CIM Commercial Trust Corp
Form 10-Q
August 09, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One):

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

For the quarterly period ended June 30, 2018
OR

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

For the transition period from to
Commission File Number 1-13610
CIM COMMERCIAL TRUST CORPORATION
(Exact name of registrant as specified in its charter)

Maryland	75-6446078
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
17950 Preston Road, Suite 600, Dallas, TX 75252	(972) 349-3200
(Address of principal executive offices)	(Registrant's telephone number)

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 ý NO o
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). YES ý NO o
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 o	Accelerated filer o	Non-accelerated filer o
Smaller reporting company ý	Emerging growth company o	(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO ý
As of August 3, 2018, the Registrant had outstanding 43,795,073 shares of common stock, par value $0.001 per share.

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PART I
Financial Information

Item 1.
Financial Statements

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CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
(In thousands, except share and per share amounts)

	June 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Investments in real estate, net	$1,075,931	$957,725
Cash and cash equivalents	91,192	129,310
Restricted cash	22,800	27,008
Loans receivable, net	71,606	81,056
Accounts receivable, net	9,169	13,627
Deferred rent receivable and charges, net	86,162	84,748
Other intangible assets, net	11,625	6,381
Other assets	19,876	36,533
TOTAL ASSETS	$1,388,361	$1,336,388
LIABILITIES, REDEEMABLE PREFERRED STOCK, AND EQUITY		
LIABILITIES:		
Debt, net	$666,932	$630,852
Accounts payable and accrued expenses	27,391	26,394
Intangible liabilities, net	3,829	1,070
Due to related parties	9,203	8,814
Other liabilities	14,529	14,629
Total liabilities	721,884	681,759
COMMITMENTS AND CONTINGENCIES (Note 15)		
REDEEMABLE PREFERRED STOCK: Series A, $0.001 par value; 36,000,000 shares authorized; 1,845,473 and 1,842,353 shares issued and outstanding, respectively, at June 30, 2018 and 1,225,734 and 1,224,712 shares issued and outstanding, respectively, at December 31, 2017; liquidation preference of $25.00 per share, subject to adjustment	42,037	27,924
EQUITY:		
Series A cumulative redeemable preferred stock, $0.001 par value; 36,000,000 shares authorized; 308,775 and 307,510 shares issued and outstanding, respectively, at June 30, 2018 and 61,435 and 60,592 shares issued and outstanding, respectively, at December 31, 2017; liquidation preference of $25.00 per share, subject to adjustment	7,637	1,508
Series L cumulative redeemable preferred stock, $0.001 par value; 9,000,000 shares authorized; 8,080,740 shares issued and outstanding at June 30, 2018 and December 31, 2017; liquidation preference of $28.37 per share, subject to adjustment	229,251	229,251
Common stock, $0.001 par value; 900,000,000 shares authorized; 43,795,073 and 43,784,939 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	44	44
Additional paid-in capital	792,245	792,631
Accumulated other comprehensive income	3,221	1,631
Distributions in excess of earnings	(408,797)	(399,250)
Total stockholders' equity	623,601	625,815
Noncontrolling interests	839	890
Total equity	624,440	626,705
TOTAL LIABILITIES, REDEEMABLE PREFERRED STOCK, AND EQUITY	$1,388,361	$1,336,388

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

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CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations
(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Unaudited)			
REVENUES:				
Rental and other property income	$34,900	$46,124	$68,697	$97,183
Hotel income	10,160	9,832	19,849	19,582
Expense reimbursements	3,351	2,526	4,960	5,556
Interest and other income	3,148	2,817	6,451	5,927
	51,559	61,299	99,957	128,248
EXPENSES:				
Rental and other property operating	20,780	27,249	38,800	50,209
Asset management and other fees to related parties	6,143	7,863	12,354	16,563
Interest	6,811	9,513	13,444	19,286
General and administrative	1,915	1,647	5,291	3,326
Transaction costs (Note 15)	344	11,615	344	11,628
Depreciation and amortization	13,325	14,761	26,473	31,992
Impairment of real estate (Note 2)	—	13,100	—	13,100
	49,318	85,748	96,706	146,104
Gain on sale of real estate (Note 3)	—	116,283	—	304,017
INCOME BEFORE PROVISION FOR INCOME TAXES	2,241	91,834	3,251	286,161
Provision for income taxes	292	462	680	854
NET INCOME	1,949	91,372	2,571	285,307
Net income attributable to noncontrolling interests	(12)	(9)	(16)	(14)
NET INCOME ATTRIBUTABLE TO THE COMPANY	1,937	91,363	2,555	285,293
Redeemable preferred stock dividends accumulated (Note 10)	(3,152)	—	(6,304)	—
Redeemable preferred stock dividends declared (Note 10)	(662)	(72)	(1,155)	(103)
Redeemable preferred stock redemptions (Note 10)	1	—	2	—
NET (LOSS) INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	$(1,876)	$91,291	$(4,902)	$285,190
NET (LOSS) INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS PER SHARE:				
Basic	$(0.04)	$1.16	$(0.11)	$3.50
Diluted	$(0.04)	$1.16	$(0.11)	$3.50
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:				
Basic	43,791	78,871	43,788	81,445
Diluted	43,791	78,871	43,788	81,445

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

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CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Unaudited)			
NET INCOME	$1,949	$91,372	$2,571	$285,307
Other comprehensive income (loss): cash flow hedges	407	(440)	1,590	1,112
COMPREHENSIVE INCOME	2,356	90,932	4,161	286,419
Comprehensive income attributable to noncontrolling interests	(12)	(9)	(16)	(14)
COMPREHENSIVE INCOME ATTRIBUTABLE TO THE COMPANY	$2,344	$90,923	$4,145	$286,405

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

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CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES
Consolidated Statements of Equity
(In thousands, except share and per share amounts)

	Six Months Ended June 30, 2018										
	Common Stock		Preferred Stock								
			Series A		Series L						
	Shares	Par Value	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Distributions in Excess of Earnings	Non-controlling Interests	Total Equity
	(Unaudited)										
Balances, December 31, 2017	43,784,939	$44	60,592	$1,508	8,080,740	$229,251	$792,631	$1,631	$(399,250)	$890	$626,705
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	—	(67)	(67)
Stock-based compensation expense	10,134	—	—	—	—	—	86	—	—	—	86
Common dividends ($0.25 per share)	—	—	—	—	—	—	—	—	(10,947)	—	(10,947)
Issuance of Series A Preferred Warrants	—	—	—	—	—	—	40	—	—	—	40
Dividends to holders of Series A Preferred Stock ($0.6875 per share)	—	—	—	—	—	—	—	—	(1,155)	—	(1,155)
Reclassification of Series A Preferred Stock to permanent equity	—	—	246,918	6,129	—	—	(514)	—	—	—	5,615
Redemption of Series A Preferred Stock	—	—	—	—	—	—	2	—	—	—	2
Other comprehensive income	—	—	—	—	—	—	—	1,590	—	—	1,590
Net income	—	—	—	—	—	—	—	—	2,555	16	2,571
Balances, June 30, 2018	43,795,073	$44	307,510	$7,637	8,080,740	$229,251	$792,245	$3,221	$(408,797)	$839	$624,440

	Six Months Ended June 30, 2017						
	Common Stock						
	Shares	Par Value	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Earnings	Non-controlling Interests	Total Equity
	(Unaudited)						
Balances, December 31, 2016	84,048,081	$84	$1,566,073	$ (509)	$(599,971)	$ 912	$966,589
Distributions to noncontrolling interests	—	—	—	—	—	(37)	(37)
Stock-based compensation expense	9,585	—	78	—	—	—	78
Share repurchase	(26,181,818)	(26)	(489,027)	—	(86,947)	—	(576,000)
Special cash dividends paid to certain common stockholders ($2.26 per share) (Note 11)	—	—	—	—	(4,872)	—	(4,872)
Common dividends ($0.34375 per share)	—	—	—	—	(25,620)	—	(25,620)
Issuance of Series A Preferred Warrants	—	—	27	—	—	—	27
Dividends to holders of Series A Preferred Stock ($0.6875 per share)	—	—	—	—	(103)	—	(103)
Other comprehensive income	—	—	—	1,112	—	—	1,112
Net income	—	—	—	—	285,293	14	285,307
Balances, June 30, 2017	57,875,848	$58	$1,077,151	$ 603	$(432,220)	$ 889	$646,481

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

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CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(In thousands)

	Six Months Ended June 30,	
	2018	2017
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$2,571	$285,307
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred rent and amortization of intangible assets, liabilities and lease inducements	(2,807)	(2,662)
Depreciation and amortization	26,473	31,992
Transfer of right to collect supplemental real estate tax reimbursements	—	(5,097)
Gain on sale of real estate	—	(304,017)
Impairment of real estate	—	13,100
Straight-line rent, below-market ground lease and amortization of intangible assets	(18)	881
Amortization of deferred loan costs	386	808
Amortization of premiums and discounts on debt	(109)	(458)
Unrealized premium adjustment	1,436	722
Amortization and accretion on loans receivable, net	(168)	140
Bad debt expense	151	187
Deferred income taxes	21	459
Stock-based compensation	86	78
Loans funded, held for sale to secondary market	(21,345)	(17,906)
Proceeds from sale of guaranteed loans	29,098	16,737
Principal collected on loans subject to secured borrowings	1,501	4,935
Other operating activity	(525)	(441)
Changes in operating assets and liabilities:		
Accounts receivable and interest receivable	4,340	(2,682)
Other assets	(2,283)	(1,653)
Accounts payable and accrued expenses	(861)	5,631
Deferred leasing costs	(1,341)	(2,557)
Other liabilities	(82)	(1,748)
Due to related parties	389	4
Net cash provided by operating activities	36,913	21,760
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to investments in real estate	(8,053)	(9,915)
Acquisition of real estate	(112,048)	—
Proceeds from sale of real estate, net	—	642,886
Loans funded	(7,115)	(5,969)
Principal collected on loans	6,389	5,496
Other investing activity	76	67
Net cash (used in) provided by investing activities	(120,751)	632,565

(Continued)

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CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Continued)
(In thousands)

	Six Months Ended June 30,	
	2018	2017
	(Unaudited)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of mortgages payable	—	(65,569)
Payment of principal on SBA 7(a) loan-backed notes	(597)	—
Proceeds from SBA 7(a) loan-backed notes	38,200	—
Payment of principal on secured borrowings	(1,501)	(4,935)
Proceeds from secured borrowings	772	—
Payment of deferred preferred stock offering costs	(857)	(862)
Payment of deferred loan costs	(1,071)	(4)
Payment of common dividends	(10,947)	(25,620)
Payment of special cash dividends	(1,575)	(4,872)
Repurchase of Common Stock	—	(576,000)
Net proceeds from issuance of Series A Preferred Warrants	40	27
Net proceeds from issuance of Series A Preferred Stock	19,923	5,645
Payment of preferred stock dividends	(742)	(40)
Redemption of Series A Preferred Stock	(66)	—
Noncontrolling interests' distributions	(67)	(37)
Net cash provided by (used in) financing activities	41,512	(672,267)
Change in cash balances included in assets held for sale	—	(2,955)
NET DECREASE IN CASH AND CASH EQUIVALENTS AND RESTRICTED CASH	(42,326)	(20,897)
CASH AND CASH EQUIVALENTS AND RESTRICTED CASH:		
Beginning of period	156,318	176,609
End of period	$113,992	$155,712
RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH TO THE CONSOLIDATED BALANCE SHEETS:		
Cash and cash equivalents	$91,192	$129,006
Restricted cash	22,800	26,706
Total cash and cash equivalents and restricted cash	$113,992	$155,712
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$13,124	$19,303
Federal income taxes paid	$247	$259
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Additions to investments in real estate included in accounts payable and accrued expenses	$11,835	$6,883
Net increase in fair value of derivatives applied to other comprehensive income	$1,590	$1,112
Reduction of loans receivable and secured borrowings due to the SBA's repurchase of the guaranteed portion of a loan	$—	$534
Additions to deferred costs included in accounts payable and accrued expenses	$276	$—
Additions to preferred stock offering costs included in accounts payable and accrued expenses	$334	$1,387
Accrual of dividends payable to preferred stockholders	$662	$72
Preferred stock offering costs offset against redeemable preferred stock in temporary equity	$140	$21
Reclassification of Series A Preferred Stock from temporary equity to permanent equity	$5,615	$—

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

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CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements as of June 30, 2018 and December 31, 2017, and
for the Three and Six Months Ended June 30, 2018 and 2017 (Unaudited)

1. ORGANIZATION AND OPERATIONS

CIM Commercial Trust Corporation ("CIM Commercial" or the "Company"), a Maryland corporation and real estate investment trust ("REIT"), together with its wholly-owned subsidiaries ("we," "us" or "our"), primarily acquires, owns, and operates Class A and creative office assets in vibrant and improving urban communities throughout the United States. These communities are located in areas that include traditional downtown areas and suburban main streets, which have high barriers to entry, high population density, improving demographic trends and a propensity for growth. We were originally organized in 1993 as PMC Commercial Trust ("PMC Commercial"), a Texas real estate investment trust.

On July 8, 2013, PMC Commercial entered into a merger agreement (the "Merger Agreement") with CIM Urban REIT, LLC ("CIM REIT"), an affiliate of CIM Group, L.P. ("CIM Group" or "CIM"), and subsidiaries of the respective parties. CIM REIT was a private commercial REIT and was the owner of CIM Urban Partners, L.P. ("CIM Urban"). The transaction (the "Merger") was completed on March 11, 2014 (the "Acquisition Date"). As a result of the Merger and related transactions, CIM Urban became our wholly-owned subsidiary.

Our common stock, $0.001 par value per share ("Common Stock"), is currently traded on the Nasdaq Global Market ("Nasdaq") and on the Tel Aviv Stock Exchange (the "TASE"), in each case under the ticker symbol "CMCT." Our Series L preferred stock, $0.001 par value per share ("Series L Preferred Stock"), is currently traded on Nasdaq and on the TASE, in each case under the ticker symbol "CMCTP." We have authorized for issuance 900,000,000 shares of common stock and 100,000,000 shares of preferred stock ("Preferred Stock").

CIM Commercial has qualified and intends to continue to qualify as a REIT, as defined in the Internal Revenue Code of 1986, as amended.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For more information regarding our significant accounting policies and estimates, please refer to "Basis of Presentation and Summary of Significant Accounting Policies" contained in Note 2 to our consolidated financial statements for the year ended December 31, 2017, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 12, 2018.

Interim Financial Information—The accompanying interim consolidated financial statements of CIM Commercial have been prepared by our management in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Certain information and note disclosures required for annual financial statements have been condensed or excluded pursuant to SEC rules and regulations. Accordingly, the interim consolidated financial statements do not include all of the information and notes required by GAAP for complete financial statements. The accompanying financial information reflects all adjustments which are, in the opinion of our management, of a normal recurring nature and necessary for a fair presentation of our financial position, results of operations and cash flows for the interim periods. Operating results for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. Our accompanying interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements and the notes thereto, included in our Annual Report on Form 10-K filed with the SEC on March 12, 2018.

Principles of Consolidation—The consolidated financial statements include the accounts of CIM Commercial and its subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements as of June 30, 2018 and December 31, 2017, and
for the Three and Six Months Ended June 30, 2018 and 2017 (Unaudited)

Investments in Real Estate—Real estate acquisitions are recorded at cost as of the acquisition date. Costs related to the acquisition of properties are expensed as incurred for acquisitions that occurred prior to October 1, 2017. For any acquisition occurring on or after October 1, 2017, we have and will conduct an analysis to determine if the acquisition constitutes a business combination or an asset purchase. If the acquisition constitutes a business combination, then the transaction costs will be expensed as incurred, and if the acquisition constitutes an asset purchase, then the transaction costs will be capitalized. Investments in real estate are stated at depreciated cost. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives as follows:

Buildings and improvements	15 - 40 years
Furniture, fixtures, and equipment	3 - 5 years
Tenant improvements	Shorter of the useful lives or the terms of the related leases

Improvements and replacements are capitalized when they extend the useful life, increase capacity, or improve the efficiency of the asset. Ordinary repairs and maintenance are expensed as incurred.

Investments in real estate are evaluated for impairment on a quarterly basis or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount to the future net cash flows, undiscounted and without interest, expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. The estimated fair value of the asset group identified for step two of the impairment testing under GAAP is based on either the income approach with market discount rate, terminal capitalization rate and rental rate assumptions being most critical, or on the sales comparison approach to similar properties. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell. We recognized impairment of long-lived assets of $0 and $13,100,000 during the three months ended June 30, 2018 and 2017, respectively, and $0 and $13,100,000 during the six months ended June 30, 2018 and 2017, respectively.

Derivative Financial Instruments—As part of our risk management and operational strategies, from time to time, we may enter into derivative contracts with various counterparties. All derivatives are recognized on the balance sheet at their estimated fair value. On the date that we enter into a derivative contract, we designate the derivative as a fair value hedge, a cash flow hedge, a foreign currency fair value or cash flow hedge, a hedge of a net investment in a foreign operation, or a trading or non-hedging instrument.

Changes in the estimated fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge, to the extent that the hedge is effective, are initially recorded in other comprehensive income ("OCI"), and are subsequently reclassified into earnings as a component of interest expense when the variability of cash flows of the hedged transaction affects earnings (e.g., when periodic settlements of a variable-rate asset or liability are recorded in earnings). Any hedge ineffectiveness (which represents the amount by which the changes in the estimated fair value of the derivative differ from the variability in the cash flows of the forecasted transaction) is recognized in current-period earnings as a component of interest expense. When an interest rate swap designated as a cash flow hedge no longer qualifies for hedge accounting, we recognize changes in the estimated fair value of the hedge previously deferred to accumulated other comprehensive income ("AOCI"), along with any changes in estimated fair value occurring thereafter, through earnings. We classify cash flows from interest rate swap agreements as net cash provided by operating activities on the consolidated statements of cash flows as our accounting policy is to present the cash flows from the hedging instruments in the same category in the consolidated statements of cash flows as the category for the cash flows from the hedged items. See Note 12 for disclosures about our derivative financial instruments and hedging activities.

Revenue Recognition—We use a five-step model to recognize revenue for contracts with customers. The five-step model requires that we (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, including variable consideration to the extent that it is probable that a significant

future reversal will not occur, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) we satisfy the performance obligation.

CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements as of June 30, 2018 and December 31, 2017, and
for the Three and Six Months Ended June 30, 2018 and 2017 (Unaudited)

Revenue from leasing activities
All leases are classified as operating leases and minimum rents are recognized on a straight-line basis over the terms of the leases when collectability is reasonably assured and the tenant has taken possession or controls the physical use of the leased asset. The excess of rents recognized over amounts contractually due pursuant to the underlying leases is recorded as deferred rent. If the lease provides for tenant improvements, we determine whether the tenant improvements, for accounting purposes, are owned by the tenant or us. When we are the owner of the tenant improvements, the tenant is not considered to have taken physical possession or have control of the physical use of the leased asset until the tenant improvements are substantially completed. When the tenant is considered the owner of the improvements, any tenant improvement allowance that is funded is treated as an incentive. Lease incentives paid to tenants are included in other assets and amortized as a reduction to rental revenue on a straight-line basis over the term of the related lease.
Reimbursements from tenants, consisting of amounts due from tenants for common area maintenance, real estate taxes, insurance, and other recoverable costs, are recognized as revenue in the period the expenses are incurred. Tenant reimbursements are recognized and presented on a gross basis when we are primarily responsible for fulfilling the promise to provide the specified good or service and control that specified good or service before it is transferred to the tenant.
In addition to minimum rents, certain leases provide for additional rents based upon varying percentages of tenants' sales in excess of annual minimums. Percentage rent is recognized once lessees' specified sales targets have been met.
We derive parking revenues from leases with third-party operators. Our parking leases provide for additional rents based upon varying percentages of tenants' sales in excess of annual minimums. Parking percentage rent is recognized once lessees' specific sales targets have been met.
Revenue from lending activities
Interest income included in interest and other income is comprised of interest earned on loans and our short-term investments and the accretion of net loan origination fees and discounts. Interest income on loans is accrued as earned with the accrual of interest suspended when the related loan becomes a Non-Accrual Loan (as defined below).
Revenue from hotel activities
Hotel revenue is recognized upon establishment of a contract with a customer. At contract inception, the Company assesses the goods and services promised in its contracts with customers and identifies a performance obligation for each promise to transfer to the customer a good or service (or bundle of goods or services) that is distinct. To identify the performance obligations, the Company considers all of the goods or services promised in the contract regardless of whether they are explicitly stated or implied by customary business practices. Various performance obligations of hotel revenues can be categorized as follows:

- cancellable and noncancelable room revenues from reservations and
- ancillary services including facility usage and food or beverage.

Cancellable reservations represent a single performance obligation of providing lodging services at the hotel. The Company satisfies its performance obligation and recognizes revenues associated with these reservations over time as services are rendered to the customer. The Company satisfies its performance obligation and recognizes revenues associated with noncancelable reservations at the earlier of (i) the date on which the customer cancels the reservation or (ii) over time as services are rendered to the customer.
Ancillary services include facilities usage and providing food and beverage. The Company satisfies its performance obligation and recognizes revenues associated with these services at a point in time when the good or service is delivered to the customer.
At inception of these contracts with customers for hotel revenues, the contractual price is equivalent to the transaction price as there are no elements of variable consideration to estimate.

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Amounts recognized for hotel revenues were $10,160,000 and $9,832,000 for the three months ended June 30, 2018 and 2017, respectively, and $19,849,000 and $19,582,000 for the six months ended June 30, 2018 and 2017, respectively. Below is a reconciliation of the hotel revenue from contracts with customers to the total hotel segment revenue disclosed in Note 18:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in thousands)			
Hotel properties				
Hotel income	$10,160	$9,832	$19,849	$19,582
Rental and other property income	733	738	1,496	1,490
Interest and other income	54	34	93	50
Hotel revenues	$10,947	$10,604	$21,438	$21,122

Tenant recoveries outside of the lease agreements

Tenant recoveries outside of the lease agreements are related to construction projects in which our tenants have agreed to fully reimburse us for all costs related to construction. At inception of the contract with the customer, the contractual price is equivalent to the transaction price as there are no elements of variable consideration to estimate. While these individual services are distinct, in the context of the arrangement with the customer, all of these services are bundled together and represent a single package of construction services requested by the customer. The Company satisfies its performance obligation and recognizes revenues associated with these services over time as the construction is completed.

Amounts recognized for tenant recoveries outside of the lease agreements were $275,000 and $0 for the three months ended June 30, 2018 and 2017, respectively, and $278,000 and $4,000 for the six months ended June 30, 2018 and 2017, respectively, which are included in expense reimbursements on the consolidated statements of operations. As of June 30, 2018, performance obligations associated with tenant recoveries outside of lease agreements totaled $123,000.

Loans Receivable—Our loans receivable are carried at their unamortized principal balance less unamortized acquisition discounts and premiums, retained loan discounts and loan loss reserves. For loans originated under the Small Business Administration's ("SBA") 7(a) Guaranteed Loan Program ("SBA 7(a) Program"), we sell the portion of the loan that is guaranteed by the SBA. Upon sale of the SBA guaranteed portion of the loans, which are accounted for as sales, the unguaranteed portion of the loan retained by us is valued on a fair value basis and a discount is recorded as a reduction in basis of the retained portion of the loan.

At the Acquisition Date, the carrying value of our loans was adjusted to estimated fair market value and acquisition discounts of $33,907,000 were recorded, which are being accreted to interest and other income using the effective interest method. We sold substantially all of our commercial mortgage loans with unamortized acquisition discounts of $15,951,000 to an unrelated third-party in December 2015. Acquisition discounts of $1,068,000 remained as of June 30, 2018, which have not yet been accreted to income.

A loan receivable is generally classified as non-accrual (a "Non-Accrual Loan") if (i) it is past due as to payment of principal or interest for a period of 60 days or more, (ii) any portion of the loan is classified as doubtful or is charged-off or (iii) the repayment in full of the principal and or interest is in doubt. Generally, loans are charged-off when management determines that we will be unable to collect any remaining amounts due under the loan agreement, either through liquidation of collateral or other means. Interest income, included in interest and other income, on a Non-Accrual Loan is recognized on either the cash basis or the cost recovery basis.

On a quarterly basis, and more frequently if indicators exist, we evaluate the collectability of our loans receivable. Our evaluation of collectability involves judgment, estimates, and a review of the ability of the borrower to make principal and interest payments, the underlying collateral and the borrowers' business models and future operations in

accordance with Accounting Standards Codification ("ASC") 450-20, Contingencies—Loss Contingencies, and ASC 310-10, Receivables. For the three and six months ended June 30, 2018, we recorded no impairment on our loans receivable. For the three and six months ended June 30, 2017, we recorded a net impairment of $0 and $12,000 on our loans receivable, respectively. We establish a

general loan loss reserve when available information indicates that it is probable a loss has occurred based on the carrying value of the portfolio and the amount of the loss can be reasonably estimated. Significant judgment is required in determining the general loan loss reserve, including estimates of the likelihood of default and the estimated fair value of the collateral. The general loan loss reserve includes those loans, which may have negative characteristics which have not yet become known to us. In addition to the reserves established on loans not considered impaired that have been evaluated under a specific evaluation, we establish the general loan loss reserve using a consistent methodology to determine a loss percentage to be applied to loan balances. These loss percentages are based on many factors, primarily cumulative and recent loss history and general economic conditions.

Deferred Rent Receivable and Charges—Deferred rent receivable and charges consist of deferred rent, deferred leasing costs, deferred offering costs (Note 10) and other deferred costs. Deferred rent receivable is $54,798,000 and $52,619,000 at June 30, 2018 and December 31, 2017, respectively. Deferred leasing costs, which represent lease commissions and other direct costs associated with the acquisition of tenants, are capitalized and amortized on a straight-line basis over the terms of the related leases. Deferred leasing costs of $49,460,000 and $52,414,000 are presented net of accumulated amortization of $22,557,000 and $23,807,000 at June 30, 2018 and December 31, 2017, respectively. Deferred offering costs represent direct costs incurred in connection with our offering of Series A Preferred Units (as defined in Note 10), excluding costs specifically identifiable to a closing, such as commissions, dealer-manager fees, and other offering fees and expenses. For a specific issuance of Series A Preferred Units, associated offering costs are reclassified as a reduction of proceeds raised on the issuance date. Offering costs incurred but not directly related to a specifically identifiable closing are deferred. Deferred offering costs are first allocated to each issuance on a pro-rata basis equal to the ratio of Series A Preferred Units issued in an issuance to the maximum number of Series A Preferred Units that are expected to be issued. Then, the deferred offering costs allocated to such issuance are further allocated to the Series A Preferred Stock (as defined in Note 10) and Series A Preferred Warrants (as defined in Note 10) issued in such issuance based on the relative fair value of the instruments on the date of issuance. The deferred offering costs allocated to the Series A Preferred Stock and Series A Preferred Warrants are reductions to temporary equity and permanent equity, respectively. Deferred offering costs of $4,185,000 and $3,401,000 related to our offering of Series A Preferred Units are included in deferred rent receivable and charges at June 30, 2018 and December 31, 2017, respectively. Other deferred costs are $276,000 and $121,000 at June 30, 2018 and December 31, 2017, respectively.

Redeemable Preferred Stock—Beginning on the date of original issuance of any given shares of Series A Preferred Stock (Note 10), the holder of such shares has the right to require the Company to redeem such shares at a redemption price of 100% of the Series A Preferred Stock Stated Value (as defined in Note 10), plus accrued and unpaid dividends, subject to the payment of a redemption fee until the fifth anniversary of such issuance. From and after the fifth anniversary of the date of the original issuance, the holder will have the right to require the Company to redeem such shares at a redemption price of 100% of the Series A Preferred Stock Stated Value, plus accrued and unpaid dividends, without a redemption fee, and the Company will have the right (but not the obligation) to redeem such shares at 100% of the Series A Preferred Stock Stated Value, plus accrued and unpaid dividends. The applicable redemption price payable upon redemption of any Series A Preferred Stock is payable in cash or, on or after the first anniversary of the issuance of such shares of Series A Preferred Stock to be redeemed, in the Company's sole discretion, in cash or in equal value through the issuance of shares of Common Stock, based on the volume weighted average price of our Common Stock for the 20 trading days prior to the redemption. Since a holder of Series A Preferred Stock has the right to request redemption of such shares and redemptions prior to the first anniversary are to be paid in cash, we have recorded the activity related to our Series A Preferred Stock in temporary equity. We recorded the activity related to our Series A Preferred Warrants (Note 10) in permanent equity. On the first anniversary of the date of original issuance of a particular share of Series A Preferred Stock, we reclassify such share of Series A Preferred Stock from temporary equity to permanent equity because the feature giving rise to temporary equity classification, the requirement to satisfy redemption requests in cash, lapses on the first anniversary date.

Proceeds and expenses from the sale of the Series A Preferred Units are allocated to the Series A Preferred Stock and the Series A Preferred Warrants using their relative fair values on the date of issuance.
Our Series L Preferred Stock (as defined in Note 10) is redeemable at the option of the holder or CIM Commercial. From and after the fifth anniversary of the date of original issuance of the Series L Preferred Stock, each holder will have the right to require the Company to redeem, and the Company will also have the option to redeem (subject to certain conditions), such shares of Series L Preferred Stock at a redemption price equal to the Series L Preferred Stock Stated Value (as defined in Note 10), plus, provided certain conditions are met, all accrued and unpaid distributions. Notwithstanding the foregoing, a holder of shares of our Series L Preferred Stock may require us to redeem such shares at any time prior to the fifth anniversary of the date of original issuance of the Series L Preferred Stock if (1) we do not declare and pay in full the distributions on the Series L Preferred Stock for any annual period prior to such fifth anniversary (provided that the first distribution on the Series L

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Preferred Stock is payable in January 2019) or (2) we do not declare and pay all accrued and unpaid distributions on the Series L Preferred Stock for all past dividend periods prior to the applicable holder redemption date. The applicable redemption price payable upon redemption of any Series L Preferred Stock will be made, in the Company's sole discretion, in the form of (A) cash in Israeli new shekels ("ILS") at the then-current currency exchange rate determined in accordance with the Articles Supplementary defining the terms of the Series L Preferred Stock, (B) in equal value through the issuance of shares of Common Stock, with the value of such Common Stock to be deemed the lower of (i) the NAV per share of our Common Stock as most recently published by the Company as of the effective date of redemption and (ii) the volume-weighted average price of our Common Stock, determined in accordance with the Articles Supplementary defining the terms of the Series L Preferred Stock, or (C) in a combination of cash in ILS and our Common Stock, based on the conversion mechanisms set forth in (A) and (B), respectively. We recorded the activity related to our Series L Preferred Stock in permanent equity.

Noncontrolling Interests—Noncontrolling interests represent the interests in various properties owned by third parties.

Restricted Cash—Our mortgage loan and hotel management agreements provide for depositing cash into restricted accounts reserved for capital expenditures, free rent, tenant improvement and leasing commission obligations. Restricted cash also includes cash required to be segregated in connection with certain of our loans receivable.

Reclassifications—Certain prior period amounts have been reclassified to conform with the current period presentation. These reclassifications had no effect on previously reported net income or cash flows, other than the adoption of Accounting Standards Update ("ASU") 2016-18 (as defined below) on January 1, 2018, which requires the inclusion of a reconciliation of cash and restricted cash in our consolidated statements of cash flows.

Assets Held for Sale and Discontinued Operations—In the ordinary course of business, we may periodically enter into agreements relating to dispositions of our assets. Some of these agreements are non-binding because either they do not obligate either party to pursue any transactions until the execution of a definitive agreement or they provide the potential buyer with the ability to terminate without penalty or forfeiture of any material deposit, subject to certain specified contingencies, such as completion of due diligence at the discretion of such buyer. We do not classify assets that are subject to such non-binding agreements as held for sale.

We classify assets as held for sale, if material, when they meet the necessary criteria, which include: a) management commits to and actively embarks upon a plan to sell the assets, b) the assets to be sold are available for immediate sale in their present condition, c) the sale is expected to be completed within one year under terms usual and customary for such sales and d) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. We generally believe that we meet these criteria when the plan for sale has been approved by our board of directors (the "Board of Directors"), there are no known significant contingencies related to the sale and management believes it is probable that the sale will be completed within one year.

Assets held for sale are recorded at the lower of cost or estimated fair value less cost to sell. In addition, if we were to determine that the asset disposal associated with assets held for sale or disposed of represents a strategic shift, the revenues, expenses and net gain (loss) on dispositions would be recorded in discontinued operations for all periods presented through the date of the applicable disposition.

We sold all of our multifamily properties during the year ended December 31, 2017. We assessed the sale of these properties in accordance with ASC 205-20, Discontinued Operations. In our assessment, we considered, among other factors, the materiality of the revenue, net operating income, and total assets of our multifamily segment. Based on our qualitative and quantitative assessment, we concluded the disposals did not represent a strategic shift that will have a major effect on our operations and financial results and therefore should not be classified as discontinued operations on our consolidated financial statements.

Consolidation Considerations for Our Investments in Real Estate—ASC 810-10, Consolidation, addresses how a business enterprise should evaluate whether it has a controlling interest in an entity through means other than voting rights that would require the entity to be consolidated. We analyze our investments in real estate in accordance with

this accounting standard to determine whether they are variable interest entities, and if so, whether we are the primary beneficiary. Our judgment with respect to our level of influence or control over an entity and whether we are the primary beneficiary of a variable interest entity involves consideration of various factors, including the form of our ownership interest, our voting interest, the size of our investment (including loans), and our ability to participate in major policy-making decisions. Our ability

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to correctly assess our influence or control over an entity affects the presentation of these investments in real estate on our consolidated financial statements.

Use of Estimates—The preparation of consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements—In January 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which is designed to improve the recognition and measurement of financial instruments through targeted changes to existing GAAP. The ASU requires an entity to: (i) measure equity investments at fair value through net income, with certain exceptions; (ii) present in OCI the changes in instrument-specific credit risk for financial liabilities measured using the fair value option; (iii) present financial assets and financial liabilities by measurement category and form of financial asset; (iv) calculate the fair value of financial instruments for disclosure purposes based on an exit price; and (v) assess a valuation allowance on deferred tax assets related to unrealized losses of available-for-sale debt securities in combination with other deferred tax assets. In addition, the ASU provides an election to subsequently measure certain nonmarketable equity investments at cost less any impairment and adjusted for certain observable price changes. The ASU also requires a qualitative impairment assessment of such equity investments and amends certain fair value disclosure requirements. For public business entities, the ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. The adoption of this ASU did not have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which is intended to improve financial reporting about leasing transactions. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP, which requires a lessee to recognize only capital leases on the balance sheet, the new ASU will require a lessee to recognize both types of leases on the balance sheet. The lessor accounting will remain largely unchanged from current GAAP. However, the ASU contains some targeted improvements that are intended to align, where necessary, lessor accounting with the lessee accounting model and with the updated revenue recognition guidance issued in 2014. In July 2018, the FASB issued ASU No. 2018-10, Leases (Topic 842), which contained targeted improvements to amend inconsistencies and clarify guidance that were brought about by stakeholders. Furthermore, in July 2018, the FASB issued ASU 2018-11, Leases (Topic 842), which provided the following practical expedients to entities: (1) a transition method that allows entities to apply the new standard at the adoption date and to recognize a cumulative-effect adjustment to the opening balance of retained earnings effective at the adoption date; and (2) the option for lessors to not separate lease and non-lease components provided that certain criteria are met. For public entities, these ASUs are effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2018.

We are currently conducting an evaluation of the impact of the guidance on our consolidated financial statements. We currently believe that the adoption of the standard will not significantly change the accounting for operating leases on our consolidated balance sheet where we are the lessor, and that such leases will be accounted for in a similar method to existing standards with the underlying leased asset being recognized and reported as a real estate asset. We expect to adopt the guidance using the new transition method provided by ASU 2018-11.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which is intended to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity. The amendments in the ASU replace the incurred loss impairment

methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For public entities, the ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2019. Early adoption is permitted for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2018. We are currently in the process of evaluating the impact of adoption of this new accounting guidance on our consolidated financial statements.

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In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"), which provides guidance on how certain cash receipts and cash payments are to be presented and classified in the statement of cash flows. For public entities, the ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. The Company adopted ASU 2016-15 on January 1, 2018 and such adoption did not have a material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash ("ASU 2016-18"), which requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this update do not provide a definition of restricted cash or restricted cash equivalents. For public entities, the ASU is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. The Company adopted ASU 2016-18 on January 1, 2018. Restricted cash is now included as a component of cash, cash equivalents, and restricted cash on the Company's consolidated statements of cash flows. The inclusion of restricted cash resulted in a decrease to net cash provided by investing activities of $5,403,000 for the six months ended June 30, 2017.

In December 2016, the FASB issued ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers, which makes certain technical corrections and improvements to ASU 2014-09, Revenue from Contracts with Customers (Topic 606). In February 2017, the FASB issued ASU No. 2017-05, Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets, which provided further clarification on the recognition of gains and losses from the transfer of nonfinancial assets in contracts with noncustomers provided for under ASU 2014-09. This revenue recognition standard became effective for the Company on January 1, 2018. The standard allows the use of a full retrospective or modified retrospective approach to adopt this ASU. The full retrospective approach requires entities to recast their revenues for all periods presented to conform with the new revenue recognition guidance. Revenues that are restated for periods before January 1, 2016 will be reflected as an adjustment to retained earnings as of January 1, 2016. Under the modified retrospective approach, an entity can apply the standard to all contracts existing as of January 1, 2018, or only to uncompleted contracts existing as of January 1, 2018. Any differences in current and new revenue recognition guidance would be reflected as an adjustment to retained earnings as of January 1, 2018 under this approach. Under both approaches, additional disclosures may be required depending on the significance of the revenues impacted. The Company has elected to use the modified retrospective approach for all uncompleted contracts as of January 1, 2018.

The core principle of this revenue recognition standard is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, with an emphasis on the timing of the transfer of control of these goods or services to the customer. The guidance requires the use of a new five-step model, which includes (i) identifying the contract with a customer, (ii) identifying the performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the performance obligations, and (v) recognizing revenue when (or as) the entities satisfies a performance obligation.

Our revenues and gains that were scoped into the revenue recognition standard were (i) hotel revenues, (ii) gains on sales of real estate, and (iii) certain tenant recoveries outside of the terms of the lease agreement.

For all contracts within the scope of this new revenue recognition standard, which include hotel revenues, sales of real estate, and tenant recoveries outside the lease agreements, the Company determined that there were no differences in the recognition of timing and amount under the current and new guidance. Therefore, the adoption of this standard effective January 1, 2018 did not result in an adjustment to our retained earnings on January 1, 2018. Additionally, a majority of the Company's revenues are concentrated in rental income from leases which are outside of the scope of

the new revenue recognition standard. The Company adopted this guidance on January 1, 2018 and such adoption did not have a material impact on our consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting ("ASU 2017-09"), which clarifies the scope of modification accounting. Under the guidance, an entity will not apply modification accounting to a share-based payment award if the award's fair value, vesting conditions, and classification as an equity or liability instrument remain the same immediately before and after the change. For public entities, the ASU is effective for annual reporting periods (including interim periods within those periods) beginning after December 15, 2017. The Company adopted ASU 2017-09 on January 1, 2018 and such adoption did not have a material impact on our consolidated financial statements.

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In August 2017, the FASB issued ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities, which simplifies and expands the eligible hedging strategies for financial and nonfinancial risks by more closely aligning hedge accounting with a company's risk management activities, and also simplifies the application of Topic 815, Derivatives and Hedging, through targeted improvements in key practice areas. In addition, the ASU prescribes how hedging results should be presented and requires incremental disclosures. Further, the ASU provides partial relief on the timing of certain aspects of hedge documentation and eliminates the requirement to recognize hedge ineffectiveness separately in earnings in the current period. For public entities, the ASU is effective for annual reporting periods (including interim periods within those periods) beginning after December 15, 2018. Early adoption is permitted in any interim period after issuance of the ASU for existing hedging relationships on the date of adoption. We are currently in the process of evaluating the impact of adoption of this new accounting guidance on our consolidated financial statements.
In March 2018, the FASB issued ASU No. 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118, which addresses the application of GAAP in situations when a registrant does not have the necessary information available, prepared or analyzed in reasonable detail to complete the accounting for certain tax effects of the Tax Cuts and Jobs Act (the "2017 Act"), which was signed into law on December 22, 2017. The guidance requires that the impact of the new tax laws take effect on the enactment date but provides relief to registrants under certain scenarios. The Company has evaluated the guidance and determined that the effects of the 2017 Act do not have a material impact on our consolidated financial statements.

3. ACQUISITIONS AND DISPOSITIONS

The fair value of real estate acquired is recorded to the acquired tangible assets, consisting primarily of land, land improvements, building and improvements, tenant improvements, and furniture, fixtures, and equipment, and identified intangible assets and liabilities, consisting of the value of acquired above-market and below-market leases, in-place leases and ground leases, if any, based in each case on their respective fair values. Loan premiums, in the case of above-market rate loans, or loan discounts, in the case of below-market rate loans, are recorded based on the fair value of any loans assumed in connection with acquiring the real estate.
2018 Transactions—On January 18, 2018, we acquired a 100% fee-simple interest in an office property known as 9460 Wilshire Boulevard from an unrelated third-party. The property has approximately 68,866 square feet of office space and 22,884 square feet of retail space and is located in Beverly Hills, California. The acquisition was funded with proceeds from our Series L Preferred Stock offering, and the acquired property is reported as part of the office segment (Note 18). We performed an analysis and, based on our analysis, determined this acquisition was an asset purchase and not a business combination. As such, transaction costs were capitalized as incurred in connection with this acquisition.

Property	Asset Type	Date of Acquisition	Square Feet	Purchase Price (1) (in thousands)
9460 Wilshire Boulevard, Beverly Hills, CA	Office	January 18, 2018	91,750	$ 132,000

(1) In December 2017, at the time we entered into the purchase and sale agreement, we made a $20,000,000 non-refundable deposit to an escrow account that is included in other assets on our consolidated balance sheet at December 31, 2017. Transaction costs that were capitalized in connection with the acquisition of this property totaled $48,000, which are not included in the purchase price above.

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The results of operations of the property we acquired during the six months ended June 30, 2018 have been included in the consolidated statements of operations from the date of acquisition. The purchase price of the acquisition completed during the six months ended June 30, 2018 was less than 10% of total assets as of the most recent annual consolidated financial statements filed at or prior to the date of acquisition. The fair value of the net assets acquired for the aforementioned acquisition during the six months ended June 30, 2018 are as follows:

	(in thousands)
Land	$ 52,199
Land improvements	756
Buildings and improvements	74,522
Tenant improvements	1,451
Acquired in-place leases (1)	7,003
Acquired above-market leases (1)	109
Acquired below-market leases (1)	(3,992)
Net assets acquired	$ 132,048

(1) Acquired in-place leases, above-market leases, and below-market leases have weighted average amortization periods of 3 years, 2 years, and 3 years, respectively.

There were no dispositions during the six months ended June 30, 2018.

2017 Transactions—There were no acquisitions during the six months ended June 30, 2017.

We sold 100% fee-simple interests in the following properties to unrelated third-parties during the six months ended June 30, 2017. Transaction costs related to these sales were expensed as incurred.

Property	Asset Type	Date of Sale	Square Feet or Units (1)	Sales Price	Transaction Costs		Gain on Sale (2)
				(in thousands)			
211 Main Street, San Francisco, CA	Office	March 28, 2017	417,266	$292,882	$ 2,943	(3)	$ 187,734
3636 McKinney Avenue, Dallas, TX	Multifamily	May 30, 2017	103	$ 20,000	$ 1,320	(3)	$ 5,488
3839 McKinney Avenue, Dallas, TX	Multifamily	May 30, 2017	75	$ 14,100	$ 938	(3)	$ 4,224
200 S College Street, Charlotte, NC	Office	June 8, 2017	567,865	$ 148,500	$ 833		$ 45,906
980 9th Street and 1010 8th Street, Sacramento, CA	Office & Parking Garage	June 20, 2017	485,926	$ 120,500	$ 1,119		$ 34,559
4649 Cole Avenue, Dallas, TX	Multifamily	June 23, 2017	334	$ 64,000	$ 3,311	(3)	$ 25,836

(1) Reflects the square footage of office properties and number of units of multifamily properties.
(2) Represents the final gain on sale for each asset, which reflects certain post-closing adjustments, as applicable, that were recognized in our consolidated statements of operations in reporting periods subsequent to the period of sale.
(3) Includes a prepayment penalty incurred in connection with the prepayment of the mortgage on the property in the amount of $1,508,000 at 211 Main Street, $1,143,000 at 3636 McKinney Avenue, $758,000 at 3839 McKinney Avenue, and $2,812,000 at 4649 Cole Avenue (Note 7).

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The results of operations of the properties we sold have been included in the consolidated statements of operations through each properties' respective disposition date. The following is the detail of the carrying amounts of assets and liabilities at the time of the sales of the properties that occurred during the six months ended June 30, 2017:

	(in thousands)
Assets	
Investments in real estate, net	$ 319,078
Deferred rent receivable and charges, net	22,089
Other intangible assets, net	129
Other assets	38
Total assets	$ 341,334
Liabilities	
Debt, net (1)	$ 64,777
Intangible liabilities, net	1,800
Total liabilities	$ 66,577

(1) Net of $665,000 of premium on assumed mortgage.

4. INVESTMENTS IN REAL ESTATE

Investments in real estate consist of the following:

	June 30, 2018	December 31, 2017
	(in thousands)	
Land	$273,984	$221,785
Land improvements	18,501	17,745
Buildings and improvements	922,541	847,849
Furniture, fixtures, and equipment	3,219	3,363
Tenant improvements	140,345	128,876
Work in progress	8,562	9,162
Investments in real estate	1,367,152	1,228,780
Accumulated depreciation	(291,221)	(271,055)
Net investments in real estate	$1,075,931	$957,725

We recorded depreciation expense of $10,907,000 and $12,670,000 for the three months ended June 30, 2018 and 2017, respectively, and $21,586,000 and $27,354,000 for the six months ended June 30, 2018 and 2017, respectively.

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5. LOANS RECEIVABLE
Loans receivable consist of the following:

	June 30, 2018	December 31, 2017
	(in thousands)	
SBA 7(a) loans receivable, subject to loan-backed notes	$40,463	$—
SBA 7(a) loans receivable, subject to secured borrowings	20,800	21,664
SBA 7(a) loans receivable, subject to credit risk	9,923	58,298
Commercial mortgage loans receivable	—	424
Loans receivable	71,186	80,386
Deferred capitalized costs	915	1,132
Loan loss reserves	(495)	(462)
Loans receivable, net	$71,606	$81,056

SBA 7(a) Loans Receivable, Subject to Loan-Backed Notes—Represents the unguaranteed portions of loans originated under the SBA 7(a) Program which were transferred to a trust and are held as collateral in connection with a securitization transaction. The proceeds received from the transfer are reflected as loan-backed notes payable (Note 7).
SBA 7(a) Loans Receivable, Subject to Secured Borrowings—Represents the government guaranteed portions of loans originated under the SBA 7(a) Program which were sold with the proceeds received from the sale are reflected as secured borrowings—government guaranteed loans. There is no credit risk associated with these loans since the SBA has guaranteed payment of the principal.
SBA 7(a) Loans Receivable, Subject to Credit Risk—Represents the unguaranteed portions of loans originated under the SBA 7(a) Program which were retained by the Company and the government guaranteed portions of such loans that have not yet been fully funded or sold.
Commercial Mortgage Loans Receivable—Represents loans to small businesses primarily collateralized by first liens on the real estate of the related business.
At each of June 30, 2018 and December 31, 2017, 100.0% of our loans subject to credit risk were current. We classify loans with negative characteristics in substandard categories ranging from special mention to doubtful. At June 30, 2018 and December 31, 2017, $0 and $388,000, respectively, of loans subject to credit risk were classified in substandard categories.
At June 30, 2018 and December 31, 2017, our loans subject to credit risk were 97.0% and 97.3%, respectively, concentrated in the hospitality industry.

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6. OTHER INTANGIBLE ASSETS

A schedule of our intangible assets and liabilities and related accumulated amortization and accretion as of June 30, 2018 and December 31, 2017 is as follows:

	Assets			Liabilities
June 30, 2018	Acquired Above-Market Leases	Acquired In-Place Leases	Trade Name and License	Acquired Below-Market Leases
	(in thousands)			
Gross balance	$146	$18,090	$ 2,957	$ (6,618)
Accumulated amortization	(26)	(9,542)	—	2,789
	$120	$8,548	$ 2,957	$ (3,829)
Average useful life (in years)	3	7	Indefinite	4

	Assets			Liabilities
December 31, 2017	Acquired Above-Market Leases	Acquired In-Place Leases	Trade Name and License	Acquired Below-Market Leases
	(in thousands)			
Gross balance	$37	$11,087	$ 2,957	$ (2,902)
Accumulated amortization	—	(7,700)	—	1,832
	$37	$3,387	$ 2,957	$ (1,070)
Average useful life (in years)	7	9	Indefinite	5

The amortization of the acquired above-market leases, which decreased rental and other property income, was $14,000 and $0 for the three months ended June 30, 2018 and 2017, respectively, and $26,000 and $3,000 for the six months ended June 30, 2018 and 2017, respectively. The amortization of the acquired in-place leases included in depreciation and amortization expense was $930,000 and $195,000 for the three months ended June 30, 2018 and 2017, respectively, and $1,842,000 and $411,000 for the six months ended June 30, 2018 and 2017, respectively. Tax abatement amortization included in rental and other property operating expenses was $0 and $138,000 for the three months ended June 30, 2018 and 2017, respectively, and $0 and $276,000 for the six months ended June 30, 2018 and 2017, respectively. The amortization of the acquired below-market ground lease included in rental and other property operating expenses was $0 and $35,000 for the three months ended June 30, 2018 and 2017, respectively, and $0 and $70,000 for the six months ended June 30, 2018 and 2017, respectively. The amortization of the acquired below-market leases included in rental and other property income was $520,000 and $219,000 for the three months ended June 30, 2018 and 2017, respectively, and $1,233,000 and $638,000 for the six months ended June 30, 2018 and 2017, respectively.

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A schedule of future amortization and accretion of acquisition related intangible assets and liabilities as of June 30, 2018, is as follows:

Years Ending December 31,	Assets Acquired Above-Market Leases	Assets Acquired In-Place Leases	Liabilities Acquired Below-Market Leases
	(in thousands)		
2018 (Six months ending December 31, 2018)	$25	$ 1,849	$ (957)
2019	54	3,222	(1,540)
2020	18	1,535	(751)
2021	5	798	(347)
2022	5	562	(234)
Thereafter	13	582	—
	$120	$ 8,548	$ (3,829)

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7. DEBT
Information on our debt is as follows:

	June 30, 2018	December 31, 2017
	(in thousands)	
Mortgage loans with a fixed interest rate of 4.14% per annum, with monthly payments of interest only, and balances totaling $370,300,000 due on July 1, 2026. The loans are nonrecourse.	$370,300	$370,300
Mortgage loan with a fixed interest rate of 4.50% per annum, with monthly payments of interest only for 10 years, and payments of interest and principal starting in February 2022. The loan has a $42,008,000 balance due on January 5, 2027. The loan is nonrecourse.	46,000	46,000
	416,300	416,300
Deferred loan costs related to mortgage loans	(1,449)	(1,540)
Total Mortgages Payable	414,851	414,760
Secured borrowing principal on SBA 7(a) loans sold for a premium and excess spread—variable rate, reset quarterly, based on prime rate with weighted average coupon rate of 5.36% and 4.85% at June 30, 2018 and December 31, 2017, respectively.	15,396	16,812
Secured borrowing principal on SBA 7(a) loans sold for excess spread—variable rate, reset quarterly, based on prime rate with weighted average coupon rate of 3.07% and 2.60% at June 30, 2018 and December 31, 2017, respectively.	4,566	3,879
	19,962	20,691
Unamortized premiums	1,317	1,466
Total Secured Borrowings—Government Guaranteed Loans	21,279	22,157
Unsecured term loan facility	170,000	170,000
SBA 7(a) loan-backed notes with a variable interest rate which resets monthly based on the lesser of the one-month LIBOR plus 1.40% or the prime rate less 1.08%, with payments due monthly of interest and principal. Balance due at maturity in March 20, 2043.	37,603	—
Junior subordinated notes with a variable interest rate which resets quarterly based on the three-month LIBOR (as defined below) plus 3.25%, with quarterly interest only payments. Balance due at maturity on March 30, 2035.	27,070	27,070
Unsecured credit facility	—	—
	234,673	197,070
Deferred loan costs related to other debt	(1,974)	(1,198)
Discount on junior subordinated notes	(1,897)	(1,937)
Total Other Debt	230,802	193,935
Total Debt	$666,932	$630,852

The mortgages payable are secured by deeds of trust on certain of the properties and assignments of rents. The junior subordinated notes may be redeemed at par at our option.

Secured borrowings—government guaranteed loans represent sold loans which are treated as secured borrowings because the loan sales did not meet the derecognition criteria provided for in ASC 860-30, Secured Borrowing and Collateral. These loans included cash premiums that are amortized as a reduction to interest expense over the life of the loan using the effective interest method and are fully amortized when the underlying loan is repaid in full.

SBA 7(a) loan-backed notes are secured by deeds of trust or mortgages.

Deferred loan costs, which represent legal and third-party fees incurred in connection with our borrowing activities, are capitalized and amortized to interest expense on a straight-line basis over the life of the related loan, approximating the effective interest method. Deferred loan costs of $4,914,000 and $3,843,000 are presented net of

accumulated amortization of $1,491,000 and $1,105,000 at June 30, 2018 and December 31, 2017, respectively, and are a reduction to total debt.

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In September 2014, CIM Commercial entered into an $850,000,000 unsecured credit facility with a bank syndicate consisting of a $450,000,000 revolver, a $325,000,000 term loan and a $75,000,000 delayed-draw term loan. CIM Commercial is subject to certain financial maintenance covenants and a minimum property ownership condition. Outstanding advances under the revolver bear interest at (i) the base rate plus 0.20% to 1.00% or (ii) the London Interbank Offered Rate ("LIBOR") plus 1.20% to 2.00%, depending on the maximum consolidated leverage ratio. Outstanding advances under the term loans bore interest at (i) the base rate plus 0.15% to 0.95% or (ii) LIBOR plus 1.15% to 1.95%, depending on the maximum consolidated leverage ratio. The revolver is also subject to an unused commitment fee of 0.15% or 0.25% depending on the amount of aggregate unused commitments. Proceeds from the unsecured credit facility were used to repay mortgage loans and outstanding balances under our prior unsecured credit facilities, for acquisitions, short-term funding of a Common Stock tender offer in June 2016, short-term funding of a private repurchase of Common Stock in June 2017, and for general corporate purposes. In June 2016, we entered into six mortgage loan agreements with an aggregate principal amount of $392,000,000. A portion of the net proceeds from the loans was used to repay outstanding balances under our unsecured credit facility and the remaining portion was used to repurchase shares of our Common Stock in a private repurchase in September 2016. The June 2017 borrowing used to fund the private share repurchase was repaid using proceeds from subsequent asset sales. The credit facility was set to mature in September 2016 and, prior to maturity, we exercised the first of two one year extension options through September 2017 and we permanently reduced the revolving credit commitment under the credit facility to $200,000,000. In August 2017, we exercised the second of two one year extension options through September 2018 and, in connection with such exercise, we paid an extension fee of $300,000. At each of June 30, 2018 and December 31, 2017, $0 was outstanding under the credit facility and approximately $200,000,000 was available for future borrowings.

In May 2015, CIM Commercial entered into an unsecured term loan facility with a bank syndicate pursuant to which CIM Commercial could borrow up to a maximum of $385,000,000. The term loan facility ranks pari passu with CIM Commercial's unsecured credit facility described above; covenants under the term loan facility are substantially the same as those in the unsecured credit facility. Outstanding advances under the term loan facility bear interest at (i) the base rate plus 0.60% to 1.25% or (ii) LIBOR plus 1.60% to 2.25%, depending on the maximum consolidated leverage ratio. The term loan facility matures in May 2022. On November 2, 2015, $385,000,000 was drawn under the term loan facility. Proceeds from the term loan facility were used to repay balances outstanding under our unsecured credit facility. On August 3, 2017, we repaid $65,000,000 of outstanding borrowings on our unsecured term loan facility. In connection with such paydown, we wrote off deferred loan costs of $601,000 and related accumulated amortization of $193,000, a proportionate amount to the borrowings being repaid. Additionally, on November 29, 2017, we repaid $150,000,000 of outstanding borrowings on our unsecured term loan facility. In connection with such paydown, we wrote off deferred loan costs of $1,387,000 and related accumulated amortization of $512,000, a proportionate amount to the borrowings being repaid. At each of June 30, 2018 and December 31, 2017, $170,000,000 was outstanding under the term loan facility and the variable interest rate was 3.58% and 2.96%, respectively. The interest rate of the term loan facility has been effectively converted to a fixed rate of 3.16% until May 8, 2020 (Note 12) through interest rate swaps that convert the interest rate on the first $170,000,000 of our one-month LIBOR indexed variable rate borrowings to a fixed rate.

At June 30, 2018 and December 31, 2017, we were in compliance with all of our respective financial covenants under the unsecured credit and term loan facilities.

On March 28, 2017, in connection with the sale of an office property in San Francisco, California, we paid off a mortgage with an outstanding balance of $25,331,000 using proceeds from the sale. Additionally, we paid a prepayment penalty of $1,508,000 in connection with the prepayment of this mortgage (Note 3).

On May 30, 2017, in connection with the sale of two multifamily properties, both located in Dallas, Texas, we paid off two mortgages with an aggregate outstanding balance of $15,448,000 using proceeds from the sales. Additionally, we paid aggregate prepayment penalties of $1,901,000 in connection with the prepayment of these mortgages (Note 3).

On June 23, 2017, in connection with the sale of a multifamily property in Dallas, Texas, we paid off a mortgage with an outstanding balance of $23,333,000 using proceeds from the sale. Additionally, we paid a prepayment penalty of $2,812,000 in connection with the prepayment of this mortgage (Note 3).

On May 30, 2018, we completed a securitization of the unguaranteed portion of certain of our SBA 7(a) loans receivable with the issuance of $38,200,000 of unguaranteed SBA 7(a) loan-backed notes. The SBA 7(a) loan-backed notes are collateralized by the right to receive payments and other recoveries attributable to the unguaranteed portions of certain of our SBA 7(a) loans receivable. The SBA 7(a) loan-backed notes mature on March 20, 2043, with monthly payments due as payments on the collateralized loans are received. Based on the anticipated repayments of our collateralized SBA 7(a) loans,

we estimate the weighted average life of the SBA 7(a) loan-backed notes to be approximately three years. The SBA 7(a) loan-backed notes bear interest at the lower of the one-month LIBOR plus 1.40% or the prime rate less 1.08%. We reflect the SBA 7(a) loans receivable as assets on our consolidated balance sheet and the SBA 7(a) loan-backed notes as debt on our consolidated balance sheet.

At June 30, 2018 and December 31, 2017, accrued interest and unused commitment fees payable of $2,139,000 and $2,098,000, respectively, are included in accounts payable and accrued expenses.

We are currently in discussions with a group of banks with respect to our financing options following the maturity of our unsecured credit facility in September 2018 as well as the possibility of refinancing our unsecured term loan facility. There can be no assurance that such discussions will result in any new financing arrangements. We believe other financing sources would be available to us if such discussions do not result in a new facility.

Future principal payments on our debt (face value) at June 30, 2018 are as follows:

Years Ending December 31,	Mortgages Payable	Secured Borrowings Principal (1)	Other (1)(2)	Total
	(in thousands)			
2018 (Six months ending December 31, 2018)	$—	$ 350	$1,296	$1,646
2019	—	725	2,652	3,377
2020	—	760	2,723	3,483
2021	—	797	2,795	3,592
2022	679	835	172,876	174,390
Thereafter	415,621	16,495	52,331	484,447
	$416,300	$ 19,962	$234,673	$670,935

(1) Principal payments on secured borrowings and SBA 7(a) loan-backed notes, which are included in Other, are generally dependent upon cash flows received from the underlying loans. Our estimate of their repayment is based on scheduled payments on the underlying loans. Our estimate will differ from actual amounts to the extent we experience prepayments and or loan liquidations or charge-offs. No payment is due unless payments are received from the borrowers on the underlying loans.

(2) Represents the junior subordinated notes, SBA 7(a) loan-backed notes, and unsecured credit and term loan facilities.

8. STOCK-BASED COMPENSATION PLANS

In May 2016, we granted awards of 3,392 restricted shares of Common Stock to each of the independent members of the Board of Directors (10,176 in aggregate) under the 2015 Equity Incentive Plan, which fully vested in May 2017 based on one year of continuous service. In June 2017, we granted awards of 3,195 restricted shares of Common Stock to each of the independent members of the Board of Directors (9,585 in aggregate) under the 2015 Equity Incentive Plan, which fully vested in June 2018 based on one year of continuous service. In May 2018, we granted awards of 3,378 restricted shares of Common Stock to each of the independent members of the Board of Directors (10,134 in aggregate) under the 2015 Equity Incentive Plan, which vest after one year of continuous service. Compensation expense related to these restricted shares of Common Stock is recognized over the vesting period. We recorded compensation expense of $48,000 and $29,000 for the three months ended June 30, 2018 and 2017, respectively, and $86,000 and $77,000 for the six months ended June 30, 2018 and 2017, respectively, related to these restricted shares of Common Stock.

We issued to two of our executive officers an aggregate of 2,000 restricted shares of Common Stock on March 6, 2015, which fully vested in March 2017. The restricted shares of Common Stock vested based on two years of continuous service with one-third of the shares of Common Stock vesting immediately upon issuance and one-third

vesting at the end of each of the next two years from the date of issuance. Compensation expense related to these restricted shares of Common Stock was recognized over the vesting period. We recognized no compensation expense for the three months ended June 30, 2018 and

2017, respectively, and $0 and $1,000 for the six