008. Mr. Carter joined FSP Corp. in October 2005 as Senior Vice President and In-house Counsel. Mr. Carter is primarily responsible for the management of all of the legal affairs of FSP Corp. and its affiliates. Prior to joining FSP Corp. in October 2005, Mr. Carter was associated with the law firm of Nixon Peabody LLP, which he originally joined in 1999. At Nixon Peabody LLP, Mr. Carter concentrated his practice on the areas of real estate syndication, acquisitions and finance. Mr. Carter received a Bachelor of Business Administration (B.B.A.) degree in Finance and Marketing and a Juris Doctor (J.D.) degree from the University of Miami. Mr. Carter is admitted to practice law in the Commonwealth of Massachusetts. Mr. Carter’s father, George J. Carter, serves as Chief Executive Officer and Chairman of the Board of Directors of FSP Corp. and Mr. Carter’s brother, Jeffrey B. Carter, serves as President and Chief Investment Officer of FSP Corp.

John G. Demeritt, age 58, is Executive Vice President, Chief Financial Officer and Treasurer of FSP Corp. and has been Chief Financial Officer since March 2005. Mr. Demeritt previously served as Senior Vice President, Finance and Principal Accounting Officer from September 2004 to March 2005. Prior to September 2004, Mr. Demeritt was a Manager with Caturano & Company, an independent accounting firm (which later merged with McGladrey) where he focused on Sarbanes Oxley compliance. Previously, from March 2002 to March 2004 he provided consulting services to public and private companies where he focused on SEC filings, evaluation of business processes and acquisition integration. During 2001 and 2002 he was Vice President of Financial Planning & Analysis at Cabot Industrial Trust, a publicly traded real estate investment trust, which was acquired by CalWest in December 2001. From October 1995 to December 2000 he was Controller and Officer of The Meditrust Companies, a publicly traded real estate investment trust (formerly known as The La Quinta Companies, which was then acquired by the Blackstone Group), where he was involved with a number of merger and financing transactions. Prior to that, from 1986 to 1995 he had financial and

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accounting responsibilities at three other public companies, and was previously associated with Laventhol & Horwath, an independent accounting firm from 1983 to 1986. Mr. Demeritt is a Certified Public Accountant and holds a Bachelor of Science degree from Babson College.

John F. Donahue, age 52, is Executive Vice President of FSP Corp. and President of FSP Property Management LLC and has held those positions since May 2016. Mr. Donahue is primarily responsible for the oversight of the management of all of the real estate assets of FSP Corp. and its affiliates. Mr. Donahue joined FSP Corp. in August 2001 as Vice President of FSP Property Management LLC. From 2001 to May 2016, Mr. Donahue was responsible for the management of certain of the real estate assets of FSP Corp. and its affiliates. From 1992 to 2001, Mr. Donahue worked in the pension fund advisory business for GE Capital and AEW Capital Management with oversight of office, research and development, industrial and land investments. From 1989 to 1992, Mr. Donahue worked for Krupp Realty in various accounting and finance roles. Mr. Donahue holds a Bachelor of Science in Business Administration degree from Bryant College.

Eriel Anchondo, age 41, is Executive Vice President and Chief Operating Officer of FSP Corp. and has held those positions since May 2016. Mr. Anchondo joined FSP Corp. in 2015 as Senior Vice President of Operations. Mr. Anchondo is responsible for ensuring that the Company has the proper operational controls, administrative and reporting procedures, and people systems and infrastructure in place to effectively grow the organization and maintain financial strength and operating efficiency. Prior to joining FSP Corp., from July 2014 to December 2014, Mr. Anchondo provided consulting services to the retail banking division of ISBAN, which is part of the Technology and Operations division of the Santander Group of financial institutions. From May 2007 to July 2013, Mr. Anchondo was employed by Mercer, a global consulting leader in talent, health, retirement, and investments, as an Employee Education Manager across all lines of Mercer's business. From May 2005 to May 2007, Mr. Anchondo was a Communications Consultant at New York Life Investment Management. From December 2002 to May 2005, Mr. Anchondo worked in the Preferred Client Services Group at Putnam Investments. Mr. Anchondo is a graduate of Boston University (B.A.) and Cornell University (M.B.A.).

Except for Eriel Anchondo, who joined FSP Corp. in 2015, each of the above executive officers has been a full-time employee of FSP Corp. for the past five fiscal years.

Item 1A.Risk Factors

The following important factors, among others, could cause actual results to differ materially from those indicated by forward-looking statements made in this Annual Report on Form 10-K and presented elsewhere by management from time-to-time.

Economic conditions in the United States could have a material adverse impact on our earnings and financial condition.

Because economic conditions in the United States may affect real estate values, occupancy levels and property income, current and future economic conditions in the United States could have a material adverse impact on our earnings and financial condition. Economic conditions may be affected by numerous factors, including but not limited to, the pace of economic growth and/or recessionary concerns, inflation, increases in the levels of unemployment, energy prices, changes in currency exchange rates, uncertainty about government fiscal and tax policy, geopolitical events, the regulatory environment, the availability of credit and interest rates. Future economic factors may negatively affect real estate values, occupancy levels and property income.

If a Sponsored REIT defaults on a Sponsored REIT Loan, we may be required to request additional draws, keep balances outstanding on our existing debt, exercise any maturity date extension rights, seek new debt or use our cash balance to repay our existing debt, which may reduce cash available for distribution to our stockholders or for other corporate purposes.

From time-to-time, we may make secured loans to Sponsored REITs in the form of mortgage loans or revolving lines of credit to fund construction costs, capital expenditures, leasing costs and for other purposes. We refer to these loans as Sponsored REIT Loans. We anticipate that each Sponsored REIT Loan will be repaid at maturity or earlier from long term financing of the property securing the loan, cash flows from that underlying property or some other capital event. If a Sponsored REIT defaults on a Sponsored REIT Loan, the Sponsored REIT could be unable to fully repay the Sponsored REIT Loan and we may have to satisfy our obligations under our existing debt through other means, including without limitation, requesting additional draws, keeping balances outstanding, exercising any maturity date extension rights, seeking new debt, and/or using our cash balance. If that happens, we may have less cash available for distribution to our stockholders or for other corporate purposes.

Our operating results and financial condition could be adversely affected if we are unable to refinance the BAML Credit Facility, the BMO Term Loan, the JPM Term Loan, the Series A Notes or the Series B Notes.

There can be no assurance that we will be able to refinance the revolving line of credit portion of the BAML Credit Facility (as defined in Note 4 to the Consolidated Financial Statements) upon its maturity on January 12, 2022 (subject to two six month extensions until January 12, 2023), the term loan portion of the BAML Credit Facility upon its maturity on January 12, 2023, the BMO Term Loan (as defined in Note 4 to the Consolidated Financial Statements) upon its maturities on November 30, 2021 and January 31, 2024, the JPM Term Loan (as defined in Note 4 to the Consolidated Financial Statements) upon its maturity on November 30, 2021, the Series A Notes (as defined in Note 4 to the Consolidated Financial Statements) upon their maturity on December 20, 2024 or the Series B Notes (as defined in Note 4 to the Consolidated Financial Statements) upon their maturity on December 20, 2027, that any such refinancings would be on terms as favorable as the terms of the BAML Credit Facility, the BMO Term Loan, the JPM Term Loan, the Series A Notes, or the Series B Notes, or that we will be able to otherwise obtain funds by selling assets or raising equity to make required payments on the BAML Credit Facility, the BMO Term Loan, the JPM Term Loan, the Series A Notes or the Series B Notes. If we are unable to refinance the BAML Credit Facility, the BMO Term Loan, the JPM Term Loan, the Series A Notes or the Series B Notes at maturity or meet our payment obligations, the amount of our distributable cash flow and our financial condition would be adversely affected.

Failure to comply with covenants in the documents evidencing the BAML Credit Facility, the BMO Term Loan, the JPM Term Loan, the Series A Notes or the Series B Notes could adversely affect our financial condition.

The documents evidencing the BAML Credit Facility, the BMO Term Loan, the JPM Term Loan, the Series A Notes and the Series B Notes contain customary affirmative and negative covenants, including limitations with respect to indebtedness, liens, investments, mergers and acquisitions, disposition of assets, changes in business, certain restricted payments, the requirement to have subsidiaries provide a guaranty in the event that they incur recourse indebtedness and transactions with affiliates. The documents evidencing the BAML Credit Facility, the BMO Term Loan, the JPM Term Loan, the Series A Notes and the Series B Notes contain some or all of the following financial covenants: minimum tangible net worth; maximum leverage ratio; maximum secured leverage ratio; minimum fixed charge coverage ratio; maximum unencumbered leverage ratio; and minimum unsecured interest coverage. Our continued ability to borrow under the BAML Credit Facility, the BMO Term Loan, and the JPM Term Loan is subject to compliance with our financial and other covenants. Failure to comply with such covenants could cause a default under the BAML Credit Facility, the BMO Term Loan, the JPM Term Loan, the Series A Notes or the Series B Notes, and we may then be required to repay them with capital from other sources. Under those circumstances, other sources of capital may not be available to us, or be available only on unattractive terms.

We may use the BAML Credit Facility, the BMO Term Loan, and the JPM Term Loan to finance the acquisition of real properties and for other permitted investments, to finance investments associated with Sponsored REITs, to refinance or retire indebtedness and for working capital and other general business purposes, in each case to the extent permitted under the respective documents. If we breach covenants in the documents evidencing the BAML

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Credit Facility, the BMO Term Loan, the JPM Term Loan, the Series A Notes or the Series B Notes, the lenders can declare a default. A default under documents evidencing the BAML Credit Facility, the BMO Term Loan, the JPM Term Loan, the Series A Notes, or the Series B Notes could result in difficulty financing growth in our business and could also result in a reduction in the cash available for distribution to our stockholders or for other corporate purposes. A default under documents evidencing the BAML Credit Facility, the BMO Term Loan, the JPM Term Loan, the Series A Notes or the Series B Notes could materially and adversely affect our financial condition and results of operations.

An increase in interest rates would increase our interest costs on variable rate debt and could adversely impact our ability to refinance existing debt or sell assets.

As of December 31, 2018, we had approximately $25 million of indebtedness under the revolving line of credit portion of our BAML Credit Facility that bears interest at variable rates based on our credit rating, and we may incur more of such indebtedness in the future. Borrowings under the revolving line of credit portion of our BAML Credit Facility may not exceed $600 million outstanding at any time. As of December 31, 2018, $400 million was drawn and outstanding under the term loan portion of our BAML Credit Facility. The BAML Credit Facility includes an accordion feature that allows for an aggregate amount of up to $500 million of additional borrowing capacity. On July 22, 2016, we fixed the base LIBOR rate on the term loan portion of the BAML Credit Facility at 1.12% until September 27, 2021 by entering into an interest rate swap agreement.

As of December 31, 2018, $220 million was drawn and outstanding under the BMO Term Loan, although such amount may be increased by up to an additional $100 million through the exercise of an accordion feature. The BMO Term Loan consists of a $55 million tranche A term loan and a $165 million tranche B term loan. On August 26, 2013, we fixed the base LIBOR rate on the BMO Term Loan at 2.32% per annum until August 26, 2020 by entering into an interest rate swap agreement.

As of December 31, 2018, $150 million was drawn and outstanding under the JPM Term Loan. The JPM Term Loan bears interest at variable rates based on our credit rating.

In the future, if interest rates increase, then the interest costs on our unhedged variable rate debt will also increase, which could adversely affect our cash flow, our ability to pay principal and interest on our debt and our ability to make distributions to stockholders. In addition, rising interest rates could limit our ability to incur new debt or to refinance existing debt when it matures. From time to time, we may enter into additional interest rate swap agreements and other interest rate hedging contracts, including swaps, caps and floors. While these agreements are intended to lessen the impact of rising interest rates on us, they also expose us to the risks that the other parties to the agreements will not perform, we could incur significant costs associated with the settlement of the agreements, the agreements will be unenforceable and the underlying transactions will fail to qualify as highly-effective cash flow hedges. In addition, an increase in interest rates could decrease the amount third parties are willing to pay for our assets, thereby limiting our ability to change our portfolio promptly in response to changes in economic or other conditions.

Changes to and replacement of the LIBOR benchmark interest rate could adversely affect our business, financial results and operation.

In July 2017, the Financial Conduct Authority (the regulatory authority over LIBOR) stated they will plan for a phase out of regulatory oversight of LIBOR interest rate indices after 2021 to allow for an orderly transition to an alternate reference rate. The Alternative Reference Rates Committee (ARRC) has proposed that the Secured Overnight Financing Rate (SOFR) is the rate that represents best practice as the alternative to LIBOR for derivatives and other financial contracts that are currently indexed to LIBOR. The ARRC has proposed a market transition plan to SOFR from LIBOR and organizations are currently working on transition plans as it relates to derivatives and cash markets exposed to LIBOR. We are evaluating the potential impact of the eventual replacement of the LIBOR benchmark interest rate, including the possibility of SOFR as the dominant replacement. The market transition away from LIBOR towards SOFR is expected to be complicated. There can be no guarantee that SOFR will become a widely accepted benchmark in place of LIBOR, or what the impact of such a possible transition to SOFR may be on our business, financial results and operations.

Downgrades in our credit ratings could increase our borrowing costs or reduce our access to funding sources in the credit and capital markets.

We are currently assigned a corporate credit rating from Moody’s Investors Service, Inc. (“Moody’s”) based on its evaluation of our creditworthiness. Although our corporate credit rating from Moody’s is currently investment grade, there can be no assurance that we will not be downgraded or that our rating will remain investment grade. If our credit rating is downgraded or other negative action is taken, we could be required, among other things, to pay additional interest and fees under the BAML Credit Facility, the BMO Term Loan, the JPM Term Loan, the Series A Notes and the Series B Notes.

Credit rating reductions by one or more rating agencies could also adversely affect our access to funding sources, the cost and other terms of obtaining funding as well as our overall financial condition, operating results and cash flow.

If we are not able to collect sufficient rents from each of our owned real properties, or investments in Sponsored REITs, or collect interest on Sponsored REIT Loans we fund, we may suffer significant operating losses or a reduction in cash available for future dividends.

A substantial portion of our revenue is generated by the rental income of our real properties and investments in Sponsored REITs. If our properties do not provide us with a steady rental income or we do not collect interest income from Sponsored REIT Loans we fund, our revenues will decrease, which may cause us to incur operating losses in the future and reduce the cash available for distribution to our stockholders.

We may not be able to identify properties that meet our criteria for purchase.

Growth in our portfolio of real estate is dependent on the ability of our acquisition executives to identify properties for sale and/or development which meet the applicable investment criteria. To the extent they fail to identify such properties, we would be unable to increase the size of our portfolio of real estate, which could reduce the cash otherwise available for distribution to our stockholders.

We are dependent on key personnel.

We depend on the efforts of George J. Carter, our Chief Executive Officer and Chairman of the Board of Directors; Jeffrey B. Carter, our President and Chief Investment Officer; Scott H. Carter, our General Counsel, Secretary and an Executive Vice President; John G. Demeritt, our Chief Financial Officer, Treasurer and an Executive Vice President; John F. Donahue, our President of FSP Property Management LLC and an Executive Vice President; and Eriel Anchondo, our Chief Operating Officer and an Executive Vice President. If any of our executive officers were to resign, our operations could be adversely affected. We do not have employment agreements with any of our executive officers.

Our level of dividends may fluctuate.

Because our real estate occupancy levels and rental rates can fluctuate, there is no predictable recurring level of revenue from such activities and changes in interest rates or in the mix of our fixed and variable rate debt can cause our interest costs to fluctuate. As a result of these fluctuations, the amount of cash available for distribution to our stockholders may fluctuate, which may result in our not being able to maintain or grow dividend levels in the future.

We face risks from tenant defaults or bankruptcies.

If any of our tenants defaults on its lease, we may experience delays in enforcing our rights as a landlord and may incur substantial costs in protecting our investment. In addition, at any time, a tenant of one of our properties may seek the protection of bankruptcy laws, which could result in the rejection and termination of such tenant's lease and thereby cause a reduction in cash available for distribution to our stockholders.

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The real properties held by us may significantly decrease in value.

As of December 31, 2018, we owned 35 properties, consisting of 32 operating properties and 3 redevelopment properties. Some or all of these properties may decline in value. To the extent our real properties decline in value, our stockholders could lose some or all of the value of their investments. The value of our common stock may be adversely affected if the real properties held by us decline in value since these real properties represent the majority of the tangible assets held by us. Moreover, if we are forced to sell or lease the real property held by us below its initial purchase price or its carrying costs, respectively, or if we are forced to lease real property at below market rates because of the condition of the property, our results of operations would be adversely affected and such negative results of operations may result in lower dividends being paid to holders of our common stock.

New acquisitions may fail to perform as expected.

We may fund the acquisition of new properties with cash, by drawing on the revolving line of credit portion of our BAML Credit Facility, by assuming existing indebtedness, by entering into new indebtedness, by issuing debt securities, by issuing shares of our stock or by other means. During the years ended December 31, 2017 and 2018, we did not acquire any properties. During the year ended December 31, 2016, we acquired one property located in Minnesota, one property located in Georgia and one property located in Colorado. Newly acquired properties may fail to perform as expected, in which case, our results of operations could be adversely affected.

We face risks in owning, developing, redeveloping and operating real property.

An investment in us is subject to the risks incident to the ownership, development, redevelopment and operation of real estate-related assets. These risks include the fact that real estate investments are generally illiquid, which may affect our ability to vary our portfolio in response to changes in economic and other conditions, as well as the risks normally associated with:

· changes in general and local economic conditions;
· the supply or demand for particular types of properties in particular markets;
· changes in market rental rates;
· the impact of environmental protection laws;
· changes in tax, real estate and zoning laws; and
· the impact of obligations and restrictions contained in title-related documents.

Certain significant costs, such as real estate taxes, utilities, insurance and maintenance costs, generally are not reduced even when a property's rental income is reduced. In addition, environmental and tax laws, interest rate levels, the availability of financing and other factors may affect real estate values and property income. Furthermore, the supply of commercial space fluctuates with market conditions.

We may encounter significant delays in reletting vacant space, resulting in losses of income.

When leases expire, we may incur expenses and may not be able to re-lease the space on the same terms. While we cannot predict when existing vacant space in properties will be leased, if existing tenants with expiring leases will renew their leases or what the terms and conditions of the lease renewals will be, we expect to renew or sign new leases at current market rates for locations in which the buildings are located, which in some cases may be below the expiring rates. Certain leases provide tenants the right to terminate early if they pay a fee. If we are unable to re-lease space promptly, if the terms are significantly less favorable than anticipated or if the costs are higher, we may have to reduce distributions to our stockholders. Typical lease terms range from five to ten years, so up to approximately 20% of our rental revenue from commercial properties could be expected to expire each year.

We face risks of tenant-type concentration.

As of December 31, 2018, approximately 16% and 10% of our tenants as a percentage of the total rentable square feet operated in the energy services industry and the legal services industry, respectively. An economic downturn

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in these or any industry in which a high concentration of our tenants operate or in which a significant number of our tenants currently or may in the future operate, could negatively impact the financial condition of such tenants and cause them to fail to make timely rental payments or default on lease obligations, fail to renew their leases or renew their leases on terms less favorable to us, become bankrupt or insolvent, or otherwise become unable to satisfy their obligations to us, which could adversely affect our financial condition and results of operations.

We face risks from geographic concentration.

The properties in our portfolio as of December 31, 2018, by aggregate square footage, are distributed geographically as follows: South — 47.1%, West — 26.7%, Midwest — 15.9% and East — 10.3%. However, within certain of those regions, we hold a larger concentration of our properties in Greater Denver, Colorado — 26.4%, Atlanta, Georgia — 19.9%, Houston, Texas — 12.0% and Dallas, Texas — 12.4%. We are likely to face risks to the extent that any of these areas in which we hold a larger concentration of our properties suffer deteriorating economic conditions. Given the fact that the Dallas, Denver and Houston metropolitan areas have a significant presence in the energy sector, a prolonged period of low oil or natural gas prices, or other factors negatively impacting the energy industry could have an adverse impact on our ability to maintain the occupancy of our properties in those areas or could cause us to lease space at rates below current in-place rents, or at rates below the rates we have leased space in those areas in the prior year. In addition, factors negatively impacting the energy industry could reduce the market values of our properties in those areas, which could reduce our net asset value and adversely affect our financial condition and results of operations, or cause a decline in the value of our common stock.

We compete with national, regional and local real estate operators and developers, which could adversely affect our cash flow.

Competition exists in every market in which our properties are currently located and in every market in which properties we may acquire in the future will be located. We compete with, among others, national, regional and numerous local real estate operators and developers. Such competition may adversely affect the percentage of leased space and the rental revenues of our properties, which could adversely affect our cash flow from operations and our ability to make expected distributions to our stockholders. Some of our competitors may have more resources than we do or other competitive advantages. Competition may be accelerated by any increase in availability of funds for investment in real estate. For example, decreases in interest rates tend to increase the availability of funds and therefore can increase competition. To the extent that our properties continue to operate profitably, this will likely stimulate new development of competing properties. The extent to which we are affected by competition will depend in significant part on both local market conditions and national and global economic conditions.

We are subject to possible liability relating to environmental matters, and we cannot assure you that we have identified all possible liabilities.

Under various federal, state and local laws, ordinances and regulations, an owner or operator of real property may become liable for the costs of removal or remediation of certain hazardous substances released on or in its property. Such laws may impose liability without regard to whether the owner or operator knew of, or caused, the release of such hazardous substances. The presence of hazardous substances on a property may adversely affect the owner's ability to sell such property or to borrow using such property as collateral, and it may cause the owner of the property to incur substantial remediation costs. In addition to claims for cleanup costs, the presence of hazardous substances on a property could result in the owner incurring substantial liabilities as a result of a claim by a private party for personal injury or a claim by an adjacent property owner for property damage.

In addition, we cannot assure you that:

- future laws, ordinances or regulations will not impose any material environmental liability;
- proposed legislation to address climate change will not increase utility and other costs of operating our properties which, if not offset by rising rental income and/or paid by tenants, would materially and adversely affect our financial condition and results of operations;

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- the current environmental conditions of our properties will not be affected by the condition of properties in the vicinity of such properties (such as the presence of leaking underground storage tanks) or by third parties unrelated to us;
- tenants will not violate their leases by introducing hazardous or toxic substances into our properties that could expose us to liability under federal or state environmental laws; or
- environmental conditions, such as the growth of bacteria and toxic mold in heating and ventilation systems or on walls, will not occur at our properties and pose a threat to human health.

We are subject to compliance with the Americans With Disabilities Act and fire and safety regulations, any of which could require us to make significant capital expenditures.

All of our properties are required to comply with the Americans With Disabilities Act (ADA), and the regulations, rules and orders that may be issued thereunder. The ADA has separate compliance requirements for "public accommodations" and "commercial facilities," but generally requires that buildings be made accessible to persons with disabilities. Compliance with ADA requirements might require, among other things, removal of access barriers. Noncompliance with such requirements could result in the imposition of fines by the U.S. government or an award of damages to private litigants.

In addition, we are required to operate our properties in compliance with fire and safety regulations, building codes and other land use regulations, as they may be adopted by governmental agencies and bodies and become applicable to our properties. Compliance with such requirements may require us to make substantial capital expenditures, which expenditures would reduce cash otherwise available for distribution to our stockholders.

We face risks associated with our tenants being designated "Prohibited Persons" by the Office of Foreign Assets Control.

Pursuant to Executive Order 13224 and other laws, the Office of Foreign Assets Control of the United States Department of the Treasury, or OFAC, maintains a list of persons designated as terrorists or who are otherwise blocked or banned, which we refer to as Prohibited Persons. OFAC regulations and other laws prohibit conducting business or engaging in transactions with Prohibited Persons (the "OFAC Requirements"). Our current leases and certain other agreements require the other party to comply with the OFAC Requirements. If a tenant or other party with whom we contract is placed on the OFAC list we may be required by the OFAC Requirements to terminate the lease or other agreement. Any such termination could result in a loss of revenue or a damage claim by the other party that the termination was wrongful.

Security breaches and other disruptions could compromise our information and expose us to liability, which could cause our business and reputation to suffer.

In the ordinary course of our business, we collect and store sensitive data concerning investors in the Sponsored REITS, tenants and vendors. Although we have taken steps to protect the security of our information technology systems and the data maintained in those systems, such systems and infrastructure may be vulnerable to attacks by hackers, computer viruses or ransomware, or breaches due to employee error, malfeasance, impersonization of authorized users or other disruptions. Any such breach or attack could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and continuously become more sophisticated, often are not recognized until launched against a target and may be difficult to detect for a long time, we may be unable to anticipate these techniques or to implement adequate preventive or detective measures. Any unauthorized access, disclosure or other loss of information could result in significant financial exposure, including significant costs to remediate possible injury to the affected parties. We may also be subject to sanctions and civil or criminal penalties if we are found to be in violation of the privacy or security rules under laws protecting confidential information. Any failure to maintain proper functionality and security of our information systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could have a material adverse effect on our business, financial condition, cash flows and results of operations.

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

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

We may lose capital investment or anticipated profits if an uninsured event occurs.

We carry, or our tenants carry, comprehensive liability, fire and extended coverage with respect to each of our properties, with policy specification and insured limits customarily carried for similar properties. There are, however, certain types of losses that may be either uninsurable or not economically insurable. Should an uninsured material loss occur, we could lose both capital invested in the property and anticipated profits.

Our employee retention plan may prevent changes in control.

During February 2006, our Board of Directors approved a change in control plan, which included a form of retention agreement and discretionary payment plan. Payments under the discretionary plan are capped at 1% of the market capitalization of FSP Corp. as reduced by the amount paid under the retention plan. The costs associated with these two components of the plan may have the effect of discouraging a third party from making an acquisition proposal for us and may thereby inhibit a change in control under circumstances that could otherwise give the holders of our common stock the opportunity to realize a greater premium over the then-prevailing market prices.

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

The interests of our existing stockholders could be diluted if we issue additional equity securities to finance future acquisitions, repay indebtedness or to fund other general corporate purposes. Our ability to execute our business strategy depends on our access to an appropriate blend of debt financing, including unsecured lines of credit and other forms of secured and unsecured debt, and equity financing.

The price of our common stock may vary.

The market prices for our common stock may fluctuate with changes in market and economic conditions, including the market perception of REITs in general, and changes in our financial condition and results of operations. Such fluctuations may depress the market price of our common stock independent of the financial performance of FSP Corp. The market conditions for REIT stocks generally could affect the market price of our common stock.

Recently enacted U.S. federal tax reform legislation could affect REITs generally, the geographic markets in which we operate, the price of our common stock and our results of operations, both positively and negatively in ways that are difficult to anticipate.

On December 22, 2017, the Tax Cuts and Jobs Act (the "2017 Act") was enacted. The 2017 Act includes significant changes to corporate and individual tax rates and the calculation of taxes, as well as international tax rules for U.S. domestic corporations. As a REIT, we are generally not required to pay federal taxes otherwise applicable to regular corporations if we distribute all of our income and comply with the various tax rules governing REITs. Stockholders, however, are generally required to pay taxes on REIT dividends. The 2017 Act changes the way in which dividends paid on our stock are taxed by the holder of that stock and could impact the price of our common stock or how stockholders and potential investors view an investment in REITs. In addition, while certain elements of the 2017 Act

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do not appear to impact us directly as a REIT, they could impact the geographic markets in which we operate and the tenants that lease space at our properties in ways, both positive and negative, that are difficult to anticipate.

We would incur adverse tax consequences if we failed to qualify as a real estate investment trusts or REIT.

The provisions of the tax code governing the taxation of real estate investment trusts are very technical and complex, and although we expect that we will be organized and will operate in a manner that will enable us to meet such requirements, no assurance can be given that we will always succeed in doing so. In addition, as a result of our past acquisition of certain Sponsored REITs by merger, which we refer to as target REITs, we might no longer qualify as a real estate investment trust. We could lose our ability to so qualify for a variety of reasons relating to the nature of the assets acquired from the target REITs, the identity of the stockholders of the target REITs who become our stockholders or the failure of one or more of the target REITs to have previously qualified as a real estate investment trust. Moreover, if one or more of the target REITs that we acquired in May 2008, April 2006, April 2005 or June 2003 did not qualify as a REIT immediately prior to the consummation of its acquisition, we could be disqualified as a REIT as a result of such acquisition.

If in any taxable year we do not qualify as a real estate investment trust, we would be taxed as a corporation and distributions to our stockholders would not be deductible by us in computing our taxable income. In addition, if we were to fail to qualify as a real estate investment trust, we could be disqualified from treatment as a real estate investment trust in the year in which such failure occurred and for the next four taxable years and, consequently, we would be taxed as a regular corporation during such years. Failure to qualify for even one taxable year could result in a significant reduction of our cash available for distribution to our stockholders or could require us to incur indebtedness or liquidate investments in order to generate sufficient funds to pay the resulting federal income tax liabilities.

Provisions in our organizational documents may prevent changes in control.

Our Articles of Incorporation and Bylaws contain provisions, described below, which may have the effect of discouraging a third party from making an acquisition proposal for us and may thereby inhibit a change of control under circumstances that could otherwise give the holders of our common stock the opportunity to realize a premium over the then-prevailing market prices.

Ownership Limits. In order for us to maintain our qualification as a real estate investment trust, the holders of our common stock may be limited to owning, either directly or under applicable attribution rules of the Internal Revenue Code, no more than 9.8% of the lesser of the value or the number of our equity shares, and no holder of common stock may acquire or transfer shares that would result in our shares of common stock being beneficially owned by fewer than 100 persons. Such ownership limit may have the effect of preventing an acquisition of control of us without the approval of our board of directors. Our Articles of Incorporation give our board of directors the right to refuse to give effect to the acquisition or transfer of shares by a stockholder in violation of these provisions.

Staggered Board. Our board of directors is divided into three classes. The terms of these classes are staggered and will expire in 2019, 2020 and 2021, respectively. Directors of each class are elected for a three-year term upon the expiration of the respective term of each class. The staggered terms for directors may affect our stockholders' ability to effect a change in control even if a change in control may be in the stockholders' best interests.

Preferred Stock. Our Articles of Incorporation authorize our board of directors to issue up to 20,000,000 shares of preferred stock, par value $.0001 per share, and to establish the preferences and rights of any such shares issued. The issuance of preferred stock could have the effect of delaying or preventing a change in control even if a change in control may be in our stockholders' best interest.

Increase of Authorized Stock. Our board of directors, without any vote or consent of the stockholders, may increase the number of authorized shares of any class or series of stock or the aggregate number of authorized shares we have authority to issue. The ability to increase the number of authorized shares and issue such shares could have the effect of delaying or preventing a change in control even if a change in control may be in our stockholders' best interest.

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Amendment of Bylaws. Our board of directors has the power to amend our Bylaws. This power could have the effect of delaying or preventing a change in control even if a change in control may be in our stockholders' best interests.

Stockholder Meetings. Our Bylaws require advance notice for stockholder proposals to be considered at annual and special meetings of stockholders and for stockholder nominations for election of directors at annual and special meetings of stockholders. The advance notice provisions require a proponent to provide us with detailed information about the proponent and/or nominee. Our Bylaws also provide that stockholders entitled to cast more than 50% of all the votes entitled to be cast at a meeting must join in a request by stockholders to call a special meeting of stockholders and that a specific process for the meeting request must be followed. These provisions could have the effect of delaying or preventing a change in control even if a change in control may be in the best interests of our stockholders.

Supermajority Votes Required. Our Articles of Incorporation require the affirmative vote of the holders of no less than 80% of the shares of capital stock outstanding and entitled to vote in order (i) to amend the provisions of our Articles of Incorporation relating to the classification of directors, removal of directors, limitation of liability of officers and directors or indemnification of officers and directors or (ii) to amend our Articles of Incorporation to impose cumulative voting in the election of directors. These provisions could have the effect of delaying or preventing a change in control even if a change in control may be in our stockholders' best interest.

Item 1B.Unresolved Staff Comments.

None.

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Item 2.Properties

Set forth below is information regarding our properties as of December 31, 2018:

Property Location	Date of Purchase (1)	Approx. Square Feet	Percent Leased as of 12/31/18		Approx. Number of Tenants	Major Tenants (2)
Office						
14151 Park Meadow Drive Chantilly, VA 20151	3/15/01	138,537	100	%	5	American Systems Corporation Omniplex World Services Booz Allen Hamilton, Inc.
1370 & 1390 Timberlake Manor Parkway, Chesterfield, MO 63017	5/24/01	234,496	100	%	4	Centene Management Company, LLC Amdocs, Inc.
50 Northwest Point Rd. Elk Grove Village, IL 60005	12/5/01	177,095	100	%	2	Citicorp Credit Services, Inc. NCS Pearson, Inc.
1350 Timberlake Manor Parkway Chesterfield, MO 63017	3/4/02	117,036	100	%	3	Centene Management Company, LLC Edgewell Personal Care Company
16285 Park Ten Place Houston, TX 77084	6/27/02	157,460	89	%	9	Bluware, Inc. Subsea Solutions LLC Blade Energy Partners, Ltd. Penn Virginia Corporation
15601 Dallas Parkway Addison, TX 75001	9/30/02	289,302	89	%	13	Brainspace Corporation Cyxtera Management Inc. Compass Production Partners, LP WDT Acquisition Corporation Aerotek, Inc.
1500 & 1600 Greenville Ave.	3/3/03	300,887	99	%	4	ARGO Data Resource Corp.

Richardson, TX 75080						VCE Company, LLC Id Software, LLC
6550 & 6560 Greenwood Plaza Englewood, CO 80111	2/24/05	196,236	100	%	4	DIRECTV, Inc. Kaiser Foundation Health Plan
3815-3925 River Crossing Pkwy Indianapolis, IN 46240	7/6/05	205,059	94	%	12	Somerset CPAs, P.C. Crowe, LLP Blackboard, Inc.
5055 & 5057 Keller Springs Rd. Addison, TX 75001	2/24/06	218,934	80	%	25	See Footnote 3
5600, 5620 & 5640 Cox Road Glen Allen, VA 23060	7/16/03	298,456	57	%	5	General Electric Company ChemTreat, Inc.

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Property Location	Date of Purchase (1)	Approx. Square Feet	Percent Leased as of 12/31/18		Approx. Number of Tenants	Major Tenants (2)
1293 Eldridge Parkway Houston, TX 77077	1/16/04	248,399	100	%	1	CITGO Petroleum Corporation
380 Interlocken Crescent Broomfield, CO 80021	8/15/03	240,358	93	%	9	VMWare, Inc. Cooley LLP Sierra Financial Services, Inc.
3625 Cumberland Boulevard Atlanta, GA 30339	6/27/06	387,267	80	%	20	Randstad General Partner (US) Gas South LLC Carestream Dental, LLC
390 Interlocken Crescent Broomfield, CO 80021	12/21/06	241,512	98	%	6	The Vail Corporation AppExtremes, LLC
16290 Katy Freeway Houston, TX 77094	9/28/05	156,746	65	%	5	The Olin Corporation Hargrove and Associates, Inc.
45925 Horseshoe Drive Sterling, VA 20166	12/23/08	136,658	96	%	3	Giesecke & Devrient America, Inc.
4807 Stonecroft Blvd. Chantilly, VA 20151	6/26/09	111,469	100	%	1	Northrop Grumman Systems Corp.
121 South Eighth Street Minneapolis, MN 55402	6/29/10	293,460	80	%	38	Schwegman, Lundberg & Woessner
4820 Emperor Boulevard Durham, NC 27703	3/4/11	259,531	100	%	1	IQVIA Holdings, Inc.
5100 & 5160 Tennyson Pkwy Plano, TX 75024	3/10/11	202,600	90	%	5	Denbury Onshore LLC Worldventures Holdings, LLC ARK-LA-TEX Financial Services, LLC
7500 Dallas Parkway	3/24/11	214,110	100	%	5	

Plano, TX 75024						ADS Alliance Data Systems, Inc. Americorp., Inc. d/b/a Altair Global
909 Davis Street Evanston, IL 60201	9/30/11	195,098	98	%	9	Houghton Mifflin Co. Honor Finance, LLC Northshore University Healthsystem Industrious EVN 909 Davis Street
One Ravinia Drive Atlanta, GA 30301	7/31/12	386,602	92	%	11	T-Mobile South LLC Internap Network Services Corporation Cedar Document Technologies, Inc.
Two Ravinia Drive Atlanta, GA 30301	4/8/15	411,047	78	%	42	See Footnote 3
10370 & 10350 Richmond Ave. Houston, TX 77042	11/1/12	629,025	85	%	40	Petrobras America, Inc.

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Property Location	Date of Purchase (1)	Approx. Square Feet	Percent Leased as of 12/31/18		Approx. Number of Tenants	Major Tenants (2)
1999 Broadway Denver, CO 80202	5/22/13	676,379	82	%	38	United States Government
999 Peachtree Street Atlanta, GA 30301	7/1/13	621,946	85	%	39	Eversheds Sutherland (US) LLP
1001 17th Street Denver, CO 80202	8/28/13	655,413	98	%	21	Newfield Exploration WPX Energy. Inc. Hall and Evans, LLC Ping Identity Corp.
45 South Seventh Street Minneapolis, MN 55402	6/6/16	326,757	88	%	27	PricewaterhouseCoopers LLP Northland Securities, Inc. Haworth Marketing & Media Company
1420 Peachtree Street, NE Atlanta, GA 30301	8/10/16	160,145	97	%	3	Jones Day
600 17th Street Denver, CO 80202	12/1/16	598,630	86	%	39	EOG Resources, Inc.
Operating portfolio		9,486,650	89	%		
Redevelopment Properties (4) 600 Forest Point Circle Charlotte, NC 28273	7/8/99	62,212				
5505 Blue Lagoon Drive Miami, FL 33126	11/6/03	212,619				
801 Marquette Ave. South Minneapolis, MN 55402	6/29/10	129,821				
		404,652				

Total Office	9,891,302

(1) Date of purchase or merged entity date of purchase.
(2) Major tenants that occupy 10% or more of the space in an individual property.
(3) No tenant occupies more than 10% of the space.
(4) Redevelopment Properties include properties in the process of being redeveloped, or are completed but not yet stabilized.

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As of December 31, 2018, we had approximately 0.4 million rentable square feet in our Redevelopment Properties. The following table summarizes these properties:

square feet)	City	State	Square Feet	Anticipated Investment (1)	Incurred Through 31-Dec-18	Percent Leased 31-Dec-18	Estimated Completion Date	Estimated Leased Stabilization Date
Activity								
in Process								
	Charlotte	NC	62,212	$ 3,475	$ —	100.0%	30-Sep-19	31-Dec-19
rive	Miami	FL	212,619	22,500	923	0.0%	31-Dec-19	30-Jun-20
Process			274,831	25,975	923			
Complete								
zed								
Ave	Minneapolis	MN	129,821	$ 28,443	$ 18,872	37.0%	30-Jun-17	30-Sep-19
			404,652	$ 54,418	$ 19,795			

(1) Anticipated investment includes capitalized redevelopment costs, capitalized interest and lease-up costs.

(2) Lease expired December 31, 2018.

All of the properties listed above are owned, directly or indirectly, by us. None of our properties are subject to any mortgage loans. We have no other material undeveloped or unimproved properties, or proposed programs for material renovation or development of any of our properties in 2019. We believe that our properties are adequately covered by insurance as of December 31, 2018.

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The information presented below provides the weighted average GAAP rent per square foot for the year ending December 31, 2018 for our properties and weighted occupancy square feet and percentages. GAAP rent includes the impact of tenant concessions and reimbursements. This table does not include information about properties held by our investments in nonconsolidated REITs or those which we have provided Sponsored REIT Loans.

Property Name	City	State	Year Built or Renovated	Net Rentable Square Feet	Weighted Occupied Sq. Ft.	Weighted Occupied Percentage as of December 31, 2018 (a)		Weighted Average Rent per Occup Square Feet (b)
Meadow Point	Chantilly	VA	1999	138,537	138,537	100.0	%	$ 26.67
Innsbrook	Glen Allen	VA	1999	298,456	266,581	89.3	%	12.45
Loudoun Tech Center	Dulles	VA	1999	136,658	130,850	95.8	%	18.67
Stonecroft	Chantilly	VA	2008	111,469	111,469	100.0	%	32.50
Emperor Boulevard	Durham	NC	2009	259,531	259,531	100.0	%	34.33
East total				944,651	906,968	96.0	%	24.24
Northwest Point	Elk Grove Village	IL	1999	177,095	177,095	100.0	%	33.14
909 Davis Street	Evanston	IL	2002	195,098	171,179	87.7	%	33.79
River Crossing	Indianapolis	IN	1998	205,059	194,047	94.6	%	23.43
Timberlake	Chesterfield	MO	1999	234,496	234,496	100.0	%	27.90
Timberlake East	Chesterfield	MO	2000	117,036	117,036	100.0	%	26.23
121 South 8th Street	Minneapolis	MN	1974	293,460	223,734	76.2	%	22.87
Plaza Seven	Minneapolis	MN	1987	326,757	287,546	88.0	%	35.08
Midwest total				1,549,001	1,405,133	90.7	%	29.19
One Overton Park	Atlanta	GA	2002	387,267	237,317	61.3	%	23.81
Park Ten	Houston	TX	1999	157,460	122,646	77.9	%	28.60
Addison Circle	Addison	TX	1999	289,302	250,651	86.6	%	32.10
Collins Crossing	Richardson	TX	1999	300,887	300,466	99.9	%	25.32
Eldridge Green	Houston	TX	1999	248,399	248,399	100.0	%	30.11
Park Ten Phase II	Houston	TX	2006	156,746	8,715	5.6	%	17.86
Liberty Plaza	Addison	TX	1985	218,934	182,131	83.2	%	21.63
Legacy Tennyson Center	Plano	TX	1999/2008	202,600	157,258	77.6	%	21.33

One Legacy Circle	Plano	TX	2008	214,110	214,110	100.0	%	37.86

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The following table is continued from the previous page and provides the weighted average GAAP rent per square foot for the year ending December 31, 2018 for our properties and weighted occupancy square feet and percentages. GAAP rent includes the impact of tenant concessions and reimbursements. This table does not include information about properties held by our investments in nonconsolidated REITs or those which we have provided Sponsored REIT Loans.

Property Name	City	State	Year Built or Renovated	Net Rentable Square Feet	Weighted Occupied Sq. Ft.	Weighted Occupied Percentage as of December 31, 2018 (a)		Weighted Average Rent per Occup Square Feet (b
One Ravinia Drive	Atlanta	GA	1985	386,602	352,272	91.1	%	$ 25.63
Two Ravinia Drive	Atlanta	GA	1987	411,047	308,367	75.0	%	27.38
Westchase I & II	Houston	TX	1983/2008	629,025	527,186	83.8	%	29.84
Pershing Park Plaza	Atlanta	GA	1989	160,145	156,013	97.4	%	36.15
999 Peachtree	Atlanta	GA	1987	621,946	536,366	86.2	%	32.04
South Total				4,384,470	3,601,898	82.2	%	28.84
380 Interlocken	Broomfield	CO	2000	240,358	209,544	87.2	%	29.46
1999 Broadway	Denver	CO	1986	676,379	521,488	77.1	%	31.51
1001 17th Street	Denver	CO	1977/2006	655,413	602,587	91.9	%	34.82
600 17th Street	Denver	CO	1982	598,630	503,807	84.2	%	32.84
Greenwood Plaza	Englewood	CO	2000	196,236	196,236	100.0	%	25.09
390 Interlocken	Broomfield	CO	2002	241,512	236,996	98.1	%	30.67
West Total				2,608,528	2,270,658	87.0	%	31.85
Total Operating Properties				9,486,650	8,184,657	86.3	%	29.23
Redevelopment Properties (c)								
Forest Park	Charlotte	NC	1999	62,212	62,212	100.0	%	15.55
Blue Lagoon Drive	Miami	FL	2002	212,619	194,908	91.7	%	24.82
801 Marquette Ave	Minneapolis	MN	1923/2017	129,821	5,439	4.2	%	13.09
Total Redevelopment Properties				404,652	262,559	64.9	%	22.38
Grand Total				9,891,302	8,447,216	85.4	%	$ 29.01

(a) Based on weighted occupied square feet for the year ended December 31, 2018, including month-to-month tenants, divided by the Property's net rentable square footage.
(b) Represents annualized GAAP rental revenue for the year ended December 31, 2018 per weighted occupied square foot.
(c) Redevelopment Properties include properties in the process of being redeveloped, or are completed but not yet stabilized.

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The information presented below is a lease expiration table for ten years and thereafter, stating (i) the number of tenants whose leases will expire, (ii) the total area in square feet covered by such leases, (iii) the annual rental represented by such leases in dollars and by square feet, and (iv) the percentage of gross annual rental represented by such leases.

Year of Lease Expiration December 31,	Number of Leases Expiring Within the Year (a)	Rentable Square Footage Subject to Expiring Leases	Annualized Rent Under Expiring Leases (b)	Annualized Rent Per Square Foot Under Expiring Leases	Percentage of Total Annualized Rent Under Expiring Leases	Cumulative Total
2019	50 (c)	854,888	$ 25,609,759	$ 29.96	10.7 %	10.7 %
2020	75	1,072,050	34,590,128	32.27	14.5 %	25.2 %
2021	63	691,623	19,661,014	28.43	8.2 %	33.4 %
2022	71	1,206,763	37,727,133	31.26	15.8 %	49.2 %
2023	59	776,188	22,579,570	29.09	9.5 %	58.7 %
2024	61	763,471	17,920,983	23.47	7.5 %	66.2 %
2025	21	572,982	14,712,946	25.68	6.1 %	72.3 %
2026	18	841,116	24,267,108	28.85	10.2 %	82.5 %
2027	9	491,326	14,944,498	30.42	6.3 %	88.8 %
2028	10	314,679	8,557,185	27.19	3.6 %	92.4 %
2029 and thereafter	82	964,942 (d)	18,276,088	18.94	7.6 %	100.0 %
	519	8,550,028	$ 238,846,412	$ 27.94	100.0 %	
Vacancies as of 12/31/18		1,046,853				
Redevelopment Properties (e)		294,421				
Total Portfolio Square Footage		9,891,302				

(a) The number of leases approximates the number of tenants. Tenants with lease maturities in different years are included in annual totals for each lease. Tenants may have multiple leases in the same year.

(b) Annualized rent represents the monthly rent charged, including tenant reimbursements, for each lease in effect at December 31, 2018 multiplied by 12. Tenant reimbursements generally include payment of real estate taxes, operating expenses and common area maintenance and utility charges.

(c) Includes 5 leases that are month-to-month.

(d) Includes 115,130 square feet that are non-revenue producing building amenities.

(e) Redevelopment Properties include properties being redeveloped, or are completed but not yet stabilized.

Item 3.Legal Proceedings

From time to time, we may be subject to legal proceedings and claims that arise in the ordinary course of our business. Although occasional adverse decisions (or settlements) may occur, we believe that the final disposition of such matters will not have a material adverse effect on our financial position, cash flows or results of operations.

Item 4.Mine Safety Disclosures

Not applicable.

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PART II

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

Our common stock is listed on the NYSE American under the symbol “FSP”.

As of February 1, 2019, there were 10,107 holders of our common stock, including both holders of record and participants in securities position listings.

On January 11, 2019, our board of directors declared a dividend of $0.09 per share of our common stock payable to stockholders of record as of January 25, 2019 that will be paid on February 14, 2019. Set forth below are the distributions per share of common stock made by FSP Corp. in each quarter since 2017.

Quarter Ended	Distribution Per Share of Common Stock of FSP Corp.	
December 31, 2018	$	0.09
September 30, 2018	$	0.09
June 30, 2018	$	0.09
March 31, 2018	$	0.19
December 31, 2017	$	0.19
September 30, 2017	$	0.19
June 30, 2017	$	0.19
March 31, 2017	$	0.19

While not guaranteed, we expect to continue to pay cash dividends on our common stock in the future. See Part I, Item 1A Risk Factors, “Our level of dividends may fluctuate.” for additional information.

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STOCK PERFORMANCE GRAPH

The following graph compares the cumulative total stockholder return on the Company's common stock between December 31, 2013 and December 31, 2018 with the cumulative total return of (1) the NAREIT Equity Index, (2) the Standard & Poor's 500 Composite Stock Price Index ("S&P 500") and (3) the Russell 2000 Total Return Index over the same period. This graph assumes the investment of $100.00 on December 31, 2013 and assumes that any distributions are reinvested.

	As of December 31,					
	2013	2014	2015	2016	2017	2018
FSP	$ 100	$ 109	$ 98	$ 132	$ 116	$ 71
NAREIT Equity	100	128	132	143	155	149
S&P 500	100	114	115	129	157	150
Russell 2000	100	105	100	122	139	124

Notes to Graph:

The above performance graph and related information shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that we specifically incorporate it by reference into such filing.

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Item 6.Selected Financial Data

The following selected financial information is derived from the historical consolidated financial statements of FSP Corp. This information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 and with FSP Corp.'s consolidated financial statements and related notes thereto included in Item 8.

	Year Ended December 31,				
(In thousands, except per share amounts)	2018	2017	2016	2015	2014
Operating Data:					
Total revenue	$ 268,870	$ 272,588	$ 249,888	$ 243,867	$ 249,683
Net income (loss)	13,069	(15,944)	8,378	35,014	13,148
Basic and diluted income (loss) per share:	$ 0.12	$ (0.15)	$ 0.08	$ 0.35	$ 0.13
Distributions declared per share outstanding:	$ 0.46	$ 0.76	$ 0.76	$ 0.76	$ 0.76

	As of December 31,				
	2018	2017	2016	2015	2014
Balance Sheet Data:					
Total assets	$ 1,898,102	$ 1,990,512	$ 2,088,133	$ 1,919,015	$ 1,933,106
Total liabilities	1,060,468	1,119,220	1,126,089	983,359	953,459
Total shareholders' equity	837,634	871,292	962,044	935,656	979,647

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

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. Historical results and percentage relationships set forth in the consolidated financial statements, including trends which might appear, should not be taken as necessarily indicative of future operations. The following discussion and other parts of this Annual Report on Form 10-K may also contain forward-looking statements based on current judgments and current knowledge of management, which are subject to certain risks, trends and uncertainties that could cause actual results to differ materially from those indicated in such forward-looking statements. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements. Investors are cautioned that our forward-looking statements involve risks and uncertainty, including without limitation, economic conditions in the United States, changes in interest rates, disruptions in the debt markets, economic conditions in the markets in which we own properties, risks of a lessening of demand for the types of real estate owned by us, uncertainties relating to fiscal policy, changes in government regulations and regulatory uncertainty, uncertainties relating to the impact of the enactment of the Tax Cuts and Jobs Act on December 22, 2017, geopolitical events, and expenditures that cannot be anticipated such as utility rate and usage increases, unanticipated repairs, additional staffing, insurance increases and real estate tax valuation reassessments. See "Risk Factors" in Item 1A. Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We may not update any of the forward-looking statements after the date this Annual Report on Form 10-K is filed to conform them to actual results or to changes in our expectations that occur after such date, other than as required by law.

Overview

FSP Corp., or we or the Company, operates in a single reportable segment: real estate operations. The real estate operations market involves real estate rental operations, leasing, secured financing of real estate and services provided for asset management, property management, property acquisitions, dispositions and development. Our current strategy is to invest in select urban infill and central business district properties, with primary emphasis on our five core markets of Atlanta, Dallas, Denver, Houston and Minneapolis. We believe that our five core markets have macro-economic drivers that have the potential to increase occupancies and rents. We will also monitor other markets for opportunistic investments. We seek value-oriented investments with an eye towards long-term growth and appreciation, as well as current income.

As of December 31, 2018, approximately 7.7 million square feet, or approximately 78% of our total owned portfolio, was located in our five core markets. From time-to-time we may dispose of our smaller, suburban office assets and replace them with larger urban infill and central business district office assets located primarily in our five core markets. As we execute this strategy, short term operating results could be adversely impacted. However, we believe that the transformed portfolio has the potential to provide higher profit and asset value growth over a longer period of time.

The main factor that affects our real estate operations is the broad economic market conditions in the United States. These market conditions affect the occupancy levels and the rent levels on both a national and local level. We have no influence on broader economic/market conditions. We look to acquire and/or develop quality properties in good locations in order to lessen the impact of downturns in the market and to take advantage of upturns when they occur.

Trends and Uncertainties

Economic Conditions

The economy in the United States is continuing to experience a period of economic growth, which directly affects the demand for office space, our primary income producing asset. The broad economic market conditions in the United States are affected by numerous factors, including but not limited to, inflation and employment levels, energy prices, the pace of economic growth and/or recessionary concerns, uncertainty about government fiscal, monetary, trade and tax policies, changes in currency exchange rates, geopolitical events, the regulatory environment, the availability of credit and interest rates. Any increase in interest rates could result in increased borrowing costs to us. However, we

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could also benefit from any further improved economic fundamentals and increasing levels of employment. We believe that the economy is improving in many markets and appears to be in a broad-based upswing. However, future economic factors may negatively affect real estate values, occupancy levels and property income.

Real Estate Operations

Leasing

As of December 31, 2018, our real estate portfolio was comprised of 32 operating properties, which we refer to as our operating properties, and 3 redevelopment properties, which we refer to as our redevelopment properties that are in the process of being redeveloped, or are completed but not yet stabilized. We collectively refer to our operating and our redevelopment properties as our owned portfolio. Our 32 operating properties were approximately 89.0% leased as of December 31, 2018, a decrease from 89.7% as of December 31, 2017. The 0.7% decrease in leased space was a result of the impact of lease expirations and terminations, which exceeded leasing completed during the year ended December 31, 2018, and classification of two properties as redevelopment properties during 2018. As of December 31, 2018, we had approximately 1,046,000 square feet of vacancy in our operating properties compared to approximately 1,007,000 square feet of vacancy at December 31, 2017. During the year ended December 31, 2018, we leased approximately 1,681,000 square feet of office space, of which approximately 1,284,000 square feet were with existing tenants, at a weighted average term of 7.3 years. On average, tenant improvements for such leases were $29.13 per square foot, lease commissions were $8.99 per square foot and rent concessions were approximately four months of free rent. Average GAAP base rents under such leases were $31.02 per square foot, or 7.3% higher than average rents in the respective properties as applicable compared to the year ended December 31, 2017.

As of December 31, 2018, our three redevelopment properties included an approximately 130,000 square foot redevelopment property known as 801 Marquette in Minneapolis, Minnesota, an approximately 213,000 square foot property known as Blue Lagoon in Miami, Florida and an approximately 62,000 square foot property known as Forest Park in Charlotte, North Carolina. Given the length of the redevelopment and lease-up process, these properties are not placed in service until, in some cases, years after we commence the project.

The redevelopment at 801 Marquette was substantially completed at the end of the second quarter of 2017 and is in the process of being leased up; however, it is not stabilized. As of December 31, 2018, we had leases signed for approximately 37.0% of the rentable square feet, 15.8% of which is occupied. We expect to incur redevelopment and lease-up costs of $28.4 million. As of December 31, 2018, we had incurred approximately $18.4 million in total redevelopment costs for this property.

The redevelopment of Blue Lagoon commenced in December 2018 following the maturity of a lease with a major tenant that occupied 100% of the property. We expect to incur restoration, redevelopment and lease-up costs of $22.5

million, which include work on the roof of the building, costs to make the space suitable for multiple tenants and to increase parking at the property. As of December 31, 2018, we had incurred approximately $0.9 million in total redevelopment costs. We anticipate the completion of the redevelopment to be by the end of 2019.

The redevelopment of Forest Park commenced in January 2019 following the maturity of a lease with a major tenant that occupied 100% of the property through December 31, 2018. We expect to incur redevelopment and lease-up costs of $3.5 million, which include interior work to make the space suitable for multiple tenants. We anticipate the completion of the redevelopment to be by the end of the third quarter of 2019.

As of December 31, 2018, leases for approximately 8.6% and 10.8% of the square footage in our owned portfolio are scheduled to expire during 2019 and 2020, respectively. As the first quarter of 2019 begins, we believe that our operating properties are well stabilized, with a balanced lease expiration schedule, and that existing vacancy is being actively marketed to numerous potential tenants. We believe that most of our largest property markets are now experiencing generally steady or improving rental conditions. We are seeing increased potential leasing activity in the energy influenced markets of Houston and Denver compared to the last several years. We anticipate positive leasing activity within our operating properties during the remainder of 2019.

While we cannot generally predict when an existing vacancy in our owned portfolio will be leased or if existing tenants with expiring leases will renew their leases or what the terms and conditions of the lease renewals will be, we expect to renew or sign new leases at then-current market rates for locations in which the buildings are located, which could be above or below the expiring rates. Also, we believe the potential for any of our tenants to default on its lease or to seek the protection of bankruptcy exists. If any of our tenants defaults on its lease, we may experience delays in enforcing our rights as a landlord and may incur substantial costs in protecting our investment. In addition, at any time, a tenant of one of our properties may seek the protection of bankruptcy laws, which could result in the rejection and termination of such tenant's lease and thereby cause a reduction in cash available for distribution to our stockholders.

Real Estate Acquisition and Investment Activity

During 2018:

- we received approximately $1.1 million in cash from FSP Satellite Place Corp., as partial prepayment of a Sponsored REIT Loan;
- on July 19, 2018, an office property owned by a Sponsored REIT, Grand Boulevard, was sold to a third party. The Company held an equity investment in Grand Boulevard and received a liquidating distribution of its investment of $6.2 million on July 20, 2018. The Company received an initial cash distribution of $5.9 million from the liquidating trust of Grand Boulevard on August 17, 2018, and anticipates receiving additional liquidating distributions of approximately $0.3 million in the aggregate as the trust is liquidated;
- on September 24, 2018, an office property owned by a Sponsored REIT, East Wacker, was sold to a third party. The Company held an equity investment in East Wacker and received a liquidating distribution of its investment of $70.0 million on September 25, 2018. The Company received an initial cash distribution of $69.0 million from the liquidating trust of East Wacker on September 27, 2018, and anticipates receiving additional liquidating distributions of approximately $1.0 million in the aggregate as the trust is liquidated; and
- we have continued to actively explore additional potential real estate investment opportunities and anticipate further real estate investments in the future.

During 2017:

- on January 6, we received approximately $6.2 million in proceeds from the sale of a property located in Milpitas, California;
- on June 7, we received approximately $9.0 million in cash from FSP 1441 Main Street Corp. as repayment in full of a Sponsored REIT Loan;
- during the year ended December 31, we received approximately $1.1 million in cash from FSP Satellite Place Corp., as partial prepayment of a Sponsored REIT Loan; and
- on October 20, we received approximately $31.6 million in proceeds from the sale of a property located in Baltimore, Maryland.

During 2016:

- on January 19, we received approximately $37.5 million from FSP 385 Interlocken Development Corp. as repayment in full of a Sponsored REIT Loan;
- during the year ended December 31, we received approximately $2.3 million from FSP Satellite Place Corp., as partial prepayment of a Sponsored REIT Loan;
- on June 6, we acquired an office property with approximately 325,800 rentable square feet for $82 million located in Minneapolis, Minnesota;
- on August 10, we acquired an office property with approximately 160,000 rentable square feet for $45.5 million located in Atlanta, Georgia; and
- on December 1, we acquired an office property with approximately 613,000 rentable square feet for $154.2 million located in Denver, Colorado.

Property Dispositions and Assets Held for Sale

During the three months ended June 30, 2017, we reached a decision to classify our office property located in Baltimore, Maryland as an asset held for sale. The property was expected to sell within one year at a loss, which was recorded as a provision for loss on a property held for sale of $20.5 million and was classified as an asset held for sale of $31.9 million at June 30, 2017. During the three months ended September 30, 2017, we increased the provision for loss by $0.3 million to $20.7 million and the property was classified as an asset held for sale in the amount of $31.6 million at September 30, 2017. We sold the property on October 20, 2017 for net proceeds of $31.6 million resulting in a total loss of $20.8 million.

During the three months ended December 31, 2016, we reached an agreement to sell an office property located in Milpitas, California. The property was classified as an asset held for sale at December 31, 2016 and was sold on January 6, 2017 at a $2.3 million gain.

On April 5, 2016, we sold an office property located in Maryland Heights, Missouri at approximately a $4.2 million gain. During the three months ended June 30, 2016, we reached a decision to classify our office property located in Federal Way, Washington, as an asset held for sale. The property was expected to sell within one year at a loss, which was recorded as a provision for loss on a property held for sale of $4.8 million and was classified as an asset held for sale of $9.3 million at June 30, 2016. During the three months ended September 30, 2016, we increased the provision for loss by $0.5 million to $5.3 million and the property was classified as an asset held for sale in the amount of $8.8 million at September 30, 2016. The Company sold the property on December 16, 2016 for net proceeds of $7.3 million resulting in a total loss of $7.1 million.

The disposal of these properties did not represent a strategic shift that has a major effect on the Company's operations and financial results. Accordingly, the properties remained classified within continuing operations for all periods presented.

We will continue to evaluate our portfolio, and in the future may decide to dispose of additional properties from time-to-time in the ordinary course of business. We believe that the current property sales environment continues to improve in many markets relative to both liquidity and pricing. We believe that both improving office property fundamentals as well as attractive financing availability will likely be required to continue improvement in the marketplace for potential property dispositions. As an important part of our total return strategy, we intend to be active in property dispositions when we believe that market conditions warrant such activity and, as a consequence, we continuously review and evaluate our portfolio of properties for potentially advantageous dispositions.

Critical Accounting Policies

We have certain critical accounting policies that are subject to judgments and estimates by our management and uncertainties of outcome that affect the application of these policies. We base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances. On an on-going basis, we evaluate our estimates. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current information. The accounting policies that we believe are most critical to the understanding of our financial position and results of operations, and that require significant management estimates and judgments, are discussed below. Significant estimates in the consolidated financial statements include the allowance for doubtful accounts, purchase price allocations, useful lives of fixed assets, impairment considerations and the valuation of derivatives.

Critical accounting policies are those that have the most impact on the reporting of our financial condition and results of operations and those requiring significant judgments and estimates. We believe that our judgments and estimates are consistently applied and produce financial information that fairly presents our results of operations. Our most critical accounting policies involve our investments in Sponsored REITs and our investments in real property. These policies affect our:

· allocation of purchase price;

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- allowance for doubtful accounts;
- assessment of the carrying values and impairments of long lived assets;
- useful lives of fixed assets and intangibles;
- valuation of derivatives;
- classification of leases; and
- ownership of stock in a Sponsored REIT and related interests.

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

Allocation of Purchase Price

We allocate the value of real estate acquired among land, buildings, improvements and identified intangible assets and liabilities, which may consist of the value of above market and below market leases, the value of in-place leases, and the value of tenant relationships. Purchase price allocations and the determination of the useful lives are based on management's estimates. Under some circumstances we may rely upon studies commissioned from independent real estate appraisal firms in determining the purchase price allocations.

Purchase price allocated to land and building and improvements is based on management's determination of the relative fair values of these assets assuming the property was vacant. Management determines the fair value of a property using methods similar to those used by independent appraisers. Purchase price allocated to above or below market leases is based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases including consideration of potential lease renewals and (ii) our estimate of fair market lease rates for the corresponding leases, measured over a period equal to the remaining non-cancelable terms of the respective leases. This aggregate value is allocated between in-place lease values and tenant relationships based on management's evaluation of the specific characteristics of each tenant's lease; however, the value of tenant relationships has not been separated from in-place lease value because such value and its consequence to amortization expense is immaterial for acquisitions reflected in our financial statements. Factors considered by us in performing these analyses include (i) an estimate of carrying costs during the expected lease-up periods, including real estate taxes, insurance and other operating income and expenses, and (ii) costs to execute similar leases in current market conditions, such as leasing commissions, legal and other related costs. If future acquisitions result in our allocating material amounts to the value of tenant relationships, those amounts would be separately allocated and amortized over the estimated life of the relationships.

Allowance for Doubtful Accounts

We provide an allowance for doubtful accounts based on our estimate of a tenant's ability to make future rent payments. The computation of this allowance is based in part on the tenants' payment history and current credit status.

Impairment

We periodically evaluate our real estate properties for impairment indicators. These indicators may include declining tenant occupancy, weak or declining tenant profitability, cash flow or liquidity, our decision to dispose of an asset before the end of its estimated useful life or legislative, economic or market changes that permanently reduce the value of our investments. If indicators of impairment are present, we evaluate the carrying value of the property by comparing it to its expected future undiscounted cash flows. If the sum of these expected future cash flows is less than the carrying value, we reduce the net carrying value of the property to the present value of these expected future cash flows. This analysis requires us to judge whether indicators of impairment exist and to estimate likely future cash flows. If we misjudge or estimate incorrectly or if future tenant profitability, market or industry factors differ from our

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expectations, we may record an impairment charge which is inappropriate or fail to record a charge when we should have done so, or the amount of such charges may be inaccurate.

Depreciation and Amortization Expense

We compute depreciation expense using the straight-line method over estimated useful lives of up to 39 years for buildings and improvements, and up to 15 years for personal property. Costs incurred in connection with leasing (primarily tenant improvements and leasing commissions) are capitalized and amortized over the lease period. The allocated cost of land is not depreciated. The value of above or below-market leases is amortized over the remaining non-cancelable periods of the respective leases as an adjustment to rental income. The value of in-place leases, exclusive of the value of above-market and below-market in-place leases, is also amortized over the remaining non-cancelable periods of the respective leases. If a lease is terminated prior to its stated expiration, all unamortized amounts relating to that lease are written off. Inappropriate allocation of acquisition costs, or incorrect estimates of useful lives, could result in depreciation and amortization expenses which do not appropriately reflect the allocation of our capital expenditures over future periods, as is required by generally accepted accounting principles.

Derivative Instruments

We recognize derivatives on the balance sheet at fair value. Derivatives that do not qualify, or are not designated as hedge relationships, must be adjusted to fair value through income. Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Cash flow hedges are accounted for by recording the fair value of the derivative instrument on the balance sheet as either an asset or liability. To the extent hedges are effective, a corresponding amount, adjusted for swap payments, is recorded in accumulated other comprehensive income within stockholders' equity. Amounts are then reclassified from accumulated other comprehensive income to the income statement in the period or periods the hedged forecasted transaction affects earnings. The ineffective portion of the derivatives' fair value is recognized directly into earnings as "Other" in our income statement. Derivative instruments designated in a hedge relationship to mitigate exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. We currently have no fair value hedges outstanding. Fair values of derivatives are subject to significant variability based on changes in interest rates and counterparty credit risk. To the extent we enter into fair value hedges in the future, the results of such variability could be a significant increase or decrease in our derivative assets, derivative liabilities, book equity, and/or earnings.

Lease Classification

Some of our real estate properties are leased on a triple net basis, pursuant to non-cancelable, fixed term, operating leases. Each time we enter a new lease or materially modify an existing lease we evaluate whether it is appropriately classified as a capital lease or as an operating lease. The classification of a lease as capital or operating affects the carrying value of a property, as well as our recognition of rental payments as revenue. These evaluations require us to make estimates of, among other things, the remaining useful life and market value of a property, discount rates and future cash flows. Incorrect assumptions or estimates may result in misclassification of our leases.

Ownership of Stock in a Sponsored REIT and Related Interests

We held a preferred stock interests in two Sponsored REITs, both of which were sold during 2018. As a result of our common and preferred stock interests in these two Sponsored REITs, we exercised influence over, but did not control these entities. These preferred stock interests were accounted for using the equity method. Under the equity method of accounting our cost basis was adjusted by our share of the Sponsored REITs' operations and distributions received. We also agreed to vote our preferred shares (i) with respect to any merger in the same manner that a majority of the other stockholders of the Sponsored REIT vote for or against the merger and (ii) with respect to any other matter presented to a vote by the stockholders of these Sponsored REITs in the same proportion as shares voted by other stockholders of that Sponsored REIT.

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The equity investments in Sponsored REITS were reviewed for impairment each reporting period. The Company recorded impairment charges when events or circumstances indicate a decline in the fair value below the carrying value of the investment has occurred and such decline is other than temporary.

Results of Operations

Impact of Real Estate Acquisitions, Dispositions and Investment Activity:

Results of operations include acquisitions from the date of purchase and dispositions from the beginning of the period through the date of sale. The results of operations also include interest income from mortgage investments from the date of funding to the date of repayment, as applicable. Increases and decreases in rental revenues and interest income from loans and expenses for the year ended December 31, 2018 compared to the year ended December 31, 2017, or for the year ended December 31, 2017 compared to the year ended December 31, 2016, are primarily a result of the timing of these acquisitions and dispositions and the contribution of these acquired properties after their acquisition date or sold properties prior to their sale date, as well as the effect on interest income from the dates of funding and repayment on our mortgage investments.

The following table shows financial results for the years ended December 31, 2018 and 2017.

	Year ended December 31,		
(in thousands)	2018	2017	Change
Revenues:			
Rental	$ 263,777	$ 267,265	$ (3,488)
Related party revenue:			
Management fees and interest income from loans	5,061	5,285	(224)
Other	32	38	(6)
Total revenues	268,870	272,588	(3,718)
Expenses:			
Real estate operating expenses	70,703	71,212	(509)
Real estate taxes and insurance	45,857	45,841	16
Depreciation and amortization	94,230	101,258	(7,028)
General and administrative	13,070	13,471	(401)
Interest	38,374	32,387	5,987
Total expenses	262,234	264,169	(1,935)
Income before equity in income (loss) of non-consolidated REITs, other, gain (loss) on sale of properties and properties held for sale and taxes	6,636	8,419	(1,783)

Equity in income (loss) of non-consolidated REITs	6,793	(3,604)	10,397
Other	—	(1,878)	1,878
Gain (loss) on sale of properties and properties held for sale	—	(18,481)	18,481
Income (loss) before taxes on income	13,429	(15,544)	28,973
Taxes on income	360	400	(40)
Net income (loss)	$ 13,069	$ (15,944)	$ 29,013

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Comparison of the year ended December 31, 2018 to the year ended December 31, 2017

Revenues

Total revenues decreased by approximately $3.7 million to $268.9 million for the year ended December 31, 2018, as compared to the year ended December 31, 2017. The decrease was primarily a result of:

- A decrease in rental revenue of approximately $3.5 million arising primarily from the loss of rental income from leases that expired in 2018 and 2017 and from the loss of revenue from properties that we sold on January 6, 2017 and October 20, 2017. The decrease was partially offset by rental income earned from leases commencing in 2018 and 2017. Our leased space in our operating properties decreased 0.7% to 89.0% at December 31, 2018 compared to 89.7% at December 31, 2017, lease expirations exceeding new leases signed and partially as a result of classification of two properties as redevelopment properties.
- A decrease in management fee income of approximately $0.1 million primarily as a result of the liquidation of three Sponsored REITs during 2018 and one Sponsored REIT during 2017.
- A decrease in interest income from loans to Sponsored REITs of approximately $0.1 million as a result of repayments of Sponsored REIT Loans, which was partially offset by higher interest rates in 2018 compared to 2017.

Expenses

Total expenses decreased by $1.9 million to $262.2 million for the year ended December 31, 2018, as compared to the year ended December 31, 2017. The decrease was primarily a result of:

- A decrease in depreciation and amortization of approximately $7.0 million, which were primarily attributable to the disposition of two properties during 2017.
- A decrease in real estate operating expenses of $0.5 million.
- A decrease in general and administrative expenses of $0.4 million as a result of decreases in personnel expenses. We had 38 employees as of February 7, 2019 and December 31, 2018, and 39 employees as of December 31, 2017.

These decreases were partially offset by:

- An increase in interest expense of approximately $6.0 million to $38.4 million for the year ended December 31, 2018 compared to the same period in 2017. The increase was primarily attributable to interest accruing on the Senior Notes, which were issued on December 20, 2017 at a weighted average rate of approximately 4.10%, and used to reduce the outstanding balance on the BAML Revolver, a 0.19% increase in the average interest rate on the BAML Term Loan, higher short-term interest rates on the BAML Revolver and JPM Term Loan, and an increase in amortization of deferred financing costs during the year ended December 31, 2018, as compared to the same period in 2017.

Equity in income (loss) of non-consolidated REITs

Equity in income from non-consolidated REITs is $6.8 million for the year ended December 31, 2018 compared to equity in loss of $3.6 million during the year ended December 31, 2017. The equity in income (loss) during the year ended December 31, 2018 consisted of equity in income from our preferred stock investment in East Wacker of $7.2 million, which sold its property on September 24, 2018, and was partially offset by equity in loss from our preferred stock investment in Grand Boulevard of $0.1 million, which sold its property on July 19, 2018. In addition, during the three months ended June 30, 2018 and December 31, 2017, respectively, we recognized an impairment charge of $0.3 million and $2.5 million, respectively, which represented the other-than-temporary decline in the fair value below the carrying value of the Company’s investments in non-consolidated REITs.

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Gains (loss) on sale of properties

During the three months ended December 31, 2016, we reached an agreement to sell an office property located in Milpitas, California. The property was classified as an asset held for sale at December 31, 2016 and was sold on January 6, 2017 at a $2.3 million gain. During the three months ended June 30, 2017, we reached a decision to classify our office property located in Baltimore, Maryland as an asset held for sale. The property was expected to sell within one year at a loss, which was recorded as a provision for loss on a property held for sale of $20.5 million and the property was classified as an asset held for sale of $31.9 million at June 30, 2017. During the three months ended September 30, 2017, we increased the provision for loss by $0.3 million to $20.7 million and the property was classified as an asset held for sale in the amount of $31.6 million at September 30, 2017. We sold the property on October 20, 2017 for net proceeds of $31.6 million resulting in a total loss of $20.8 million.

Other

Other expense of $1.9 million during the year ended December 31, 2017 was attributable to hedge ineffectiveness from our derivatives' fair value prior to October 18, 2017. The ineffective portion of the derivatives' fair value was recognized directly into earnings each quarter as hedge ineffectiveness.

Taxes on income

Included in income taxes is the Revised Texas Franchise Tax, a tax on revenues from Texas properties, which decreased $36,000 and federal and other income taxes decreased $4,000 for year ended December 31, 2018 compared to the same period in 2017.

Net income (loss)

Net income for the year ended December 31, 2018 was $13.1 million compared to a net loss of $15.9 million for the year ended December 31, 2017, for the reasons described above.

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The following table shows financial results for the years ended December 31, 2017 and 2016.

(in thousands)	Year ended December 31, 2017	2016	Change
Revenues:			
Rental	$ 267,265	$ 244,349	$ 22,916
Related party revenue:			
Management fees and interest income from loans	5,285	5,465	(180)
Other	38	74	(36)
Total revenues	272,588	249,888	22,700
Expenses:			
Real estate operating expenses	71,212	65,335	5,877
Real estate taxes and insurance	45,841	40,140	5,701
Depreciation and amortization	101,258	93,052	8,206
General and administrative	13,471	14,126	(655)
Interest	32,387	26,548	5,839
Total expenses	264,169	239,201	24,968
Income before interest income, equity in losses of non-consolidated REITs, gain (loss) on sale of properties and taxes	8,419	10,687	(2,268)
Interest income	—	—	—
Equity in losses of non-consolidated REITs	(3,604)	(831)	(2,773)
Other	(1,878)	1,878	(3,756)
Gain (loss) on sale of properties	(18,481)	(2,938)	(15,543)
Income before taxes on income	(15,544)	8,796	(24,340)
Taxes on income	400	418	(18)
Net income	$ (15,944)	$ 8,378	$ (24,322)

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

Revenues

Total revenues increased by approximately $22.7 million to $272.6 million for the year ended December 31, 2017, as compared to the year ended December 31, 2016. The increase was primarily a result of:

· An increase in rental revenue of approximately $22.9 million arising primarily from rental revenue for properties that we acquired on each of June 6, 2016, August 10, 2016 and December 1, 2016, which was partially offset by the loss of revenue from properties that we sold on each of April 5, 2016, December 16, 2016, January 6, 2017 and October 20, 2017. In addition, our leased space increased 0.4% to 89.7% at December 31, 2017 compared to 89.3% at December 31, 2016.

The increase was partially offset by:

- A decrease in interest income from loans to Sponsored REITs of approximately $0.2 million as a result of repayments of Sponsored REIT Loans, which was partially offset by higher interest rates in 2017 compared to 2016 and the funding of an advance on a Sponsored REIT Loan we made in December 2016.

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Expenses

Total expenses increased by $25.0 million to $264.2 million for the year ended December 31, 2017, as compared to the year ended December 31, 2016. The increase was primarily a result of:

- An increase in real estate operating expenses and real estate taxes and insurance of approximately $11.6 million and an increase in depreciation and amortization of approximately $8.2 million, which were attributable to the acquisition of properties on June 6, 2016, August 10, 2016 and December 1, 2016, and which were partially offset by decreases as a result of the disposition of four properties during 2016 and 2017.
- An increase in interest expense of approximately $5.8 million to $32.4 million for the year ended December 31, 2017 compared to the same period in 2016. The increase was primarily attributable to higher interest rates, additional borrowings under the JPM Term Loan (as defined below) we entered into on November 30, 2016 and an increase in amortization of deferred financing costs during the year ended December 31, 2017 as compared to the same period in 2016.

These increases were partially offset by:

- A decrease in general and administrative expenses of $0.6 million as a result of decreases in acquisition costs, personnel expenses, franchise taxes and professional expenses. We had 39 employees as of each of December 31, 2017 and 2016.

Equity in losses of non-consolidated REITs

Equity in losses from non-consolidated REITs increased approximately $2.8 million to a loss of $3.6 million during the year ended December 31, 2017 compared to the same period in 2016. The increase was primarily attributable to an impairment charge we recognized of $2.5 million, which represented the other-than-temporary decline in the fair value below the carrying value of one of the Company's investments in non-consolidated REITs. In addition, equity in the loss from our preferred stock investment in a Sponsored REIT, FSP Grand Boulevard Corp., decreased $0.4 million during the year ended December 31, 2017 compared to the same period in 2016 and was partially offset by an increase in equity in the loss from our preferred stock investment in a Sponsored REIT, FSP 303 East Wacker Drive Corp., which we refer to as East Wacker, which increased $0.1 million during the year ended December 31, 2017, compared to the same period in 2016.

Gains (loss) on sale of properties

During the three months ended December 31, 2016, we reached an agreement to sell an office property located in Milpitas, California. The property was classified as an asset held for sale at December 31, 2016 and was sold on January 6, 2017 at a $2.3 million gain. During the three months ended June 30, 2017, we reached a decision to classify our office property located in Baltimore, Maryland as an asset held for sale. The property was expected to sell within one year at a loss, which was recorded as a provision for loss on a property held for sale of $20.5 million net of and the property was classified as an asset held for sale of $31.9 million at June 30, 2017. During the three months ended September 30, 2017, we increased the provision for loss by $0.3 million to $20.7 million and the property was classified as an asset held for sale in the amount of $31.6 million at September 30, 2017. We sold the property on October 20, 2017 for net proceeds of $31.6 million resulting in a total loss of $20.8 million.

We sold an office property located in Maryland Heights, Missouri on April 5, 2016, at a $4.2 million gain. During the three months ended June 30, 2016, we reached a decision to classify our office property located in Federal Way, Washington, as an asset held for sale. The property was expected to sell within one year at a loss, which was recorded as a provision for loss on a property held for sale of $4.8 million and the property was classified as an asset held for sale of $9.3 million at June 30, 2016. During the three months ended September 30, 2016, we increased the provision for loss by $0.5 million to $5.3 million and was the property was classified as an asset held for sale in the

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amount of $8.8 million at September 30, 2016. The Company sold the property on December 16, 2016 for $7.3 million of net proceeds, resulting in a total loss of $7.1 million.

Other

Other expense increased by $1.9 million during the year ended December 31, 2017 and decreased $1.9 million for the year ended December 31, 2016, which changes were attributable to hedge ineffectiveness from our derivatives' fair value. The ineffective portion of the derivatives' fair value was recognized directly into earnings each quarter as hedge ineffectiveness. On October 18, 2017, the Company amended the BMO Term Loan and BAML Term Loan to, among other changes, provide that the deemed zero percent interest rate floor is not applicable to any loan where there is a corresponding interest rate swap contract in place. As a result of these amendments, our future results are not expected to include adjustments due to hedge ineffectiveness with respect to future interest payments on these loans.

Taxes on income

Included in income taxes is the Revised Texas Franchise Tax, a tax on revenues from Texas properties, which increased $3,000 while federal and other income taxes decreased $21,000 for year ended December 31, 2017 compared to the same period in 2016.

Net income (loss)

Net loss for the year ended December 31, 2017 was $15.9 million compared to net income of $8.4 million for the year ended December 31, 2016, for the reasons described above.

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Non-GAAP Financial Measures

Funds From Operations

The Company evaluates performance based on Funds From Operations, which we refer to as FFO, as management believes that FFO represents the most accurate measure of activity and is the basis for distributions paid to equity holders. The Company defines FFO as net income or loss (computed in accordance with GAAP), excluding gains (or losses) from sales of property, hedge ineffectiveness, acquisition costs of newly acquired properties that are not capitalized and lease acquisition costs that are not capitalized plus depreciation and amortization, including amortization of acquired above and below market lease intangibles and impairment charges on properties or investments in non-consolidated REITs, and after adjustments to exclude equity in income or losses from, and, to include the proportionate share of FFO from, non-consolidated REITs.

FFO should not be considered as an alternative to net income (determined in accordance with GAAP), nor as an indicator of the Company's financial performance, nor as an alternative to cash flows from operating activities (determined in accordance with GAAP), nor as a measure of the Company's liquidity, nor is it necessarily indicative of sufficient cash flow to fund all of the Company's needs.

Other real estate companies and the National Association of Real Estate Investment Trusts, or NAREIT may define this term in a different manner. We have included the NAREIT FFO definition as of May 17, 2016 in the table and note that other REITs may not define FFO in accordance with the NAREIT definition or may interpret the current NAREIT definition differently than we do.

We believe that in order to facilitate a clear understanding of the results of the Company, FFO should be examined in connection with net income and cash flows from operating, investing and financing activities in the consolidated financial statements.

The calculations of FFO are shown in the following table:

	For the Year Ended December 31,		
(in thousands):	2018	2017	2016
Net income (loss)	$ 13,069	$ (15,944)	$ 8,378

(Gain) loss on sale of properties and properties held for sale	—	18,481	2,938
Equity in (income) loss of non-consolidated REITs	(6,793)	3,604	831
FFO from non-consolidated REITs	2,511	3,173	3,041
Depreciation and amortization	93,674	100,227	92,556
NAREIT FFO	102,461	109,541	107,744
Hedge ineffectiveness	—	1,878	(1,878)
Acquisition costs	—	18	479
Funds From Operations	$ 102,461	$ 111,437	$ 106,345

Net Operating Income (NOI)

The Company provides property performance based on NOI. Management believes that investors are interested in this information. NOI is a non-GAAP financial measure that the Company defines as net income (the most directly comparable GAAP financial measure) plus general and administrative expenses, depreciation and amortization, including amortization of acquired above and below market lease intangibles and impairment charges, interest expense, less equity in earnings of nonconsolidated REITs, interest income, management fee income, hedge ineffectiveness, gains or losses on the sale of assets and excludes non-property specific income and expenses. The information presented includes footnotes and the data is shown by region with properties owned in both periods, which we call Same Store. The Comparative Same Store results include properties held for the periods presented and exclude properties that are non-operating, being developed or redeveloped, dispositions and significant nonrecurring income such as bankruptcy

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settlements and lease termination fees. NOI, as defined by the Company, may not be comparable to NOI reported by other REITs that define NOI differently. NOI should not be considered an alternative to net income as an indication of our performance or to cash flows as a measure of the Company's liquidity or its ability to make distributions. The calculations of NOI are shown in the following table:

	Net Operating Income (NOI)*					
		Year	Year			
(in thousands)	Rentable	Ended	Ended	Inc	%	
Region	Square Feet	31-Dec-18	31-Dec-17	(Dec)	Change	
East	945	$ 14,704	$ 15,064	$ (360)	(2.4)	%
MidWest	1,549	21,344	17,689	3,655	20.7	%
South	4,384	57,514	62,252	(4,738)	(7.6)	%
West	2,609	44,192	45,692	(1,500)	(3.3)	%
Property NOI from the continuing portfolio	9,487	137,754	140,697	(2,943)	(2.1)	%
Dispositions, Non-Operating, Development or Redevelopment		6,534	6,138	396	0.4	%
Property NOI		$ 144,288	$ 146,835	$ (2,547)	(1.7)	%
Same Store		$ 137,754	$ 140,697	$ (2,943)	(2.1)	%
Less Nonrecurring Items in NOI (a)		6,101	3,260	2,841	(2.1)	%
Comparative Same Store		$ 131,653	$ 137,437	$ (5,784)	(4.2)	%