CIM Commercial Trust Corp
Form 10-K
March 16, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 1-13610

CIM COMMERCIAL TRUST CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

Maryland (State or Other Jurisdiction of Incorporation or Organization)	75-6446078 (I.R.S. Employer Identification No.)
17950 Preston Road, Suite 600 Dallas, Texas (Address of Principal Executive Offices)	75252 (Zip Code)

Registrant’s telephone number, including area code: (972) 349-3200

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

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, $0.001 par value per share	Nasdaq Global Market

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 o No x
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 o No x
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 x 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 (§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 x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer o	Accelerated filer o	Non-Accelerated filer o (Do not check if a	Smaller reporting company x

smaller reporting company)

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

As of June 30, 2016, the aggregate market value of the voting common stock held by non-affiliates of the registrant, computed by reference to the average high and low sales prices on the Nasdaq Global Market as of the close of business on June 30, 2016, was approximately $26.6 million. Registrant does not have any nonvoting common equities.

As of March 1, 2017, the registrant had outstanding 84,048,081 shares of common stock, par value $0.001 per share.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K will be found in the Company's definitive proxy statement for its 2017 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, and such information is incorporated herein by this reference.

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CIM COMMERCIAL TRUST CORPORATION
2016 ANNUAL REPORT ON FORM 10-K

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Forward-Looking Statements

This Form 10-K contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbors created thereby. These statements include the plans and objectives of management for future operations, including plans and objectives relating to future growth of our business and availability of funds. Such forward-looking statements can be identified by the use of forward-looking terminology such as “may,” “will,” “expect,” “intend,” “might,” “believe,” “anticipate,” “estimate,” “could,” “would” “continue,” “pursue,” or “should” or the neg other variations or similar words or phrases. The forward-looking statements expressed or implied herein are based on current expectations that involve numerous risks and uncertainties identified in this Form 10-K, including, without limitation, the risks identified under the caption “Item 1A—Risk Factors.” Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements expressed or implied in this Form 10-K will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements expressed or implied herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. Readers are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements speak only as of the date they are made. We do not undertake to update them to reflect changes that occur after the date they are made, except to the extent required by applicable securities laws.

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PART I

Item 1. Business

Business Overview

The principal business of CIM Commercial Trust Corporation and its subsidiaries (which may be referred to in this Form 10-K as "we," "us," "our," "our company", "CIM Commercial" or the "Company") is to invest in, own, and operate Clas and creative office investments 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 believe that the critical mass of redevelopment in such areas creates positive externalities, which enhance the value of substantially stabilized assets in the area. We believe that these assets will provide greater returns than similar assets in other markets, as a result of the improving demographics, public commitment, and significant private investment that characterize these areas.

We are managed by affiliates of CIM Group, L.P. ("CIM Group" or "CIM"). CIM Group is a vertically-integrated, full-service investment manager with multidisciplinary expertise and in-house research, acquisition, investment, development, finance, leasing, and management capabilities. CIM Group is headquartered in Los Angeles, California and has offices in Oakland, California; Bethesda, Maryland; Dallas, Texas; and New York, New York. See "Item 1—Business—Overview and History of CIM Group", "—CIM Urban Partnership Agreement" and "—Investment Management Agreement."

We seek to utilize the CIM platform to acquire and improve assets within CIM's qualified communities ("Qualified Communities"). We believe assets in these markets provide greater returns as a result of improving demographics, public commitment, and significant private investment within the areas. Over time, we seek to expand our real estate investments in communities targeted by CIM Group for investment, supported by CIM Group's broad real estate investment capabilities, as part of our plan to prudently grow market value and earnings.

We invest primarily in substantially stabilized real estate and real estate-related assets located in areas that CIM has targeted for opportunistic investment. These areas 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. CIM believes that the critical mass of redevelopment in such areas creates positive externalities, which enhance the value of substantially stabilized assets in the area. CIM targets investments in diverse types of real estate assets, including office, retail, for-rent and for-sale multifamily residential, hotel, parking, and signage through CIM's extensive network and its current opportunistic investment activities.

On July 8, 2013, PMC Commercial Trust ("PMC Commercial") entered into a merger agreement (the "Merger Agreement") with CIM Urban REIT, LLC ("CIM REIT"), an affiliate of CIM Group, and subsidiaries of the respective parties. CIM REIT was a private commercial real estate investment trust ("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").

The Merger Agreement provided for the business combination of CIM REIT's wholly-owned subsidiary, CIM Urban, and PMC Commercial. Pursuant to the Merger Agreement, Urban Partners II, LLC ("Urban II"), an affiliate of CIM REIT and CIM Urban, received 4,400,000 shares of newly-issued PMC Commercial common stock and approximately 65,000,000 shares of newly-issued PMC Commercial preferred stock. Following the Merger and subsequent increase in our authorized number of shares, each share of PMC Commercial preferred stock was converted into 1.4 shares of PMC Commercial common stock, resulting in the issuance of 95,440,000 shares of PMC Commercial common stock in the aggregate in connection with the Merger, representing approximately 97.8% of

PMC Commercial's outstanding shares of common stock at the time.

All shares of PMC Commercial common stock that were outstanding immediately prior to the closing of the Merger continued to remain outstanding following the Acquisition Date. In addition, stockholders of record of PMC Commercial at the close of the business day prior to the Acquisition Date received a special cash dividend of $27.50 per share of PMC Commercial common stock plus the pro-rata portion of PMC Commercial's regular quarterly cash dividend accrued through the Acquisition Date, each of which was paid on March 25, 2014.

The Merger was accounted for as a reverse acquisition under the acquisition method of accounting with CIM Urban considered to be the accounting acquirer based upon the terms of the Merger Agreement. Based on the determination that CIM Urban was the accounting acquirer in the transaction, CIM Urban allocated the purchase price to the fair value of PMC Commercial's assets and liabilities as of the Acquisition Date.

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On April 28, 2014, PMC Commercial's charter was amended to increase the authorized shares of stock of PMC Commercial from 100,000,000 to 1,000,000,000 shares (of which 900,000,000 are shares of PMC Commercial common stock and 100,000,000 are shares of PMC Commercial preferred stock) and PMC Commercial changed its state of incorporation from Texas to Maryland by means of a merger of PMC Commercial with and into a newly formed, wholly-owned Maryland corporate subsidiary. Also, on April 28, 2014, PMC Commercial Trust changed its name to CIM Commercial Trust Corporation. Our common stock, $0.001 par value per share ("Common Stock"), is currently traded on the NASDAQ Global Market ("NASDAQ") under the ticker symbol "CMCT."

Furthermore, on April 28, 2014, we filed Articles of Amendment (the “Reverse Split Amendment”) to effectuate a one-for-five reverse stock split of our Common Stock, effective April 29, 2014. Pursuant to the reverse stock split, each five shares of Common Stock issued and outstanding immediately prior to the effective time of the reverse stock split were converted into one share of Common Stock. All per share and outstanding share information has been presented to reflect the reverse stock split.

In order to allow CIM Commercial to increase its focus on Class A and creative office investments, our board of directors ("Board of Directors") approved a plan in December 2014 for the lending segment that, when completed, would have resulted in the deconsolidation of the lending segment, which at that time was focused on small business lending in the hospitality industry. In July 2015, to maximize value, we modified our strategy from a strategy of selling the lending segment as a whole to a strategy of soliciting buyers for components of the business, including our commercial mortgage loans and the SBA 7(a) lending platform. This change in the sale methodology resulted in the need to extend the period to complete the sale of the remainder of the lending segment beyond one year. On December 17, 2015, pursuant to the modified plan, we sold substantially all of our commercial mortgage loans with a carrying value of $77,121,000 to an unrelated third party and recognized a gain of $5,151,000. In September 2016, we discontinued our efforts to sell the SBA 7(a) lending platform, and the activities related to the SBA 7(a) lending platform have been reclassified to continuing operations for all periods presented. On December 29, 2016, we sold our commercial real estate lending subsidiary, which was classified as held for sale and had a carrying value of $27,587,000, which was equal to management's estimate of fair value, to a fund managed by an affiliate of CIM Group. We did not recognize any gain or loss in connection with the transaction. Management's estimate of fair value was determined with assistance from an independent third party valuation firm.

As of December 31, 2016, our real estate portfolio consisted of 31 assets, all of which are fee-simple properties except one leasehold property. As of December 31, 2016, our 24 office properties (including two parking garages, one of which has street level retail space, and two development sites, one of which is being used as a parking lot), totaling approximately 5.6 million rentable square feet, were 85.7% occupied; our multifamily properties, comprised of 930 units, were 92.0% occupied; and one hotel, which has a total of 503 rooms, had revenue per available room ("RevPAR") of $119.44 for the year ended December 31, 2016. For the year ended December 31, 2016, our office portfolio contributed approximately 70.5% of revenue from continuing operations, while our hotel portfolio, which included two other hotel properties that were sold in February and July 2016, contributed approximately 18.2%, our multifamily portfolio contributed approximately 7.6% and our lending segment included in continuing operations contributed approximately 3.7%.

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Our office, multifamily and hotel assets are located in 10 U.S. markets. The breakdown by segment, market and submarket, as of December 31, 2016, is as follows:

Overview of our Real Estate Portfolio as of December 31, 2016

Property	Market	Sub-Market	Office and Retail Rentable Square Feet	Multi-family Units	Hotel Rooms
Office					
200 S College Street	Charlotte, NC	Uptown	567,865	—	—
1 Kaiser Plaza	Oakland, CA	Lake Merritt	532,059	—	—
2101 Webster Street	Oakland, CA	Lake Merritt	472,636	—	—
980 9th Street	Sacramento, CA	Downtown/Midtown	456,266	—	—
211 Main Street (1)	San Francisco, CA	South Financial District	417,266	—	—
370 L'Enfant Promenade	District of Columbia	Southwest	407,321	—	—
999 N Capitol Street	District of Columbia	Capitol Hill	321,544	—	—
899 N Capitol Street	District of Columbia	Capitol Hill	314,317	—	—
800 N Capitol Street	District of Columbia	Capitol Hill	312,759	—	—
1901 Harrison Street	Oakland, CA	Lake Merritt	272,908	—	—
830 1st Street	District of Columbia	Capitol Hill	247,337	—	—
1333 Broadway	Oakland, CA	City Center	240,051	—	—
2100 Franklin Street	Oakland, CA	Lake Merritt	216,666	—	—
11620 Wilshire Boulevard	Los Angeles, CA	West Los Angeles	192,818	—	—
3601 S Congress Avenue (2)	Austin, TX	South	182,484	—	—
4750 Wilshire Boulevard	Los Angeles, CA	Mid-Wilshire	143,361	—	—
7083 Hollywood Boulevard	Los Angeles, CA	Hollywood/Sunset	82,180	—	—
260 Townsend Street	San Francisco, CA	South of Market	65,694	—	—
11600 Wilshire Boulevard	Los Angeles, CA	West Los Angeles	55,638	—	—
Lindblade Media Center (3)	Los Angeles, CA	West Los Angeles	32,428	—	—
Total Office (20 Properties)			5,533,598	—	—
Other Ancillary Properties within Office Portfolio					
1010 8th Street Parking Garage & Retail	Sacramento, CA	Downtown/Midtown	31,133	—	—
901 N Capitol Street (4)	District of Columbia	Capitol Hill	—	—	—
2353 Webster Street Parking Garage	Oakland, CA	Lake Merritt	—	—	—
2 Kaiser Plaza Parking Lot (5)	Oakland, CA	Lake Merritt	—	—	—
Total Ancillary Office (4 Properties)			31,133	—	—
Total Office including Other Ancillary (24 Properties)			5,564,731	—	—

(Continued)

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Overview of our Real Estate Portfolio as of December 31, 2016 (Continued)

Property	Market	Sub-Market	Office and Retail Rentable Square Feet	Multi-family Units	Hotel Rooms
Multifamily Portfolio					
4649 Cole Avenue (6)	Dallas, TX	Oaklawn	—	334	—
4200 Scotland Street	Houston, TX	Montrose/River Oaks	—	308	—
47 E 34th Street	New York, NY	Midtown West	—	110	—
3636 McKinney Avenue	Dallas, TX	Central Dallas	—	103	—
3839 McKinney Avenue (7)	Dallas, TX	Central Dallas	—	75	—
Total Multifamily (5 Properties)			—	930	—
Hotel Portfolio (1 Property)					
Sheraton Grand Hotel	Sacramento, CA	Downtown/Midtown	—	—	503
Other Ancillary Properties within Hotel Portfolio (1 Property)					
Sheraton Grand Hotel Parking Garage & Retail	Sacramento, CA	Downtown/Midtown	9,453	—	—
TOTAL PORTFOLIO (31 Properties)			5,574,184	930	503

(1) In February 2017, we entered into an agreement to sell our office building located at 211 Main Street.
(2) 3601 S Congress Avenue consists of ten buildings.
(3) Lindblade Media Center consists of three buildings.
(4) 901 N Capitol Street is a 39,696 square foot parcel of land located between 899 and 999 N Capitol Street. We are entitled to develop a building we have designed with 271,233 rentable square feet.
(5) 2 Kaiser Plaza Parking Lot is a 44,642 square foot parcel of land currently being used as a surface parking lot. We are pursuing entitlements allowing us to develop a building with approximately 440,000 to 840,000 rentable square feet.
(6) 4649 Cole Avenue consists of fifteen buildings.
(7) 3839 McKinney Avenue consists of two buildings.

Segments

Our reportable segments consist of three types of commercial real estate properties, namely office, hotel and multifamily, as well as a segment for our lending business that is included in our continuing operations. The lending business that is held for sale at December 31, 2015 and 2014 is not included in our reportable segments. Information related to our reportable segments for the years ended December 31, 2016, 2015 and 2014 is set forth in Note 21 to our consolidated financial statements in Item 15 of this report.

Business Objectives and Growth Strategies

Our two primary goals are (a) consistently growing our net asset value ("NAV") and cash flows per share of Common Stock through our principal business described above in "Item 1—Business Overview," and (b) providing liquidity to our common stockholders at prices reflecting our NAV and cash flow prospects. In that regard, in June 2016 we completed a tender offer for 10 million shares of Common Stock at a price of $21.00 per share of Common Stock, and in September 2016, we repurchased, in a privately negotiated transaction, 3,628,116 shares of our Common Stock at $22.00 per share from Urban II. In

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furtherance of our two primary goals, we anticipate additional such transactions in the future. We are also exploring alternative means of providing liquidity to the stockholders that did not participate in the September 2016 and/or any subsequent private repurchases, to allow those stockholders to receive the economic benefit of such private repurchase(s).

We seek to utilize the CIM platform to acquire and improve assets within CIM's Qualified Communities. We believe assets in these markets provide greater returns as a result of improving demographics, public commitment, and significant private investment within the areas. Over time, we seek to expand our real estate investments in communities targeted by CIM Group for investment, supported by CIM Group's broad real estate investment capabilities, as part of our plan to prudently grow market value and earnings. As a matter of prudent management, we also regularly evaluate each investment within our portfolio as well as our strategies. Such review may result in dispositions when an investment no longer fits our overall objectives or investment strategies or when our view of the market value of such investment is equal to or exceeds its intrinsic value. As a result of such review, we sold an office building in Santa Ana, California in November 2015, a hotel in Oakland, California in February 2016, a hotel in Los Angeles, California in July 2016 and we entered into an agreement in February 2017 to sell an office building in San Francisco, California. Such review is likely to result in additional dispositions in 2017. The net proceeds of such dispositions may be used to provide liquidity to our common stockholders at prices reflecting our NAV and cash flow prospects.

CIM seeks to maximize the value of its investments through active asset management. CIM has extensive in-house research, acquisition, investment, development, financing, leasing and property management capabilities, which leverage its deep understanding of urban communities to position properties for multiple uses and to maximize operating income. As a fully integrated owner and operator, CIM's asset management capabilities are complemented by its in-house property management capabilities. Property managers prepare annual capital and operating budgets and monthly operating reports, monitor results and oversee vendor services, maintenance and capital improvement schedules. In addition, they ensure that revenue objectives are met, lease terms are followed, receivables are collected, preventative maintenance programs are implemented, vendors are evaluated and expenses are controlled. CIM's Asset Management Committee (the "Asset Management Committee") reviews and approves strategic plans for each investment, including financial, leasing, marketing, property positioning and disposition plans. In addition, the Asset Management Committee reviews and approves the annual business plan for each property, including its capital and operating budget. CIM's organizational structure provides for investment and asset management continuity through multidisciplinary teams responsible for an asset from the time of the original investment recommendation, through the implementation of the asset's business plan, and any disposition activities.

Competitive Advantages

We believe that CIM Group's experienced team and integrated and multidisciplinary organization, coupled with its community-focused and disciplined urban real estate investment philosophy, results in a competitive advantage that benefits us. Additionally, CIM's investment strategy is complemented by a number of other competitive advantages including its prudent use of leverage, underwriting approach, disciplined capital deployment, and strong network of relationships. CIM's competitive advantages include:

- Vertically-Integrated Organization and Team

CIM is managed by its senior management team, which is comprised of its three founders, Shaul Kuba, Richard Ressler and Avi Shemesh, and includes 13 other principals. CIM Group is vertically-integrated and organized into ten functional groups including Investments; Development; Property Management; Financial Reporting; Legal, Compliance and Human Resources; Operations; Internal Audit; Client Services and Product Management; Capital Markets; and External Communications.

To support CIM's organic growth and related investment platforms, CIM has invested substantial time and resources in building a strong and integrated team of approximately 330 experienced professionals. Each of CIM Group's departments is managed by seasoned professionals and CIM continues to develop its management team, which represents the next generation of CIM's leaders. In addition to developing a core team of principals and senior level management, CIM has proactively managed its growth through career development and mentoring at both the mid and junior staffing levels, and has hired ahead of its needs, thus ensuring appropriate management and staffing for its investment activities.

CIM leverages the deep operating and industry experience of its principals and professionals, as well as their extensive relationships, to source and execute opportunistic, stabilized, and infrastructure investments. Each investment opportunity is overseen by a dedicated team comprised of an oversight principal (Richard Ressler, Avi Shemesh, Shaul Kuba, Charles E. Garner II, our Chief Executive Officer, Kelly Eppich, Jennifer Gandin, John

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Bruno and Jason Schreiber), a team lead (vice president level and above), associate vice presidents and associates, as necessary, who are responsible for managing the investment from sourcing through underwriting, acquisition, development (if required), asset management, and disposition. As part of this process, the team draws upon CIM's extensive in-house expertise in legal matters, finance, development, leasing, and property management. Each dedicated investment team is purposefully staffed with professionals from multiple CIM offices, regardless of the location of the asset being evaluated. As a result, all investment professionals work across a variety of Qualified Communities and CIM's knowledge base is shared across all of its offices.

• Community Qualification

Since inception, CIM's proven community qualification process has served as the foundation for its investment strategy. CIM targets high barriers to entry markets and submarkets with high population density and applies rigorous research to qualify for potential investments. Since 1994, CIM has qualified 105 communities in high barriers to entry markets and has deployed capital in 63 of these Qualified Communities. CIM examines the characteristics of a market to determine whether the district justifies the extensive efforts its investment professionals undertake in reviewing and making potential investments in its Qualified Communities. Qualified Communities generally fall into one of two categories: (i) transitional urban districts that have dedicated resources to become vibrant urban communities and (ii) well-established, thriving urban areas (typically major central business districts).

As more fully described in "—Principles," once a community is qualified, CIM continues to differentiate itself by applying various business principles including: (i) product non-specific—CIM has extensive experience investing in a diverse range of property types, including retail, residential, office, parking, hotel, signage, and mixed-use, which gives CIM the ability to execute and capitalize on its urban strategy effectively; (ii) community-based tenanting—CIM's investment strategy focuses on the entire community and the best use of assets in that community; owning a significant number of key properties in an area better enables CIM to meet the needs of national retailers and office tenants and thus optimize the value of these real estate properties; (iii) local market leadership with North American footprint—CIM maintains local market knowledge and relationships, along with a diversified North American presence, through its 105 Qualified Communities (thus, CIM has the flexibility to invest in its Qualified Communities only when the market environment meets CIM's investment and underwriting standards); and (iv) investing across the capital stack—CIM has extensive experience investing across the capital stack including equity, preferred equity, debt and mezzanine investments, giving it the flexibility to structure transactions in efficient and creative ways.

• Investment Discipline

CIM's investment strategy relies on its sound business plan and value creation execution to produce returns, rather than financial engineering. CIM Group's underwriting of its investments is performed generally both on a leveraged and unleveraged basis. Additionally, CIM has generally not utilized recourse or cross-collateralized debt due to its conservative underwriting standards.

CIM employs multiple underwriting scenarios when evaluating potential investment opportunities. CIM Group generally underwrites investments utilizing long-term average exit capitalization rates for similar product types and long-term average interest rates. Where possible, these long-term averages cross multiple market cycles, thereby mitigating the risk of cyclical volatility. CIM's "long-term average" underwriting is based on its belief, reinforced by its experience through multiple market cycles, that over the life of any given fund that it manages, such fund should be able to exit its investments at long-term historical averages. CIM also underwrites a "current market case" scenario, which generally utilizes current submarket specific exit assumptions and interest rates, in order to reflect anticipated investment results under current market conditions. CIM believes that utilizing multiple underwriting scenarios enables CIM to assess potential returns relative to risk within a range of potential investment outcomes.

Investment Strategy

Our investment strategy is to continue to primarily invest in Class A and creative office investments in vibrant and improving urban communities throughout the United States in a manner that will allow us to increase our NAV and cash flows per share of Common Stock. Our investment strategy is centered around CIM's community qualification process. We believe this strategy provides us with a significant competitive advantage when making urban real estate investments. The qualification process generally takes between six months and five years and is a critical component of CIM's investment evaluation. CIM

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examines the characteristics of a market to determine whether the district justifies the extensive efforts CIM undertakes in reviewing and making potential investments in its Qualified Communities. Qualified Communities generally fall into one of two categories: (i) transitional urban districts that have dedicated resources to become vibrant urban communities and (ii) well-established, thriving urban areas (typically major central business districts). Qualified Communities are distinct districts which have dedicated resources to become or are currently vibrant communities where people can live, work, shop and be entertained-all within walking distance or close proximity to public transportation. These areas also generally have high barriers to entry, high population density, improving demographic trends and a propensity for growth. CIM believes that a vast majority of the risks associated with making real asset investments are mitigated by accumulating local market knowledge of the community where the investment lies. CIM typically spends significant time and resources qualifying targeted investment communities prior to making any acquisitions. Since 1994, CIM Group has qualified 105 communities and has deployed capital in 63 of these Qualified Communities. Although we may not invest exclusively in Qualified Communities, it is expected that most of our investments will be identified through this systematic process. Our investments may also include side-by-side investments in one or more CIM Group-managed funds as well as a side-by-side or direct investment in a CIM Group-managed debt fund that principally originates loans secured directly or indirectly by commercial real estate properties. Further, as part of our investment strategy, we may invest in or originate loans that are secured directly or indirectly by properties primarily located in Qualified Communities that meet our investment strategy. Such loans may include limited and/or non-recourse junior (mezzanine, B-note or 2nd lien) and senior construction loans that meet our investment strategy or limited and/or non-recourse junior (mezzanine, B-note or 2nd lien) and senior acquisition, bridge or repositioning loans.

2016 Acquisitions

There were no acquisitions during the year ended December 31, 2016.

2016 Dispositions

On February 2, 2016, we sold a 100% fee-simple interest in the Courtyard Oakland located in Oakland, California to an unrelated third party. In addition, on July 19, 2016, we sold a 100% fee-simple interest in the LAX Holiday Inn located in Los Angeles, California to an unrelated third party. The results of operations of the two hotels have been included in the consolidated statements of operations through the date of disposition.

Property	Asset Type	Date of Sale	Rooms	Sales Price	Gain on Sale
				(in thousands)	
Courtyard Oakland, Oakland, CA	Hotel	February 2, 2016	162	$43,800	$24,739
LAX Holiday Inn, Los Angeles, CA	Hotel	July 19, 2016	405	$52,500	$14,927

Financing Strategy

We currently have substantial borrowing capacity, and will likely finance our future activities through one or more of the following methods: (i) offerings of shares of Common Stock, preferred stock, senior unsecured securities, and/or other equity and debt securities; (ii) credit facilities and term loans; (iii) the addition of senior recourse or non-recourse debt using target acquisitions as well as existing investments as collateral; (iv) the sale of existing investments; and/or (v) cash flows from operations. We expect to employ leverage levels that are comparable to those of other commercial REITs engaged in business strategies similar to our own.

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Risk Management

As part of its risk management strategy, CIM will continually evaluate our investments and actively manage the risks involved in our business strategies. CIM's investment professionals will provide asset management oversight by closely monitoring the performance of our investments relative to market and industry benchmarks and internal underwriting assumptions using direct knowledge of local markets provided by CIM's in-house asset management, property management, and leasing professionals. In-house property management capabilities include monthly and annual budgeting and reporting as well as vendor services management, property maintenance and capital expenditures management. Property management seeks to ensure that revenue objectives are met, lease terms are followed, receivables are collected, preventative maintenance programs are implemented, vendors are evaluated and expenses are controlled. CIM's Asset Management Committee oversees the asset management of investments and is comprised of certain of CIM's Principals (including all of the founding principals) and is chaired by Richard Ressler, each of whom has extensive experience in investment, development, asset and property management and leasing. Every investment is directly overseen by an Oversight Principal who is ultimately responsible for the performance of the investment. The Oversight Principals work with each CIM department to ensure that every investment benefits from the full range of CIM's real estate expertise. CIM believes that empowering its most seasoned investment professionals to bring their breadth of experience to bear directly on investments will optimize investment returns.

The Oversight Principals meet informally on a frequent basis, generally weekly, to review and discuss the performance of investments, and meet formally at least annually to review and approve strategic plans for the investments, including: financial and operational analyses, operating strategies and agreements, tenant composition and marketing, asset positioning, market conditions affecting the asset, hold/sell analyses and timing considerations, and the annual business plan for each investment, including its capital and operating budget.

The size, composition, and policies of the Asset Management Committee may be changed from time to time.

Regulatory Matters

Environmental Matters

Environmental laws regulate, and impose liability for, releases of hazardous or toxic substances into the environment. Under some of these laws, an owner or operator of real estate is or may be liable for costs related to soil or groundwater contamination on, in, or migrating to or from its property. In addition, persons who arrange for the disposal or treatment of hazardous or toxic substances may be liable for the costs of cleaning up contamination at the disposal site. Such laws often impose liability regardless of whether the person knew of, or was responsible for, the presence of the hazardous or toxic substances that caused the contamination. The presence of, or contamination resulting from, any of these substances, or the failure to properly remediate them, may adversely affect our ability to sell or rent our property or to borrow using such property as collateral. Third parties may also make claims against owners or operators of properties for personal injuries and property damage associated with releases of hazardous materials. As part of our efforts to mitigate these risks, we typically engage third parties to perform assessments of potential environmental risks when evaluating new investments.

Americans with Disabilities Act of 1990

Under the Americans with Disabilities Act of 1990 (the "ADA"), all public accommodations must meet federal requirements related to access and use by disabled persons. Although we believe that our properties substantially comply with present requirements of the ADA, we have not conducted an audit or investigation of all of our properties to determine our compliance. If one or more of our properties or future properties is not in compliance with the ADA, then we would be required to incur additional costs to bring the property into compliance. We cannot predict the ultimate amount of the cost of compliance with the ADA. If we incur substantial costs to comply with the ADA, our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or series A preferred stock dividend distributions or to engage in further repurchases of Common Stock could be materially adversely affected.

Competition

We compete with other investors engaged in the acquisition, origination, development, and management of real estate and real estate-related investments. Our competitors include other REITs, insurance companies, pension funds, private equity funds, sovereign wealth funds, hedge funds, mortgage banks, investment banks, commercial banks, savings and loan associations, specialty finance companies, and other private and institutional investors and financial companies that pursue strategies similar to ours. Some of our competitors may be larger than us and have greater access to capital and other resources and may have other advantages over us. In addition, some of our competitors may have higher risk tolerances or lower

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profitability targets than us, which could allow them to pursue new business more aggressively than us. We believe that our relationship with CIM Group gives us a competitive advantage that allows us to operate more effectively in the markets in which we conduct our business.

Overview and History of CIM Group

CIM is a privately held California domiciled limited partnership, specializing in private equity real estate and infrastructure investments. CIM Group was founded in 1994 by Shaul Kuba, Richard Ressler and Avi Shemesh and has assets under management ("AUM") of approximately $19.2 billion and equity under management ("EUM") of approximately $11.9 billion, in each case as of September 30, 2016.[1] CIM has systematically developed its urban investing discipline over the past 23 years. CIM Group's three founding principals have worked together since inception and continue to direct the business of CIM and are actively involved in the day-to-day management along with 13 other principals of CIM Group's leadership team. CIM Group's successful track record is anchored by CIM's community-oriented approach to urban investing.

CIM is a premier full service urban real estate and infrastructure fund manager with in-house research, acquisition, investment, development, finance, leasing and management capabilities. CIM Group is headquartered in Los Angeles, California and has offices in Oakland, California; Bethesda, Maryland; Dallas, Texas; and New York, New York. CIM has over 600 employees, including approximately 330 professionals.

[1]AUM, or Gross AUM, represents (i)(a) for real assets, the aggregate total gross assets ("GAV") at fair value, including the shares of such assets owned by joint venture partners and co-investments, of all of CIM's advised accounts (each an "Account" and collectively, the "Accounts") or (b) for operating companies, the aggregate GAV less debt, including the shares of such assets owned by joint venture partners and co-investments, of all of the Accounts (not in duplication of the assets described in (i)(a)), plus (ii) the aggregate unfunded commitments of the Accounts, as of September 30, 2016 ("Report Date"). The GAV is calculated in accordance with U.S. generally accepted accounting principles on a fair value basis (the "Book Value") and generally represents the investment's third-party appraised value as of the Report Date, or as of December 31, 2015 plus capital expenditures through the Report Date, as adjusted further by the result

of any partial realizations and quarterly valuation adjustments based upon management's estimate of fair value, in each case through the Report Date other than as described below with respect to CIM REIT. The only investment currently held by CIM REIT consists of shares in CIM Commercial; the Book Value of CIM REIT is determined by assuming the underlying assets of CIM Commercial are liquidated based upon management’s estimate of fair value. CIM does not presently view the price of CIM Commercial's publicly-traded shares to be a meaningful indication of the fair value of CIM REIT’s interest in CIM Commercial due to the fact that the publicly-traded shares of CIM Commercial represent less than 3% of the outstanding shares of CIM Commercial and are thinly-traded. See “Item 1A—Risk Factors—Risks Related to Our Common Stock.”

EUM, or Net AUM, represents (i) the aggregate NAV of the Accounts (as described below), plus (ii) the aggregate unfunded commitments of the Accounts. The NAV of each Account is based upon the aggregate amounts that would be distributable (prior to incentive fee allocations) to such Account assuming a “hypothetical liquidation” of the Account on the date of determination, assuming that: (x) investments are sold at their Book Value (as defined above); (y) debts are paid and other assets are collected; and (z) appropriate adjustments and/or allocations between equity investors are made in accordance with applicable documents, in each case as determined in accordance with applicable accounting guidance.

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Principles

As described in "—Business Objectives and Growth Strategies" and "—Competitive Advantages," the community qualification process is one of CIM Group's core competencies, which demonstrates a disciplined investing program and strategic outlook on urban communities. Once a community is qualified, CIM Group believes it continues to differentiate itself through the following business principles:

- Product Non-Specific: CIM has extensive experience investing in a diverse range of property types, including retail, residential, office, parking, hotel, signage, and mixed-use, which gives CIM the ability to execute and capitalize on its urban strategy effectively. Successful investment requires selecting the right markets coupled with providing the right product. CIM's experience with multiple asset types does not predispose CIM Group to select certain asset types, but instead ensures that we deliver a product mix that is consistent with the market's requirements and needs. Additionally, there is a growing trend towards developing mixed-use real estate properties in urban markets which requires a diversified investment platform to successfully execute.

- Community-Based Tenanting: CIM's investment strategy focuses on the entire community and the best use of assets in that community. Owning a significant number of key properties in an area better enables CIM to meet the needs of national retailers and office tenants and thus optimize the value of these real estate properties. CIM believes that its community perspective gives it a significant competitive advantage in attracting tenants to its retail, office and mixed-use properties and creating synergies between the different tenant types.

- Local Market Leadership with North American Footprint: CIM maintains local market knowledge and relationships, along with a diversified North American presence, through its 105 Qualified Communities. Thus, CIM has the flexibility to invest in its Qualified Communities only when the market environment meets CIM's investment and underwriting standards. CIM does not need to invest in a given community or product type at a specific time due to its broad proprietary pipeline of communities.

- Investing Across the Capital Stack: CIM has extensive experience investing across the capital stack including equity, preferred equity, debt and mezzanine investments, giving it the flexibility to structure transactions in efficient and creative ways.

CIM Urban Partnership Agreement

Our subsidiary, CIM Urban, is governed by CIM Urban's partnership agreement (the "CIM Urban Partnership Agreement"). The general partner of CIM Urban, Urban Partners GP, LLC ("CIM Urban GP"), is an affiliate of CIM Group and has the full, exclusive and complete right, power, authority, discretion and responsibility vested in or assumed by a general partner of a limited partnership under the Delaware Revised Uniform Limited Partnership Act and as otherwise provided by law and is vested with the full, exclusive and complete right, power and discretion to operate, manage and control the affairs of CIM Urban, subject to the terms of the CIM Urban Partnership Agreement.

Removal of General Partner

The class A members of CIM REIT, upon a two-thirds vote of the interests of such members, may remove and replace CIM Urban GP as the general partner of CIM Urban if (a) certain affiliates and related parties of CIM Urban GP cease to own at least 85% of the class A membership units of CIM REIT that they have acquired or (b) any two of Shaul Kuba, Richard Ressler or Avi Shemesh cease to be actively engaged in the management of the general partner.

Amendments

Subject to certain limited exceptions, amendments of the CIM Urban Partnership Agreement may be adopted only with the consent of the majority in interest of the class A members of CIM REIT who are not affiliates of CIM Urban GP.

Liability for Acts and Omissions

None of CIM Urban GP or any of its affiliates, members, stockholders, partners, managers, officers, directors, employees, agents and representatives will have any liability in damages or otherwise to any limited partner, any investors in CIM REIT or CIM Urban, and CIM Urban will indemnify such persons from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, proceedings, costs, expenses and disbursements of any kind which may be imposed on, incurred by or asserted against such persons in any way relating to or arising out of any action or inaction on the

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part of such persons when acting on behalf of CIM Urban or any of its investments, except for those liabilities that result from such persons' fraud, gross negligence, willful misconduct or breach of the terms of the CIM Urban Partnership Agreement or any other agreement between such person and CIM Urban or its affiliates.

Investment Management Agreement

In May 2005, CIM Urban and CIM Urban REIT Management, L.P., each an affiliate of CIM REIT and CIM Group, entered into an Investment Management Agreement, pursuant to which CIM Urban engaged CIM Urban REIT Management, L.P. to provide investment advisory services to CIM Urban. CIM Investment Advisors, LLC, an affiliate of CIM REIT and CIM Group, registered with the Securities and Exchange Commission ("SEC") as an investment adviser and, in connection with such registration, CIM Urban entered into a new Investment Management Agreement with CIM Investment Advisors, LLC, in December 2015, on terms substantially similar to those in the previous Investment Management Agreement, pursuant to which CIM Urban engaged CIM Investment Advisors, LLC to provide investment advisory services, and the previous Investment Management Agreement was terminated. "Advisor" refers to CIM Urban REIT Management, L.P. prior to December 10, 2015 and to CIM Investment Advisors, LLC on and after December 10, 2015.

CIM Urban pays asset management fees to the Advisor on a quarterly basis in arrears. The fee is calculated as a percentage of the daily average adjusted fair value of CIM Urban's investments, as defined, as follows:

Daily Average Adjusted Fair Value of CIM Urban's Investments		Quarterly Fee
From Greater of	To and Including	Percentage
$ —	$ 500,000,000	0.2500%
500,000,000	1,000,000,000	0.2375%
1,000,000,000	1,500,000,000	0.2250%
1,500,000,000	4,000,000,000	0.2125%
4,000,000,000	20,000,000,000	0.1000%

For the years ended December 31, 2016, 2015 and 2014, the Advisor earned asset management fees of $25,753,000, $24,882,000 and $23,223,000, respectively.

The Advisor is responsible for the payment of all costs and expenses relating to the general operation of its business, including administrative expenses, employment expenses and office expenses. All costs and expenses incurred by the Advisor on behalf of CIM Urban are borne by CIM Urban. In addition, CIM Urban will indemnify the Advisor against losses, claims, damages or liabilities, and reimburse the Advisor for its legal and other expenses, in each case incurred in connection with any action, proceeding or investigation arising out of or in connection with CIM Urban's business or affairs, except to the extent such losses or expenses result from fraud, gross negligence or willful misconduct of, or a breach of the terms of the Investment Management Agreement by the Advisor or with respect to CIM Urban REIT Management L.P., any violation of securities law or any other intentional or criminal wrongdoing. Under the Investment Management Agreement between CIM Urban and CIM Urban REIT Management L.P., CIM Urban REIT Management L.P. is obligated to indemnify CIM Urban against any losses, claims, damages or liabilities to which CIM Urban becomes subject in connection with any matter arising out of or in connection with CIM Urban's business or affairs that results from CIM Urban REIT Management L.P.'s fraud, gross negligence, willful misconduct or breach of such Investment Management Agreement.

Nothing in the Investment Management Agreement limits or restricts the right of any partner, officer or employee of the Advisor to engage in any other business or to devote his time and attention in part to any other business. Nothing in the Investment Management Agreement limits or restricts the right of the Advisor to engage in any other business or to render services of any kind to any other person.

The Investment Management Agreement will remain in effect until CIM Urban is dissolved or CIM Urban and the Advisor otherwise mutually agree.

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Master Services Agreement

On March 11, 2014, we entered into the Master Services Agreement (the “Master Services Agreement”) with CIM Service Provider, LLC (the “Manager”), an affiliate of CIM Group, pursuant to which the Manager agrees to provide or arrange for other service providers to provide management and administration services (“Base Service”) to us and all of our direct and indirect subsidiaries. Pursuant to the Master Services Agreement, we appointed an affiliate of CIM Group as the manager (“Urban GP Manager”) of CIM Urban GP. Under the Master Services Agreement, we pay a base service fee (the “Base Service Fee”) to the Manager initially set at $1,000,000 per year (subject to an annual escalation by a specified inflation factor beginning on January 1, 2015), payable quarterly in arrears. The Base Service Fee began to accrue on March 11, 2014 and was pro-rated based on the number of days during the first quarter in which the Master Services Agreement was in effect. For the years ended December 31, 2016, 2015 and 2014, the Manager earned a Base Service Fee of $1,043,000, $1,010,000 and $806,000, respectively. In addition, pursuant to the terms of the Master Services Agreement, the Manager may receive compensation and/or reimbursements for performing certain services for us and our subsidiaries that are not covered under the Base Service Fee. During the years ended December 31, 2016, 2015 and 2014, such services performed by the Manager included accounting, tax, reporting, internal audit, legal, compliance, risk management, IT, human resources and corporate communications. The Manager’s compensation is based on the salaries and benefits of the employees of the Manager and/or its affiliates who performed these services (allocated based on the percentage of time spent on our affairs and the affairs of our subsidiaries). For the years ended December 31, 2016, 2015 and 2014, we expensed $3,120,000, $2,993,000 and $1,193,000 for such services, respectively. At December 31, 2016 and 2015, $1,935,000 and $1,256,000 was due to the Manager, respectively, for such services.

On January 1, 2015, we entered into a Staffing and Reimbursement Agreement with CIM SBA Staffing, LLC (“CIM SBA”), an affiliate of CIM Group and our subsidiary, PMC Commercial Lending, LLC, which agreement provides that CIM SBA will provide personnel and resources to us and that we will reimburse CIM SBA for the costs and expenses of providing such personnel and resources. For the years ended December 31, 2016 and 2015, we incurred expenses related to services subject to reimbursement by us under this agreement of $3,555,000 and $3,850,000, respectively, which are included in asset management and other fees to related parties for lending segment costs included in continuing operations, $411,000 and $434,000, respectively, for corporate services, which are included in asset management and other fees to related parties, and $550,000 and $777,000, respectively, which are included in discontinued operations. For the year ended December 31, 2015, we expensed $1,638,000 for transaction costs paid to CIM SBA for reimbursement of costs in connection with the sale of substantially all of our commercial mortgage loans to an unrelated third party. In addition, for the years ended December 31, 2016, 2015 and 2014, we deferred personnel costs of $249,000, $282,000 and $246,000, respectively, associated with services provided for originating loans.

Other Services

CIM Management, Inc. and certain of its affiliates (collectively, the “CIM Management Entities”), all affiliates of CIM REIT and CIM Group, provide property management, leasing, and development services to CIM Urban. The CIM Management Entities earned property management fees, which are included in rental and other property operating expenses, totaling $5,630,000, $5,814,000 and $5,284,000 for the years ended December 31, 2016, 2015 and 2014, respectively. CIM Urban also reimbursed the CIM Management Entities $8,630,000, $8,319,000 and $7,369,000 during the years ended December 31, 2016, 2015 and 2014, respectively, for the cost of on-site personnel incurred on behalf of CIM Urban, which is included in rental and other property operating expenses. The CIM Management Entities earned leasing commissions of $2,522,000, $697,000 and $1,904,000 for the years ended December 31, 2016, 2015, and 2014, respectively, which were capitalized to deferred charges. In addition, the CIM Management Entities earned construction management fees of $942,000, $1,055,000 and $566,000 for the years ended December 31, 2016, 2015 and 2014, respectively, which were capitalized to investments in real estate.

On October 1, 2015, an affiliate of CIM Group entered into a 5-year lease renewal with respect to a property owned by the Company. For the years ended December 31, 2016, 2015 and 2014, we recorded rental and other property income related to this tenant of $108,000, $104,000 and $100,000, respectively.

Lending Segment

In order to allow CIM Commercial to increase its focus on Class A and creative office investments, our Board of Directors approved a plan in December 2014 for the lending segment that, when completed, would have resulted in the deconsolidation of the lending segment, which at that time was focused on small business lending in the hospitality industry. In July 2015, to maximize value, we modified our strategy from a strategy of selling the lending segment as a whole to a strategy of soliciting buyers for components of the business, including our commercial mortgage loans and the SBA 7(a) lending

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platform. This change in the sale methodology resulted in the need to extend the period to complete the sale of the remainder of the lending segment beyond one year. On December 17, 2015, pursuant to the modified plan, we sold substantially all of our commercial mortgage loans with a carrying value of $77,121,000 to an unrelated third party and recognized a gain of $5,151,000. In September 2016, we discontinued our efforts to sell the SBA 7(a) lending platform, and the activities related to the SBA 7(a) lending platform have been reclassified to continuing operations for all periods presented. On December 29, 2016, we sold our commercial real estate lending subsidiary, which was classified as held for sale and had a carrying value of $27,587,000, which was equal to management's estimate of fair value, to a fund managed by an affiliate of CIM Group. We did not recognize any gain or loss in connection with the transaction. Management's estimate of fair value was determined with assistance from an independent third party valuation firm.

Through our SBA 7(a) lending platform, we are a national lender that primarily originates loans to small businesses. We identify loan origination opportunities through personal contacts, internet referrals, attendance at trade shows and meetings, direct mailings, advertisements in trade publications and other marketing methods. We also generate loans through referrals from real estate and loan brokers, franchise representatives, existing borrowers, lawyers and accountants.

During 2016 and 2015, we funded an aggregate of $104,235,000 and $59,467,000, respectively, of loans in our lending business and received principal payments (including prepayments) of $37,336,000 and $44,261,000, respectively (included in the amounts funded during 2016 and 2015 was $53,256,000 and $20,409,000, respectively, for commercial real estate loans). From the Acquisition Date to December 31, 2014, we funded an aggregate of $50,971,000 of loans and received principal payments (including prepayments) of $49,373,000.

Information regarding our Small Business Administration's ("SBA") 7(a) Guaranteed Loan Program ("SBA 7(a) Program") loans receivable as of December 31, 2016 was as follows:

	(dollars in thousands)	
SBA 7(a) loans receivable, net (1) (2)	$ 73,147	
Weighted average interest rate	6.0	%
Weighted average yield to maturity	6.9	%
Average yield (3)	7.5	%
Loans delinquent greater than 30 days	0.3	%
Weighted average contractual maturity in years	21.2	
Hospitality industry concentration	94.5	%

(1) Includes loans originated under the SBA 7(a) Program subject to secured borrowings of $29,524,000 representing the government guaranteed portion of loans, which were sold with the proceeds received from the sale reflected as secured borrowings. There is no credit risk associated with these loans since the SBA has guaranteed payment of the principal.

(2) In addition to our retained SBA 7(a) portfolio described above, we service $113,063,000 of aggregate principal balance remaining on secondary market loan sales.

(3) The calculation of average yield divides our interest income and other loan related fees, adjusted by the provision for loan losses, by the weighted average loans receivable outstanding on an annualized basis.

Employees

As of December 31, 2016, we had ten employees including eight property-level staff.

Offices

We are headquartered in Dallas, Texas.

Available Information

Our corporate information website is www.cimcommercial.com. The information on our website is not part of this Annual Report on Form 10-K. However, in the Investors section of this website, the public can access free of charge our annual, quarterly and current reports, changes in the stock ownership of our directors and certain executive officers and other documents filed with the SEC as soon as reasonably practicable after the filing dates. Further, the SEC maintains an internet site that contains reports, proxy and information statements and other information regarding our filings at www.sec.gov.

We have adopted a written code of ethics that applies to all directors, officers and employees of the Company, the Advisor and the Manager, including our principal executive officer and senior financial officer, in accordance with Section 406 of the Sarbanes-Oxley Act of 2002 and the rules of the SEC promulgated thereunder. The code of ethics, which we call our Code of Business Conduct and Ethics, is available on our corporate website, www.cimcommercial.com, in the section entitled “Investors—Corporate Overview—Corporate Governance.” In the event that we make changes in, or provide waivers from, the provisions of this code of ethics that the SEC requires us to disclose, we intend to disclose these events on our corporate website in such section. In the Corporate Governance section of our corporate website, we have also posted our Audit Committee Charter, as well as our Governance Principles.

Item 1A. Risk Factors

The following information should be read in conjunction with Part II, "Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Consolidated Financial Statements and related notes in Part II, "Item 8—Financial Statements and Supplementary Data” of this Form 10-K. A wide range of factors could materially affect our future developments and performance. In addition to the factors described elsewhere in this report, management has identified the following important factors that could cause actual results to differ materially from those reflected in forward-looking statements or from our historical results. These factors, which are not all-inclusive, could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or series A preferred stock ("Series A Preferred Stock") dividend distributions or to engage in further repurchases of Common Stock. This discussion of risk factors includes many forward-looking statements. For cautions about relying on forward-looking statements, please refer to the section entitled “Forward-Looking Statements” at the beginning of this Report immediately prior to Item 1.

Risks Related to Our Real Estate Business

Our operating performance is subject to risks associated with the real estate industry.

Real estate investments are subject to various risks and fluctuations and cycles in value and demand, many of which are beyond our control. Certain events may decrease cash available for dividends, as well as the value of our properties. These events include, but are not limited to:

- adverse changes in economic and socioeconomic conditions;
- vacancies or our inability to rent space on favorable terms;
- adverse changes in financial conditions of buyers, sellers and tenants of properties;
- inability to collect rent from tenants;
- competition from other real estate investors with significant capital, including but not limited to other real estate operating companies, publicly-traded REITs and institutional investment funds;
- reductions in the level of demand for office, hotel and apartment community space and changes in the relative popularity of properties;
- increases in the supply of office, hotel and apartment community space;
- fluctuations in interest rates and the availability of credit, which could adversely affect our ability, or the ability of buyers and tenants of properties, to obtain financing on favorable terms or at all;
- dependence on third parties to provide leasing, brokerage, property management and other services with respect to certain of our investments;

- increases in expenses, including insurance costs, labor costs, utility prices, real estate assessments and other taxes and costs of compliance with laws, regulations and governmental policies, and our inability to pass on some or all of these increases to our tenants; and
- changes in, and changes in enforcement of, laws, regulations and governmental policies, including, without limitation, health, safety, environmental, zoning, real estate tax, federal and state laws, governmental fiscal policies and the ADA.

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In addition, periods of economic slowdown or recession, rising interest rates or declining demand for real estate, or the public perception that any of these events may occur, could result in a general decline in rents or an increased incidence of defaults under existing leases. If we cannot operate our properties so as to meet our financial expectations, our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock could be materially adversely affected.

There can be no assurance that we can achieve our economic objectives.

A significant portion of our properties, by aggregate net operating income and square feet, are located in California and the District of Columbia. We are dependent on the California and the District of Columbia real estate markets and economies, and are therefore susceptible to risks of events in those markets that could adversely affect our business, such as adverse market conditions, changes in local laws or regulations and natural disasters.

Because our properties in California (and particularly, in the San Francisco Bay area, including Oakland, California and San Francisco, California (the "San Francisco Bay Area")) and the District of Columbia represent a significant portion of our portfolio by aggregate net operating income and square feet, we are exposed to greater economic risks than if we owned a more geographically diverse portfolio. We are susceptible to adverse developments in the California (and particularly, in the San Francisco Bay Area) and the District of Columbia economic and regulatory environments (such as business layoffs or downsizing, industry slowdowns, relocations of businesses, increases in real estate and other taxes, costs of complying with governmental regulations or increased regulation and other factors) as well as natural disasters that occur in these areas (such as earthquakes, floods and other events). In addition, the State of California is regarded as more litigious and more highly regulated and taxed than many states, which may reduce demand for office, lodging and apartment space in California. Any adverse developments in the economy or real estate markets in California (and particularly, in the San Francisco Bay Area) or the District of Columbia, or any decrease in demand for office, lodging and apartment space resulting from the California (and particularly, in the San Francisco Bay Area) or the District of Columbia regulatory or business environments, could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

We may be adversely affected by any significant reductions in federal government spending, which could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

Some of our properties are occupied by tenants that are U.S. federal government agencies. A significant reduction in federal government spending could decrease the likelihood that they will renew their leases with us. Further, economic conditions in the District of Columbia are significantly dependent upon the level of federal government spending in the region as a whole. In the event of a significant reduction in federal government spending, there could be negative economic changes in the District of Columbia which could adversely impact the ability of our tenants to perform their financial obligations under our leases or the likelihood of their lease renewals. As a result, such a reduction in federal government spending could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

Capital and credit market conditions may adversely affect demand for our properties and the overall availability and cost of credit.

In periods when the capital and credit markets experience significant volatility, demand for our properties and the overall availability and cost of credit may be adversely affected. No assurances can be given that the capital and credit market conditions will not have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

In addition, we could be adversely affected by significant volatility in the capital and credit markets as follows:

- the tenants in our office properties may experience a deterioration in their sales or other revenue, or experience a constraint on the availability of credit necessary to fund operations, which in turn may adversely impact those tenants' ability to pay contractual base rents and tenant recoveries. Some tenants may terminate their occupancy

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due to an inability to operate profitably for an extended period of time, impacting our ability to maintain occupancy levels;

- constraints on the availability of credit to tenants, necessary to purchase and install improvements, fixtures and equipment and to fund business expenses, could impact our ability to procure new tenants for spaces currently vacant in existing office properties or properties under development; and
- any joint venture or other co-investment partners could experience difficulty obtaining financing in the future for the same reasons discussed above. Their inability to obtain financing on acceptable terms, or at all, could negatively impact our ability to acquire additional properties.

Adverse economic conditions could have an adverse effect on the office, hotel and apartment communities industries.

The United States has been recovering from a post-recessionary slow-growth environment, which has experienced historically high levels of unemployment or underemployment. Relative uncertainty over the depth and duration of the economic recovery may have a negative impact on the office, lodging and apartment communities industries. There is some general consensus among economists that the economy in the United States emerged from a recessionary environment in 2009, but high unemployment or underemployment levels have only begun to subside recently. As a result, our office, lodging and apartment properties, among other things, may experience reductions in revenue resulting from lower rental rates and occupancy levels. Accordingly, our financial results could be impacted by the economic environment, and future financial results and growth could be further harmed until a more expansive and consistent national economic environment is prevalent. A continued weaker than anticipated economic recovery, or a return to a recessionary national economic environment, could result in low or decreased levels of business and consumer travel, negatively impacting the lodging industry. Moreover, in the event of another recession, the office, hotel and apartment communities could experience reductions in rental rates, occupancy levels, property valuations and increases in operating costs such as advertising and turnover expenses. Such an economic outcome could also negatively impact our tenants' future growth prospects and could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

Investments in office buildings that have government tenants are subject to the risks associated with conducting business with the U.S. federal government.

Investments in office buildings that have government tenants are subject to risks associated with conducting business with the U.S. federal government. Congressional action to reduce budgetary spending by the United States could limit or reduce the funding of government agencies or other organizations. Adverse developments and/or conditions affecting government tenants could reduce demand for space or force such tenants to curtail operations, which could result in less rent to us and, accordingly, could have a material adverse effect on our results of operations. The risks of conducting business with the U.S. federal government also include the risk of civil and criminal fines and the risk of public scrutiny of our performance at high profile sites.

The U.S. Government's "green lease" policies may adversely affect us.

In recent years the U.S. Government has instituted "green lease" policies which allow a government tenant to require leadership in energy and environmental design for commercial interiors, or LEED®-CI, certification in selecting new premises or renewing leases at existing premises. In addition, the Energy Independence and Security Act of 2007 allows the General Services Administration to give preference to buildings for lease that have received an "Energy Star" label. Obtaining such certifications and labels may be costly and time consuming, but our failure to do so may result in our competitive disadvantage in acquiring new or retaining existing government tenants, which could result in less rent to us, and, accordingly, could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

Changes in the United States' and state governments' requirements for leased space may adversely affect us.

Some of our current rents come from government tenants. Government agencies have been seeking to increase their space utilization under their leases, including reducing the amount of square footage per employee at leased properties, which has reduced the demand for government leased space. If a significant number of such events occur, our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

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Tenant concentration increases the risk that cash flow could be interrupted.

We are, and expect that we will continue to be, subject to a degree of tenant concentration at certain of our properties and/or across multiple properties. In the event that a tenant occupying a significant portion of one or more of our properties or whose rental income represents a significant portion of the rental revenue at such property or properties were to experience financial weakness or file bankruptcy, it could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

We have incurred indebtedness and may incur significant additional indebtedness on a consolidated basis, which could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock, and which may expose us to interest rate fluctuation risk and the risk of default under our debt obligations.

As of December 31, 2016, our total consolidated indebtedness was $967,886,000. We may incur significant additional indebtedness to fund future investments, development activities, operational needs and share repurchases. The degree of leverage could make us more vulnerable to a downturn in business or the economy generally.

Payments of principal and interest on our borrowings may leave us with insufficient cash resources to operate our properties and/or pay dividends to holders of Common Stock or Series A Preferred Stock. The incurrence of substantial outstanding indebtedness, and the limitations imposed by our debt agreements, could have significant other adverse consequences, including the following:

- our cash flows may be insufficient to meet our required principal and interest payments;
- we may be unable to borrow additional funds as needed or on favorable terms, which could, among other things, adversely affect our liquidity for acquisitions or operations;
- we may be unable to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our existing indebtedness;
- we may be forced to dispose of one or more of our properties, possibly on disadvantageous terms;
- we may violate restrictive covenants in our debt documents, which would entitle the lenders to accelerate our debt obligations;
- we may default on our obligations and the lenders or mortgagees may foreclose on our properties and take possession of any collateral that secures their loans; and
- our default under any of our indebtedness with cross-default provisions could result in a default on other indebtedness.

If any one of these events were to occur, our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock could be materially adversely affected. In addition, any foreclosure on our properties could create taxable income without the accompanying cash proceeds, which could adversely affect our ability to meet the REIT distribution requirements imposed by the Internal Revenue Code of 1986, as amended (the "Code").

Increases in interest rates could increase the amount of our debt payments, which could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

We may incur indebtedness that bears interest at a variable rate. In addition, from time to time, we may pay mortgage loans or finance and refinance our properties in a rising interest rate environment. Accordingly, increases in interest rates could increase our interest costs, which could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock. In addition, if rising interest rates cause us to need additional capital to repay our indebtedness, we may need to liquidate one or more of our investments at times that may

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not permit realization of the maximum return on such investments. Prolonged interest rate increases also could negatively impact our ability to make investments with positive economic returns.

We may be unable to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our current indebtedness.

Upon maturity of indebtedness incurred by us, there is no assurance that replacement financing can be obtained or, if it is obtained, that interest rates and other terms would be as favorable as the original indebtedness. Inability to refinance indebtedness on favorable terms may compel us to attempt to dispose of one or more properties, including any properties that may be secured by such debt, on terms less favorable than might be obtained at a later date. In addition, if any secured indebtedness matured before refinancing could be procured, the lender could foreclose on the applicable collateral and we might suffer losses as a result of that foreclosure. Further, lenders may require insurance against terrorist acts, particularly for large properties in urban areas, and the unavailability of such insurance may make it difficult to finance or refinance investments. The factors described above could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

We may be unable to renew leases or lease vacant office space.

As of December 31, 2016, 10.9% of the rentable square footage of our office portfolio was available for lease. As of December 31, 2016, 7.8% of the occupied square footage in our office portfolio was scheduled to expire in 2017. Local economic environment may make the renewal of these leases more difficult, or renewal may occur at rental rates equal to or below existing rental rates. As a result, portions of our office properties may remain vacant for extended periods of time. In addition, we may have to offer substantial rent abatements, tenant improvements, concessions, early termination rights or below-market renewal options to attract new tenants or retain existing tenants. The factors described above could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

Short-term leases in our multifamily portfolio may expose us to the effects of declining market rents and we may be unable to renew leases or lease vacant units.

Substantially all of our leases in our multifamily portfolio are for a term of one year or less. Therefore, rental revenues from our multifamily portfolio may be negatively impacted by local and/or market declines in market rents more quickly than if our leases were for longer terms.

In addition, rental units may remain vacant for extended periods of time. As a result, we may have to offer substantial rent abatements, concessions, or below market renewal options to attract new tenants or retain existing tenants. The factors described above could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

Our operating performance is subject to risks associated with the lodging industry.

The success of our hotel property depends largely on the property operator's ability to adapt to dominant trends in the lodging industry as well as disruptions such as greater competitive pressures, increased consolidation, industry overbuilding, dependence on consumer spending patterns and changing demographics, the introduction of new concepts and products such as Airbnb®, Homeaway® and VRBO®, availability of labor, price levels and macroeconomic and microeconomic conditions. The success of a particular hotel brand, the ability of a hotel brand to fulfill any obligations to operators of our business, and trends in the lodging industry could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

The performance of the lodging industry has historically been closely linked to the performance of the general economy and, specifically, growth in U.S. gross domestic product. The lodging industry is also sensitive to business and personal discretionary spending levels. The lodging industry could experience a significant decline in occupancy and average daily rates due to a reduction in business and/or leisure travel. General economic conditions, increased fuel costs, natural disasters and terrorist attacks are a few factors that could affect an individual’s willingness to travel.

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We face significant competition.

Our office portfolio competes with a number of developers, owners and operators of office real estate, many of which own properties similar to ours in the same markets in which our properties are located. If our competitors offer space at rental rates below current market rates, or below the rental rates we currently charge our tenants, we may lose existing or potential tenants and may not be able to replace them, and we may be pressured to reduce our rental rates below those we currently charge or to offer more substantial rent abatements, tenant improvements, early termination rights or below-market renewal options in order to retain tenants when our tenants' leases expire. As a result of any of the foregoing factors, our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock could be materially adversely affected.

Our hotel competes for guests primarily with other hotels in the immediate vicinity of our hotel and secondarily with other hotels in the geographic market of our hotel. An increase in the number of competitive hotels in these areas could have a material adverse effect on the occupancy, average daily rate and RevPAR of our hotel.

There are numerous housing alternatives that compete with our apartment communities in attracting residents. These include other apartment communities and single-family homes that are available for rent in the markets in which the communities are located. If the demand for our apartment communities is reduced or if competitors develop and/or acquire competing apartment communities, rental rates may drop, which may have a material adverse effect on our financial condition and results of operations. We also face competition from other real estate investment funds, businesses and other entities in the acquisition, development and operation of apartment communities. This competition may result in an increase in costs and prices of apartment communities that we acquire and/or develop.

We may be unable to complete investments that would grow our business and, even if consummated, we may fail to successfully integrate and operate acquired properties.

We plan to acquire additional investments as opportunities arise. Our ability to acquire investments on favorable terms and/or successfully integrate and operate them is subject to the following significant risks:

- we may be unable to acquire desired investments because of competition from other real estate investors with better access to less expensive capital, including other real estate operating companies, publicly-traded REITs and investment funds;
- we may acquire properties that are not accretive to our results upon acquisition, and we may not successfully manage and lease those properties to meet our expectations;
- competition from other potential acquirers may significantly increase purchase prices;
- acquired properties may be located in new markets where we may face risks associated with a lack of market knowledge or understanding of the local economy, lack of business relationships in the area and unfamiliarity with local governmental and permitting procedures;
- we may be unable to generate sufficient cash from operations or obtain the necessary debt or equity financing to consummate an investment on favorable terms or at all;
- we may need to spend more money than anticipated to make necessary improvements or renovations to acquired properties;
- we may spend significant time and money on potential investments that we do not consummate;
- we may be unable to quickly and efficiently integrate new acquisitions into our existing operations;
- we may suffer higher than expected vacancy rates and/or lower than expected rental rates; and
- we may acquire properties without any recourse, or with only limited recourse, for liabilities against the former owners of the properties.

If we cannot complete investments on favorable terms, or operate acquired investments to meet our goals or expectations, our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock could be materially adversely affected.

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We may be unable to successfully expand our operations into new markets.

Each of the risks applicable to our ability to acquire and successfully integrate and operate properties in the markets in which our properties are located are also applicable to our ability to acquire and successfully integrate and operate properties in new markets. In addition to these risks, we may not possess the same level of familiarity with the dynamics and market conditions of certain new markets that we may enter, which could adversely affect our ability to expand into those markets. We may be unable to build a significant market share or achieve a desired return on our investments in new markets. If we are unsuccessful in expanding into new markets, it could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

Our stockholders will not have any approval rights regarding expansion or change in strategies or specific future investments.

We have expanded and may continue to expand our operations into new real estate-related activities, including, without limitation, (i) originating and/or investing in a variety of loan products, including, but not limited to, mezzanine loans, commercial real estate loans and other types of loans (see "Item 1—Business—Lending Segment") and/or (ii) real estate development activities to create substantially stabilized properties. Stockholders will not have any approval rights with respect to expansion or change in strategies or future investments. Our Advisor will make decisions with respect to future investments to be made by us (see "Item 1—Business—Investment Management Agreement"). If we are unsuccessful in expanding into new real estate activities or our changes in strategies or future investments turn out to be unsuccessful, it could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

We may make investments outside of the United States, which would subject us to additional risks that may affect our operations unfavorably.

We may invest some of our capital outside of the United States. Our investments in foreign countries could be affected unfavorably by changes in exchange rates due to political and economic factors, including inflation. Because non-U.S. companies are not subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable with those applicable to U.S. companies, there may be different types of, and lower quality, information available about non-U.S. companies and their assets. This may affect our ability to underwrite and evaluate proposed investments in foreign countries or to obtain appropriate financial reports relating to such investments. In addition, with respect to certain countries, there may be an increased potential for corrupt business practices, or the possibility of expropriation or confiscatory taxation, political or social instability, or diplomatic developments that could affect our investments in those countries. Moreover, individual economies could differ unfavorably from the U.S. economy in such respects as growth of gross national product, rate of inflation, changes in currency rates and exchange control regulations and capital reinvestment. As a result of the factors described in this paragraph, any investments made outside of the United States may be subject to a higher degree of risk; there can also be no assurance that any such investments will generate returns comparable to investment made in the United States.

We are subject to risks and liabilities unique to joint venture relationships.

We may contemplate acquisitions of properties through joint ventures and sales to institutions of partial ownership of properties that we wholly own. Joint venture investments involve certain risks, including for example:

- disputes with joint venture partners might affect our ability to develop, operate or dispose of a property;
- the refinancing of unconsolidated joint venture debt may require additional equity commitments on our part;

- joint venture partners may control or share certain approval rights over major decisions or might have economic or other business interests or goals that are inconsistent with our business interests or goals that would affect our ability to operate the property;
- we may be forced to fulfill the obligations of a joint venture or of joint venture partners who default on their obligations including those related to debt or interest rate swaps; and
- there may be conflicts of interests because our joint venture partners may have varying interests such as different needs for liquidity, different assessments of the market, different tax objectives or ownership of competing interests in properties in our markets.

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The occurrence of one or more of the foregoing events could adversely affect our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

We may become exposed to risks associated with property development.

We may engage in development and redevelopment activities with respect to certain of our properties. To the extent that we do so, we will be subject to certain risks, including, without limitation:

- the availability and pricing of financing on favorable terms or at all;
- the availability and timely receipt of zoning and other regulatory approvals;
- contractor and subcontractor disputes, strikes, labor disputes or supply disruptions; and
- the cost and timely completion of construction (including risks beyond our control, such as weather or labor conditions, or materials shortages).

These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

Real estate investments are generally illiquid, and we may not be able to sell our properties when we desire, which could adversely affect us.

Our real estate investments are relatively difficult to sell quickly. Return of capital and realization of gains, if any, from an investment will generally occur upon disposition or refinance of the underlying property. We may not be able to realize our investment objectives by sale or other disposition or be able to refinance at attractive prices within any given period of time. We may also not be able to complete any exit strategy. In particular, these risks could arise from: (i) weak market conditions; (ii) lack of an established market for a property; (iii) changes in the financial condition or prospects of prospective purchasers; (iv) changes in national or international economic conditions, such as the global economic downturn in 2008 and 2009; and (v) changes in laws, regulations or fiscal policies of jurisdictions in which the property is located. Furthermore, certain properties may be adversely affected by contractual rights, such as rights of first offer.

We may be unable to secure funds for our future long-term liquidity needs, which could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

Our long-term liquidity needs will consist primarily of funds necessary for acquisitions of investments, development or repositioning of properties, capital expenditures, refinancing of indebtedness, repurchases of Common Stock (whether through one or more tender offers, share repurchases or otherwise), dividends on the Series A Preferred Stock or any other preferred stock we may issue and redemption of Series A Preferred Stock (if we choose to pay the redemption price in cash instead of in shares of our Common Stock). We may not have sufficient funds on hand or may not be able to obtain additional financing to cover all of these long-term cash requirements, although it should be noted that we do not currently have any significant property development or repositioning projects planned. The nature of our business, and the requirements imposed by REIT rules that we distribute a substantial majority of our REIT taxable income on an annual basis in the form of dividends, may cause us to have substantial liquidity needs over the long-term. We will seek to satisfy our long-term liquidity needs through one or more of the following methods: (i) offerings of shares of Common Stock, preferred stock, senior unsecured securities, and/or other equity and debt securities; (ii) credit facilities and term loans; (iii) the addition of senior recourse or non-recourse debt using target acquisitions as well as existing investments as collateral; (iv) the sale of existing investments; and/or (v) cash flows from operations. These sources of funding may not be available on attractive terms or at all. If we cannot obtain additional funding for our long-term liquidity needs, our investments may generate lower cash flows or decline in value, or both, which may cause us to sell assets at a time when we would not otherwise do so and could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

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Potential losses may not be covered by insurance.

Our business operations in California, New York, North Carolina, Texas and the District of Columbia are susceptible to, and could be significantly affected by, adverse weather conditions and natural disasters such as earthquakes, tsunamis, hurricanes, wind, blizzards, floods, landslides, drought and fires. These adverse weather conditions and natural disasters could cause significant damage to the properties in our portfolio, the risk of which is enhanced by the concentration of our properties, by aggregate net operating income and square feet, in California and the District of Columbia. Our insurance may not be adequate to cover business interruption or losses resulting from adverse weather or natural disasters. We carry earthquake insurance on our properties in California in an amount and with deductibles and limitations that we deem to be appropriate. However, the amount of our earthquake insurance coverage may not be sufficient to cover losses from earthquakes in California. Furthermore, we may not carry insurance for certain losses, including, but not limited to, losses caused by war or certain environmental conditions, such as mold or asbestos. In addition, our title insurance policies may not insure for the current aggregate market value of our portfolio, and we do not intend to increase our title insurance coverage if the market value of our portfolio increases.

As a result of the factors described above, we may not have sufficient coverage against all losses that we may experience for any reason. We may also discontinue insurance on some or all of our properties in the future if the cost of premiums for any of these policies exceeds the value of the coverage discounted for the risk of loss.

If we experience a loss that is uninsured or that exceeds policy limits, we could incur significant costs and lose the capital invested in the damaged properties as well as the anticipated future cash flows from those properties. Further, if the damaged properties are subject to recourse indebtedness, we would continue to be liable for the indebtedness, even if the properties were irreparable. In addition, our properties may not be able to be rebuilt to their existing height or size at their existing location under current land-use laws and policies. In the event that we experience a substantial or comprehensive loss of one of our properties, we may not be able to rebuild such property to its existing specifications and otherwise may have to upgrade such property to meet current code requirements. Any of the factors described above could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

Terrorism and war could harm our operating results.

The strength and profitability of our business depends on demand for and the value of our properties. Future terrorist attacks in the United States, such as the attacks that occurred in New York and the District of Columbia on September 11, 2001 and in Boston on April 15, 2013, and other acts of terrorism or war may have a negative impact on our operations. Terrorist attacks in the United States and elsewhere may result in declining economic activity, which could harm the demand for and the value of our properties. In addition, the public perception that certain locations are at greater risk for attack, such as major airports, ports, and rail facilities, may decrease the demand for and the value of our properties near these sites. A decrease in demand could make it difficult for us to renew or re-lease our properties at these sites at lease rates equal to or above historical rates. Such terrorist attacks could have an adverse impact on our business even if they are not directed at our properties.

In addition, the terrorist attacks of September 11, 2001 have substantially affected the availability and price of insurance coverage for certain types of damages or occurrences, and our insurance policies for terrorism include large deductibles and co-payments. Although we maintain terrorism insurance coverage on our portfolio, the amount of our terrorism insurance coverage may not be sufficient to cover losses inflicted by terrorism and therefore could expose us to significant losses and have a negative impact on our operations.

Because we own real estate investments, we are subject to extensive environmental regulation which creates uncertainty regarding future environmental expenditures and liabilities.

Environmental laws regulate, and impose liability for, releases of hazardous or toxic substances into the environment. Under some of these laws, an owner or operator of real estate may be liable for costs related to soil or groundwater contamination on or migrating to or from its property. In addition, persons who arrange for the disposal or treatment of hazardous or toxic substances may be liable for the costs of cleaning up contamination at the disposal site.

These laws often impose liability regardless of whether the person knew of, or was responsible for, the presence of the hazardous or toxic substances that caused the contamination. The presence of, or contamination resulting from, any of these substances, or the failure to properly remediate them, may adversely affect our ability to sell or rent our property, to borrow using the property as collateral or create lender's liability for us. In addition, persons exposed to hazardous or toxic substances

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may sue for personal injury damages. For example, some laws impose liability for release of or exposure to asbestos-containing materials. In other cases, some of our properties may have been impacted by contamination from past operations or from off-site sources. As a result, in connection with our former, current or future ownership, operation, management and development of real properties, or our role as a lender for loans secured directly or indirectly by real estate properties, we may be potentially liable for investigation and cleanup costs, penalties and damages under environmental laws.

Although most of our properties have been subjected to preliminary environmental assessments, known as Phase I assessments, by independent environmental consultants that identify certain liabilities, Phase I assessments are limited in scope, and may not include or identify all potential environmental liabilities or risks associated with a property. Unless required by applicable law, we may decide not to further investigate, remedy or ameliorate the liabilities disclosed in the Phase I assessments.

Further, these or other environmental studies may not identify all potential environmental liabilities or accurately assess whether we will incur material environmental liabilities in the future. If we do incur material environmental liabilities in the future, we may face significant remediation costs, and we may find it difficult to sell any affected properties.

Compliance with the ADA and fire, safety and other regulations may require us to make unanticipated expenditures that could significantly reduce the cash available for Common Stock or Series A Preferred Stock dividend distributions or repurchases of Common Stock.

Our properties are subject to regulation under federal laws, such as the ADA, pursuant to which all public accommodations must meet federal requirements related to access and use by disabled persons. Although we believe that our properties substantially comply with present requirements of the ADA, we have not conducted an audit or investigation of all of our properties to determine our compliance. If one or more of our properties or future properties are not in compliance with the ADA, we might be required to take remedial action, which would require us to incur additional costs to bring the property into compliance. Noncompliance with the ADA could also result in imposition of fines or an award of damages to private litigants.

Additional federal, state and local laws also may require modifications to our properties or restrict our ability to renovate our properties. We cannot predict the ultimate amount of the cost of compliance with the ADA or other legislation.

In addition, our properties are subject to various federal, state and local regulatory requirements, such as state and local earthquake, fire and life safety requirements. If we were to fail to comply with these various requirements, we might incur governmental fines or private damage awards. If we incur substantial costs to comply with the ADA or any other regulatory requirements, our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock could be materially adversely affected. Local regulations, including municipal or local ordinances, zoning restrictions and restrictive covenants imposed by community developers may restrict our use of our properties and may require us to obtain approval from local officials or community standards organizations at any time with respect to our properties, including prior to acquiring a property or when undertaking renovations of any of our existing properties.

Security breaches through cyber attacks, cyber intrusions or otherwise, as well as other significant disruptions of our Advisor’s and Manager’s information technology ("IT") networks and related systems could adversely affect us.

We face risks associated with security breaches, whether through cyber attacks or cyber intrusions over the internet, malware, computer viruses, attachments to e-mails, persons inside our organization or persons with access to systems inside our organization, and other significant disruptions of our Advisor's or Manager's IT networks and related systems. The risk of a security breach or disruption, particularly through cyber attack or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. Our Advisor's and Manager's IT networks and related systems are essential to the operation of our business and our ability to perform day-to-day operations (including managing our building systems), and, in some cases, may be critical to the operations of certain of our tenants. There can be no assurance that efforts to maintain the security and integrity of these types of IT networks and related systems will be effective or that attempted security breaches or disruptions would not be successful or damaging. A security breach or other significant disruption involving our Advisor's or Manager's IT networks and related systems could materially adversely impact our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

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Changes in accounting standards may adversely impact our financial condition and/or results of operations.

We are subject to the rules and regulations of the U.S. Financial Accounting Standards Board ("FASB") related to generally accepted accounting principles in the United States ("GAAP"). Various changes to GAAP are constantly being considered, some of which could materially impact our reported financial condition and/or results of operations. Also, to the extent publicly traded companies in the United States would be required in the future to prepare financial statements in accordance with International Financial Reporting Standards instead of the current GAAP, this change in accounting standards could materially affect our financial condition or results of operations.

We have entered, or may in the future enter, into hedging transactions that could expose us to contingent liabilities in the future and materially adversely impact our financial condition and results of operations.

Subject to maintaining our qualification as a REIT, we have entered, or may in the future enter, into hedging transactions that could require us to fund cash payments in certain circumstances (e.g., the early termination of the hedging instrument caused by an event of default or other early termination event, or the decision by a counterparty to request margin securities it is contractually owed under the terms of the hedging instrument), which could in turn result in economic losses to us.

In addition, certain of the hedging instruments that we may enter into could involve risks since they often are not traded on regulated exchanges, guaranteed by an exchange or our clearing house, or regulated by any U.S. or foreign governmental authorities. We cannot assure that a liquid secondary market will exist for hedging instruments that we may enter into in the future, and we may be required to maintain a position until exercise or expiration, which could result in significant losses.

Furthermore, we intend to record any derivative and hedging transactions we enter into in accordance with GAAP. However, we may choose not to pursue, or fail to qualify for, hedge accounting treatment relating to such derivative instruments. As a result, our operating results may suffer because losses, if any, on these derivative instruments may not be offset by a change in the fair value of the related hedged transaction or item. Any losses sustained as a result of our hedging transactions would be reflected in our results of operations, and our ability to fund these obligations will depend on the liquidity of our assets and access to capital at the time, and the need to fund these obligations could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

Risks Related to Our Lending Operations

Our lending operations expose us to a high degree of risk associated with investing in real estate.

The performance and value of our loans depends upon many factors beyond our control. The ultimate performance and value of our loans are subject to risks associated with the ownership and operation of the properties which collateralize our loans, including the property owner's ability to operate the property with sufficient cash flow to meet debt service requirements. The performance and value of the properties collateralizing our loans may be adversely affected by:

- changes in national or regional economic conditions;
- changes in real estate market conditions due to changes in national, regional or local economic conditions or property market characteristics;
- competition from other properties;
- changes in interest rates and the condition of the debt and equity capital markets;
- the ongoing need for capital repairs and improvements;

- increases in real estate tax rates and other operating expenses (including utilities);
- adverse changes in governmental rules and fiscal policies; acts of God, including earthquakes, hurricanes and other natural disasters; acts of war or terrorism; or a decrease in the availability of or an increase in the cost of insurance;
- adverse changes in zoning laws;
- the impact of environmental legislation and compliance with environmental laws; and

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- other factors that are beyond our control or the control of the commercial property owners.

In the event that any of the properties underlying our loans experience any of the foregoing events or occurrences, the value of, and return on, such loans may be negatively impacted, which in turn could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

There are significant risks related to loans originated under the SBA 7(a) Program.

Many of the borrowers under our SBA 7(a) Program are privately-owned businesses. There is typically no publicly available information about these businesses; therefore, we must rely on our own due diligence to obtain information in connection with our investment decisions. Our borrowers may not meet net income, cash flow and other coverage tests typically imposed by banks. A borrower's ability to repay its loan may be adversely impacted by numerous factors, including a downturn in its industry or other negative local or macro-economic conditions. Deterioration in a borrower's financial condition and prospects may be accompanied by deterioration in the collateral for the loan. In addition, small businesses typically depend on the management talents and efforts of one person or a small group of people for their success. The loss of services of one or more of these persons could have an adverse impact on the operations of the small business. Small companies are typically more vulnerable to customer preferences, market conditions and economic downturns and often need additional capital to maintain the business, expand or compete. These factors may have an impact on the ultimate recovery of our loans receivable from such businesses. Loans to small businesses, therefore, involve a high degree of business and financial risk, which can result in substantial losses and accordingly should be considered speculative. The factors described above could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

Our loans secured by real estate and our real estate owned ("REO") properties are typically illiquid and their values may decrease.

Our loans secured by real estate and our real estate acquired through foreclosure are typically illiquid. Therefore, we may be unable to vary our portfolio promptly in response to changing economic, financial and investment conditions. As a result, the fair market value of these investments may decrease in the future and losses may result. The illiquid nature of our loans may adversely affect our ability to dispose of such loans at times when it may be advantageous or necessary for us to liquidate such investments, which in turn could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

Our lending operations have an industry concentration, which may negatively impact our financial condition and results of operations.

A majority of our revenue from the lending operations is generated from loans collateralized by hospitality properties. At December 31, 2016, our loans were 94.6% concentrated in the hospitality industry. Any factors that negatively impact the hospitality industry, including recessions, severe weather events (such as hurricanes, blizzards, floods, etc.), depressed commercial real estate markets, travel restrictions, bankruptcies or other political or geopolitical events or the introduction of new concepts and products such as Airbnb®, Homeaway® and VRBO®, could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

Establishing loan loss reserves entails significant judgment and may negatively impact our results of operations.

We have a quarterly review process to identify and evaluate potential exposure to loan losses. The determination of whether significant doubt exists and whether a loan loss reserve is necessary requires judgment and consideration of the facts and circumstances existing at the evaluation date. Additionally, further changes to the facts and circumstances of the individual borrowers, the limited service hospitality industry and the economy may require the establishment of additional loan loss reserves and the effect to our results of operations would be adverse. If our judgments underlying the establishment of our loan loss reserves are not correct, our results of operations may be negatively impacted.

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Whenever our borrowers experience significant operating difficulties and we are forced to liquidate the collateral underlying the loans, losses may be relatively substantial and could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations or ability to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

Our SBA 7(a) Program loans are subject to delinquency, foreclosure and loss, any or all of which could result in losses.

Our loans originated pursuant to the SBA 7(a) Program are collateralized by income-producing properties and typically have personal guarantees. These loans are predominantly to operators of limited service hospitality properties. As a result, these operators are subject to risks associated with the hospitality industry, including recessions, severe weather events, depressed commercial real estate markets, travel restrictions, bankruptcies or other political or geopolitical events.

Our SBA 7(a) loans that have real estate as collateral are subject to risks of delinquency and foreclosure. The ability of a borrower to repay a loan secured by an income-producing property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of and/or cash flow from the property is reduced, the borrower’s ability to repay the loan may be impaired. Net operating income of and/or cash flow from an income-producing property can be affected by, among other things, tenant mix, success of tenant businesses, property management decisions, property location and condition, competition from comparable types of properties, changes in laws that increase operating expenses or limit rents that may be charged, any need to address environmental contamination at the property, the occurrence of any uninsured casualty at the property, changes in national, regional or local economic conditions and/or specific industry segments, declines in regional or local real estate values, declines in regional or local rental or occupancy rates, increases in interest rates, real estate tax rates and other operating expenses, changes in governmental rules, regulations and fiscal policies, including environmental legislation, acts of God, terrorism, social unrest and civil disturbances.

In the event of a loan default, we will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral multiplied by our percentage ownership and the unguaranteed portion of the principal and accrued interest on the loan, which could have a material adverse effect on our cash flow from operations. In the event of the bankruptcy of the borrower, the loan to such borrower will be deemed collateralized only to the extent of the value of the underlying property at the time of the bankruptcy (as determined by the bankruptcy court). In addition to losses related to collateral deficiencies, during the foreclosure process we may incur costs related to the protection of our collateral including unpaid real estate taxes, legal fees, franchise fees, insurance and operating shortfalls to the extent the property is being operated by a court-appointed receiver.

Foreclosure and bankruptcy are complex and sometimes lengthy processes that are subject to federal and state laws and regulations. An action to foreclose on a property is subject to many of the delays and expenses of other lawsuits if the defendant raises defenses or counterclaims. In the event of a default by a mortgagor, these restrictions, among other things, may impede our ability to foreclose on or sell the mortgaged property or to obtain proceeds sufficient to repay all amounts due under the note. Further, borrowers have the option of seeking federal bankruptcy protection which could delay the foreclosure process. In conjunction with the bankruptcy process, the terms of the loan agreements may be modified. Typically, delays in the foreclosure process will have a negative impact on our results of operations and/or financial condition due to direct and indirect costs incurred and possible deterioration of the value of the collateral. After foreclosure has been completed, a lack of funds or capital may force us to sell the underlying property resulting in a lower recovery even though developing the property prior to a sale could result in a higher recovery.

As a result of the factors described above, defaults on SBA 7(a) Program loans could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

Mezzanine loans are subject to delinquency, foreclosure and loss, any or all of which could result in losses.

We may originate mezzanine loans, which are loans made to entities that have subsidiaries which own real property and are secured by pledges of such entity's equity ownership in its property-owning subsidiary. Mezzanine loans are by their nature structurally and legally subordinated to more senior property-level financings. Accordingly, if a borrower defaults on our mezzanine loan or if there is a default by our borrower's subsidiary on debt senior to our loan, or in the event of a borrower bankruptcy, our mezzanine loan will be satisfied only after the property-level debt and other senior debt is paid in full.

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We may also retain, from whole loans we originate, subordinate interests referred to as B-notes. B-notes are commercial real estate loans secured by a first mortgage on a single large commercial property or group of related properties and subordinated to a senior interest, referred to as an A-note. As a result, if a borrower defaults, there may not be sufficient funds remaining for B-note owners after payment to the A-note owners.

Moreover, under the terms of intercreditor arrangements governing mezzanine loans, B-notes and other similar subordinated loans originated by us, we may have to satisfy certain liquidity and capital requirements before we can step into a borrower's position after it has defaulted. There can be no assurance that we will be able to satisfy such requirements, resulting in potentially lower recovery. After a foreclosure on the pledged equity interest has been completed, a lack of funds may force us to sell the underlying property without developing it further (which sale may result in a lower recovery) instead of injecting funds into and developing the property prior to a sale (which may result in a higher recovery).

As a result of the factors described above, defaults on commercial real estate loans could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

We operate in a competitive market for investment opportunities and future competition for commercial real estate collateralized loans may limit our ability to originate or dispose of our target loans and could also affect the yield of these investments.

We are in competition with a number of entities for the types of commercial real estate collateralized loans that we may originate. These entities include, among others, debt funds, specialty finance companies, savings and loan associations, banks and financial institutions. Some of these competitors may be substantially larger and have considerably greater financial, technical and marketing resources than we do. Some of these competitors may also have a lower cost of funds and access to funding sources that may not be available to us currently. In addition, many of our competitors may not be subject to operating constraints associated with REIT qualification or maintenance of exclusions from registration under the Investment Company Act. Furthermore, competition may further limit our ability to generate desired returns. Due to this competition, we may not be able to take advantage of attractive investment opportunities from time to time, and can offer no assurance that we will be able to identify and make investments that are consistent with our investment objective. We cannot guarantee that the competitive pressures we face will not have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Commons Stock.

We may be subject to lender liability claims.

In recent years, a number of judicial decisions have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories, collectively termed "lender liability." Generally, lender liability is founded on the premise that a lender has either violated a duty, whether implied or contractual, of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or our other creditors or stockholders. We cannot assure prospective investors that such claims will not arise or that we will not be subject to significant liability if a claim of this type did arise.

Curtailment of our ability to utilize the SBA 7(a) Program by the federal government could adversely affect our results of operations.

We are dependent upon the federal government to maintain the SBA 7(a) Program. There can be no assurance that the program will be maintained or that loans will continue to be guaranteed at current levels. In addition, there can be no assurance that our SBA lending subsidiary, First Western SBLC, Inc. ("First Western") will be able to maintain its status as a Preferred Lender or that we can maintain our SBA 7(a) license.

If we cannot continue originating and selling government guaranteed loans at current levels, we could experience a decrease in future servicing spreads and earned premiums. From time-to-time the SBA has reached its internal budgeted limits and ceased to guarantee loans for a stated period of time. In addition, the SBA may change its rules regarding loans or Congress may adopt legislation or fail to approve a budget that would have the effect of discontinuing, reducing availability of funds for, or changing loan programs. Non-governmental programs could replace government programs for some borrowers, but the terms might not be equally acceptable. If these changes occur, the volume of loans to small businesses that now qualify for government guaranteed loans could decline, as could the profitability of these loans.

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First Western has been granted national preferred lender program ("PLP") status and originates, sells and services small business loans and is authorized to place SBA guarantees on loans without seeking prior SBA review and approval. Being a national lender, PLP status allows First Western to expedite loans since First Western is not required to present applications to the SBA for concurrent review and approval. The loss of PLP status could adversely impact our marketing efforts and ultimately loan origination volume, which could negatively impact our results of operations.

Risks Related to Our Organization and Structure

Failure to qualify as a REIT would have significant adverse consequences to us and the value of our securities.

If we fail to qualify as a REIT for federal income tax purposes, we would be taxed as a corporation. We believe that we are organized and qualify as a REIT and intend to operate in a manner that will allow us to continue to qualify as a REIT. However, we cannot guarantee that we are qualified as such, or that we will remain qualified as such in the future. This is because qualification as a REIT involves the application of highly technical and complex provisions of the Code as to which there are only limited judicial and administrative interpretations and involves the determination of facts and circumstances not entirely within our control. Future legislation, new regulations, administrative interpretations or court decisions may significantly change the tax laws or the application of the tax laws with respect to qualification as a REIT for federal income tax purposes or the federal income tax consequences of such qualification.

If we fail to qualify as a REIT, we could face serious tax consequences that could substantially reduce our funds available for payment of Common Stock dividend distributions or dividends on the Series A Preferred Stock for each of the years involved because:

- we would not be allowed a deduction for dividends paid to stockholders in computing our taxable income and could be subject to federal income tax at regular corporate rates;
- we also could be subject to the federal alternative minimum tax and possibly increased state and local taxes;
- unless we are entitled to relief under statutory provisions, we could not elect to be subject to be taxed as a REIT for four taxable years following the year during which we are disqualified; and
- all dividends would be subject to tax as ordinary income to the extent of our current and accumulated earnings and profits potentially eligible as “qualified dividends” subject to the applicable income tax rate.

Any such corporate tax liability could be substantial and would reduce our cash available for, among other things, our operations and dividend distributions to stockholders. In addition, if we fail to qualify as a REIT, we would no longer be required to pay dividends. As a result of these factors, our failure to qualify as a REIT could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

To maintain our REIT status, we may be forced to borrow funds during unfavorable market conditions.

To qualify as a REIT, we generally must distribute to our stockholders at least 90% of our net taxable income each year, excluding net capital gains, and we will be subject to regular corporate income taxes to the extent that we distribute less than 100% of our net taxable income each year. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions paid by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years. In order to maintain our REIT status and avoid the payment of income and excise taxes, we may need to borrow funds to meet the REIT distribution requirements even if the then prevailing market conditions are not favorable for these borrowings. These borrowing needs could result from, among other things, differences in timing between the actual receipt of cash and inclusion of income for federal income tax purposes, or the effect of non-deductible capital expenditures, the creation of reserves or required debt or amortization payments. These sources, however, may not be available on favorable terms or at all. Our access to third-party sources of capital depends on a number of factors, including the market's perception of our growth potential, our current debt levels, the market price of our Common Stock, and our current and potential future earnings. We cannot guarantee that we will have access to such capital on favorable terms at the desired times, or at all, which may cause us to curtail our investment activities and/or to dispose of assets at inopportune times, and could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

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Complying with REIT requirements may affect our profitability and may force us to liquidate or forgo otherwise attractive investments.

To qualify as a REIT, we must continually satisfy tests concerning, among other things, the nature and diversification of our assets, the sources of our income and the amounts we distribute to our stockholders. We may be required to liquidate or forgo otherwise attractive investments in order to satisfy the asset and income tests or to qualify under certain statutory relief provisions. We also may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution. As a result, having to comply with the distribution requirement could cause us to: (i) sell assets in adverse market conditions; (ii) borrow on unfavorable terms; or (iii) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt. Accordingly, satisfying the REIT requirements could have an adverse effect on our business results, profitability and ability to execute our business plan. Moreover, if we are compelled to liquidate our investments to meet any of these asset, income or distribution tests, or to repay obligations to our lenders, we may be unable to comply with one or more of the requirements applicable to REITs or may be subject to a 100% tax on any resulting gain if such sales constitute prohibited transactions.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

Income from “qualified dividends” payable to U.S. stockholders that are individuals, trusts and estates are generally subject to tax at preferential rates. Dividends payable by REITs, however, generally are not eligible for the preferential tax rates applicable to qualified dividend income. Although these rules do not adversely affect the taxation of REITs or dividends payable by REITs, to the extent that the preferential rates continue to apply to regular corporate qualified dividends, investors who are individuals, trusts and estates may perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could materially and adversely affect the value of the shares of REITs, including the per share trading price of our securities.

The power of the Board of Directors to revoke our REIT election without stockholder approval may cause adverse consequences to our stockholders.

Our organizational documents permit our Board of Directors to revoke or otherwise terminate our REIT election, without the approval of our stockholders, if the Board of Directors determines that it is no longer in our best interest to continue to qualify as a REIT. In such a case, we would become subject to U.S. federal, state and local income tax on our net taxable income and we would no longer be required to distribute most of our net taxable income to our stockholders, which could have adverse consequences on the total return to our stockholders.

Our ownership of and relationship with our taxable REIT subsidiaries will be limited, and a failure to comply with the limits would jeopardize our REIT status and may result in the application of a 100% excise tax.

Subject to certain restrictions, a REIT may own up to 100% of the stock of one or more taxable REIT subsidiaries. A taxable REIT subsidiary may earn income that would not be qualifying income if earned directly by the parent REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a taxable REIT subsidiary. A corporation of which a taxable REIT subsidiary directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a taxable REIT subsidiary. Overall, no more than 20% (25% with respect to the REIT's taxable years ending after December 31, 2009 and on or before December 31, 2017) of the value of a REIT’s assets may consist of stock or securities of one or more taxable REIT subsidiaries. A taxable REIT subsidiary generally will pay income tax at regular corporate rates on any taxable income that it earns. In addition, the taxable REIT subsidiary rules limit the deductibility of interest paid or accrued by a taxable REIT subsidiary to its parent REIT to assure that the taxable REIT subsidiary is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on certain transactions between a taxable REIT subsidiary and its parent REIT that are not conducted on an arm’s-length basis.

Our taxable REIT subsidiaries are subject to normal corporate income taxes. We continuously monitor the value of our investments in taxable REIT subsidiaries for the purpose of ensuring compliance with the rule that no more than 20% or 25% (as applicable) of the value of our assets may consist of taxable REIT subsidiary stock and securities (which is applied at the end of each calendar quarter). The aggregate value of our taxable REIT subsidiary stock and securities is less than 25% of the value of our total assets (including our taxable REIT subsidiary stock and securities) as of December 31, 2016. In addition, we will scrutinize all of our transactions with our taxable REIT subsidiaries for the purpose of ensuring that they are entered into on arm’s-length terms in order to avoid incurring the 100% excise tax described above. There are no distribution requirements applicable to the taxable REIT subsidiaries and after-tax earnings may be retained. There can be no assurance, however, that we will be able to comply with the 20% or 25% limitation (as applicable) on ownership of taxable REIT subsidiary stock and

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securities on an ongoing basis so as to maintain REIT status or to avoid application of the 100% excise tax imposed on certain non-arm's-length transactions.

Certain provisions of Maryland law could inhibit changes in control.

Certain provisions of the Maryland General Corporation Law ("MGCL"), may have the effect of inhibiting a third party from making a proposal to acquire us or impeding a change of control under circumstances that otherwise could provide our stockholders with the opportunity to realize a premium over the then-prevailing market price of our Common Stock, including:

- "business combination" provisions that, subject to limitations, prohibit certain business combinations between us and an "interested stockholder" (defined generally as any person who beneficially owns, directly or indirectly, 10% or more of the voting power of our shares or an affiliate thereof) for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter impose special appraisal rights and special stockholder voting requirements on these combinations; and
- "control share" provisions that provide that "control shares" of our Company (defined as shares which, when aggregated with other shares controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a "control share acquisition" (defined as the direct or indirect acquisition of ownership or control of "control shares") have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

We have elected to opt out of these provisions of the MGCL, in the case of the business combination provisions of the MGCL, by resolution of our Board of Directors, and in the case of the control share provisions of the MGCL, pursuant to a provision in our bylaws. However, our Board of Directors may by resolution elect to repeal the foregoing opt-outs from the business combination provisions of the MGCL and we may, by amendment to our bylaws, opt in to the control share provisions of the MGCL in the future.

Our charter, bylaws, the partnership agreement for CIM Urban and Maryland law also contain other provisions that may delay, defer or prevent a transaction or a change of control that might involve a premium price for our Common Stock or otherwise be in the best interest of our stockholders.

We are controlled by an affiliate of CIM Group.

Urban II, an affiliate of CIM Group, beneficially owns shares of our Common Stock that, together with shares held by other affiliates of CIM Group and our executive officers and directors, represents approximately 98.0% of the total voting power of the Company, as of March 9, 2017. For so long as affiliates of CIM Group continue to own a significant percentage of our stock, CIM Group will be able to significantly influence the composition of our Board of Directors and the approval of actions requiring stockholder approval. Accordingly, CIM Group will have significant influence with respect to our management, business plans and policies, including the appointment and removal of our officers. In particular, CIM Group will be able to cause or prevent a change of control of the Company or a change in the composition of our Board of Directors and could preclude any unsolicited acquisition of the Company. The concentration of ownership could deprive our stockholders of an opportunity to receive a premium for their shares of Common Stock as part of a sale of the Company and ultimately might affect the market price of our Common Stock.

We are a "controlled company" within the meaning of the rules of the NASDAQ Stock Market LLC and, as a result, qualify for, and currently rely on, exemptions from certain corporate governance requirements. Holders of our Common Stock and Series A Preferred Stock do not have the same protections afforded to stockholders of companies that are subject to such requirements.

Affiliates of CIM Group control a majority of the total voting power in the election of our directors. As a result, we are a “controlled company” within the meaning of the rules of the NASDAQ Stock Market LLC. Under these rules, a company of which more than 50% of the voting power in the election of directors is held by an individual, group or another company is a “controlled company” and may elect not to comply with certain corporate governance requirements, including the requirements that (i) a board be comprised of a majority of “independent directors,” as defined under the rules of the NASDAQ Stock Market LLC, (ii) a compensation committee be comprised entirely of independent directors and (iii) nomination decisions be made either by independent directors constituting a majority of the independent directors in a vote in which only independent directors participate, or a nomination committee comprised entirely of independent directors.

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As of December 31, 2016, we availed ourselves of these exemptions. As a result, our Board of Directors is not comprised of a majority of independent directors, we do not have a compensation committee, and our nomination decisions are made by our entire Board of Directors. Accordingly, investors in our Common Stock do not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of the NASDAQ Stock Market LLC.

Our future success depends on the Manager and the Advisor, their respective key personnel and their access to the investment professionals of CIM Group. We may not find suitable replacements if such key personnel or investment professionals leave the employment of the Manager, the Advisor or other applicable affiliates of CIM Group or if such key personnel or investment professionals otherwise become unavailable to us.

We rely on the Manager to provide management and administration services to us, and CIM Urban relies completely on the Advisor to provide CIM Urban with investment advisory services.

Our executive officers also serve as officers or employees of the Manager and/or the Advisor or other applicable affiliates of CIM Group. The Manager and the Advisor have significant discretion as to the implementation of investment and operating policies and strategies on behalf of us and CIM Urban. Accordingly, we believe that our success depends to a significant extent upon the efforts, experience, diligence, skill and network of business contacts of the officers and key personnel of the Manager, the Advisor and the other applicable affiliates of CIM Group. The departure of any of these officers or key personnel could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

We also depend on access to, and the diligence, skill and network of, business contacts of the professionals within CIM Group and the information and deal flow generated by its investment professionals in the course of their investment and portfolio management activities. The departure of any of these individuals, or of a significant number of the investment professionals or principals of CIM Group, could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock. We cannot guarantee that we will continue to have access to CIM Group’s investment professionals or its information and deal flow.

The Manager and the Advisor and certain of their affiliates manage or otherwise provide services to our business and our subsidiaries’ businesses pursuant to the Master Services Agreement and the Investment Management Agreement. Notwithstanding the fact that these agreements provide broad discretion, authority and the payment of fees to the Manager or the Advisor, as applicable, the Master Services Agreement may be assigned by the Manager in certain circumstances without our consent and neither agreement may be terminated by us, except in the case of the Master Services Agreement, in limited circumstances for cause, either or both of which may have a material adverse effect on us.

We and our lending subsidiaries are parties to the Master Services Agreement pursuant to which the Manager provides, or arranges for other service providers to provide, management and administrative services to us and all of our direct and indirect subsidiaries. We are obligated to pay the Manager the Base Service Fee (see "Item 1—Business—Master Services Agreement) and market rate transaction fees for transactional and other services that the Manager elects to provide to us. Pursuant to the terms of the Master Services Agreement, the Manager has the right to provide any transactional services to us that we would otherwise engage a third party to provide.

Pursuant to the terms of the Master Services Agreement, the Manager may also recommend new business opportunities to us for our approval and will make a recommendation as to whether each such new business should be internally managed or externally managed and if externally managed, the external manager and the terms of the management agreement. If the proposed external manager is to be the Manager, our independent directors must approve the decision to make such new business externally managed and the terms of the applicable management agreement. If such new business is to be internally managed, the Manager will oversee the hiring of personnel and the implementation of internal management as a transactional service.

The Master Services Agreement continues in full force and effect until December 31, 2018, and thereafter will renew automatically each year. We may generally only terminate the Master Services Agreement for the Manager’s material breach of the Master Services Agreement, fraud, gross negligence or willful misconduct or if in certain limited circumstances, a change of control of the Manager occurs that our independent directors determine to be materially detrimental to us and our subsidiaries as a whole. We do not have the right to terminate the Master Services Agreement solely for the poor performance of our operations or any investment made by us on the recommendation of the Manager. In addition, CIM Urban does not have the right to terminate the Investment Management Agreement under any circumstances. Moreover, any removal of Urban GP Manager as manager of CIM Urban GP pursuant to the Master Services Agreement or the CIM Urban Partnership Agreement will not affect the rights of the Manager under the Master Services Agreement or the Advisor under the Investment Management Agreement. Accordingly, the Manager will continue to provide the Base Services and receive the Base Service Fee, and the Manager or the applicable service provider will continue to provide the transactional services and receive related transaction fees, under the Master Services Agreement, and the Advisor will continue to receive the management fee under the Investment Management Agreement.

Further, the Master Services Agreement may be assigned by the Manager without our consent in the case of an assignment by the Manager to an affiliate or an entity that is a successor through merger or acquisition of the business of the Manager. In certain circumstances, including the merger or other acquisition of the business of the Manager, the amount of fees being paid pursuant to the agreements or the poor performance by the Manager, we may desire to terminate one or more of the management agreements. As a result of the limited termination rights under these agreements, we may not have the right to terminate such agreement(s), which could have a material adverse effect on us. See "Item 1— Business—Master Services Agreement."

The Manager's and Advisor's fees are payable regardless of our performance, which may reduce their incentive to devote time and resources to our portfolio.

Pursuant to the Master Services Agreement, the Manager is entitled to receive the Base Service Fee, regardless of our performance, and is also entitled to receive fees related to the provision of transactional and other services. The Advisor is entitled to receive an asset management fee based upon the adjusted fair value of CIM Urban's assets, including any assets acquired by CIM Urban in the future. See "Item 1— Business—Investment Management Agreement." The Manager's and the Advisor's entitlement to substantial non-performance based compensation might reduce their incentive to devote their time and effort to seeking profitable opportunities for our portfolio.

The Advisor's fees are based on the adjusted fair value of CIM Urban's assets, including any assets acquired by CIM Urban in the future. This fee arrangement may lead the Advisor to recommend riskier investments regardless of their long-term performance in an effort to maximize its compensation.

The Advisor's fees are based on the adjusted fair value of CIM Urban's assets, including any assets acquired by CIM Urban in the future, which may provide incentive for the Advisor to invest in assets that are riskier investments regardless of their performance. Because these fees are based on the adjusted fair value, the Advisor will benefit when CIM Urban, or we on its behalf, incurs debt or uses leverage. Consequently, the Advisor may recommend investments that are not necessarily in the best interest of our stockholders in order to maximize its compensation.

Each of the Manager and the Advisor undertakes its services to us under very broad mandates; in particular, the Advisor has broad discretion with respect to CIM Urban's investments, and the Board of Directors does not approve each investment, disposition and financing decision made by the Advisor, which may result in CIM Urban's making riskier investments than those currently comprising its investment portfolio.

The Manager, under the Master Services Agreement, and the Advisor, under the Investment Management Agreement, have broad discretion and authority over our day-to-day operations and investments. While our directors periodically review the performance of our businesses, they do not review all decisions made by the Manager and the Advisor, including proposed investments, dispositions or the implementation of other strategic initiatives. In addition, in conducting reviews of our businesses, our directors may rely primarily on information provided to them by the Manager or the Advisor, as the case may be. The Manager and the Advisor may cause us to enter into significant transactions or undertake significant activities that may be difficult or impossible to unwind or exit by the time they are reviewed by our directors. Each of the Manager and the Advisor has great latitude in the implementation of our strategies, including determining the types of assets that are proper investments for us, which could result in investment returns that are substantially below expectations or that result in losses, which could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock. Decisions made and investments entered into by the Advisor may not fully reflect the best interests of our stockholders.

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The Advisor may change its investment process, or elect not to follow it, without stockholder consent at any time, which may adversely affect our investments.

The Advisor may change its investment process and philosophy without stockholder consent at any time. In addition, there can be no assurance that the Advisor will follow its investment process in relation to the identification and acquisition or origination of prospective investments. Changes in the Advisor’s investment process and/or philosophy may result in inferior, among other things, due diligence and transaction standards, which may adversely affect the performance of our assets and investment portfolio.

The Advisor, the Manager and their respective affiliates engage in additional management or investment opportunities which may compete with us and our subsidiaries, which could result in decisions that are not in the best interests of our stockholders.

The Investment Management Agreement with the Advisor and the Master Services Agreement with the Manager do not prevent the Advisor and the Manager, as applicable, and their respective affiliates from engaging in additional management or investment opportunities, some of which could compete with us and our subsidiaries. The Advisor, the Manager and their respective affiliates engage in additional management or investment opportunities that have objectives that overlap with our own, and may thus face conflicts in the allocation of investment opportunities to these other investments. Allocation of investment opportunities is at the discretion of the Advisor and/or the Manager and there is no guarantee that this allocation will be made in the best interest of our stockholders.

There may be conflicts of interest in allocating investment opportunities to CIM Urban and other funds, investment vehicles and ventures managed by the Advisor. For example, the Advisor serves as the investment manager of private funds formed to invest in substantially stabilized real estate and real estate-related assets located in urban areas that CIM Group has already qualified for investment. There may be a significant overlap in the assets and investment strategies between us and such funds, and many of the same investment personnel will provide services to both entities. Further, the Advisor and its affiliates may form funds or sponsor investment vehicles and ventures that have overlapping objectives with CIM Urban and therefore may compete with CIM Urban for investment opportunities. The ability of the Advisor, the Manager and their officers and employees to engage in other business activities, including the management of other investment vehicles sponsored by CIM Group, may reduce the time the Advisor and the Manager spend managing our activities.

Certain of our directors and executive officers may face conflicts of interest related to positions they hold with the Advisor, the Manager, CIM Group and their affiliates, which could result in decisions that are not in the best interest of our stockholders.

Some of our directors and executive officers are also part-owners, officers and/or directors of the Advisor, the Manager, CIM Group and their affiliates. As a result, they may owe fiduciary duties to these various other entities and their equity owners, which fiduciary duties may from time to time conflict with the duties they owe to us. Further, these multiple responsibilities may create conflicts of interest for these individuals if they are presented with opportunities that may benefit us and our other affiliates. The individuals may be incentivized to allocate investment opportunities to other entities rather than to us. Their loyalties to other affiliated entities could result in actions or inactions that are detrimental to our business, strategy and investment opportunities.

The business of CIM Urban is managed by Urban GP Manager and we agreed in the Master Services Agreement to appoint an affiliate of CIM Group as the manager of the general partner of CIM Urban; in addition, the general partner of CIM Urban can be removed from that position under certain circumstances as provided in the CIM Urban Partnership Agreement.

Pursuant to the Master Services Agreement, we agreed to appoint an affiliate of CIM Group as the manager of the general partner of CIM Urban. While currently that designated entity, Urban GP Manager, is an affiliate of CIM Group, there can be no assurances that a different entity would not be appointed the manager of the general partner of CIM Urban in the future. Moreover, we may only remove the Urban GP Manager as the manager of CIM Urban GP for “cause” (as defined in the Master Services Agreement). Removal for “cause” also requires the approval of the holders of at least 66 2/3% of our outstanding shares (excluding for this purpose any shares held by the Manager and any affiliates of the Manager, except to the extent set forth in the immediately following sentence). Notwithstanding the foregoing, CIM REIT has the right to vote any shares of our Common Stock that it owns with respect to any vote held to remove the Urban GP Manager as the manager of the CIM Urban GP; provided, however, if any such removal vote is held after the second anniversary of the Master Services Agreement, CIM REIT must obtain voting instructions from certain of its non-affiliated investors with respect to voting the shares beneficially owned by such non-affiliated investors and CIM REIT must vote the number of shares beneficially owned

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by each such non-affiliated investor as so instructed by such non-affiliated investor. Upon removal, a replacement manager will be appointed by the independent directors. Finally, under the CIM Urban Partnership Agreement, the general partner of CIM Urban may be removed under certain circumstances with the consent of 66 2/3% of the class A members of CIM REIT.

Subject to the limitations set forth in the governing documents of CIM Urban and CIM Urban GP, Urban GP Manager is given the power and authority under the Master Services Agreement to manage, to direct the management, business and affairs of and to make all decisions to be made by or on behalf of (1) CIM Urban GP and (2) CIM Urban. Subject to the other terms of the CIM Urban Partnership Agreement, CIM Urban GP has broad discretion over the operations of CIM Urban. Accordingly, while we own indirectly all of the partnership interests in CIM Urban, except as set forth in the Master Services Agreement and the rights specifically reserved to limited partners by the CIM Urban Partnership Agreement and applicable law, we will have no part in the management and control of CIM Urban.

The CIM Urban Partnership Agreement contains provisions that give rights to certain unaffiliated members of CIM REIT to influence the business and operations of CIM Urban; such members may have interests that are adverse to our stockholders and the exercise of such rights may negatively impact the rights of our stockholders, or our business.

The CIM Urban Partnership Agreement requires the consent of a majority in interest of certain members of CIM REIT in order to amend the CIM Urban Partnership Agreement; the Investment Management Agreement can be amended only with the consent of at least 66 2/3% of the class A members of CIM REIT who are not affiliates of CIM Urban GP. As noted above, in certain situations, upon a two-thirds vote of certain members of CIM REIT, the CIM Urban GP may be removed and replaced. The refusal to permit amendment of the CIM Urban Partnership Agreement or the removal of the general partner by the members of CIM REIT may adversely impact us.

The Manager’s and the Advisor’s liability is limited under the Master Services Agreement and the Investment Management Agreement, respectively, and we have agreed to indemnify the Manager against certain liabilities and CIM Urban has agreed to indemnify the Advisor against certain liabilities. As a result, we could experience poor performance or losses for which neither the Manager nor the Advisor would be liable.

Pursuant to the Master Services Agreement, the Manager does not assume any responsibility other than to render the services called for thereunder in good faith and will not be responsible for any action of our Board of Directors in following or declining to follow its advice or recommendations. Under the terms of the Master Services Agreement, neither the Manager nor any of its affiliates providing services under the Master Services Agreement will be liable to us, any subsidiary of ours party to the Master Services Agreement, any governing body of any such entity, including any director or officer, or any of our or such subsidiaries’ stockholders or partners for acts or omissions pursuant to or in accordance with the Master Services Agreement, except by reason of acts or omissions constituting fraud, willful misconduct, gross negligence or violation of certain laws or any other intentional or criminal wrongdoing or breach of the Master Services Agreement. Moreover, the aggregate liability of any such entities and persons pursuant to the Master Services Agreement is capped at the Base Service Fee and transaction fees previously paid to the Manager in the two most recent calendar years. In addition, we have agreed to indemnify our Manager and any of its affiliates providing services under the Master Services Agreement, any affiliates of the Manager and any directors, officers, stockholders, agents, subcontractors, contractors, delegates, members, partners, shareholders, employees and other representatives of each of them from and against all actions, suits, investigations, proceedings or claims except to the extent resulting from such person’s fraud, willful misconduct, gross negligence or violation of certain laws or any other intentional or criminal wrongdoing or breach of the Master Services Agreement.

Pursuant to the Investment Management Agreement, the Advisor is not liable to CIM Urban, CIM Urban GP or any manager or director of CIM Urban GP for, among other things, (1) any act or omission performed or omitted by it or for any costs, damages or liabilities arising therefrom, in the absence of fraud, gross negligence, willful misconduct or a breach of the Investment Management Agreement or (2) any losses due to the negligence of any employees, brokers, or other agents of CIM Urban. In addition, CIM Urban has agreed to indemnify the Advisor against any losses, claims, damages or liabilities to which it may become subject in connection with, among other things, (1) any act or omission performed or omitted by it or for any costs, damages or liabilities arising therefrom, in the absence of fraud, gross negligence, willful misconduct or a breach of the Investment Management Agreement or (2) any losses due to the negligence of any employees, brokers, or other agents of CIM Urban.

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If we seek to internalize the management functions provided pursuant to the Master Services Agreement and the Investment Management Agreement, there is no assurance that we could reach agreements with the Manager and the Advisor and we could incur substantial costs and lose certain key personnel.

At some point in the future, the Board of Directors may determine that it is in our best interest to become self-managed by internalizing the functions performed by the Manager and the Advisor and to terminate the Master Services Agreement and the Investment Management Agreement. However, we do not have the unilateral right to terminate the Master Services Agreement and CIM Urban does not have the unilateral right to terminate the Investment Management Agreement, and neither the Manager nor the Advisor would be obligated to enter into an internalization transaction with us. There is no assurance that a mutually acceptable agreement with these entities as to the terms of the internalization could be reached. In addition, the costs that we would incur in any such internalization transaction are uncertain and could be substantial.

Further, if we were to internalize these management functions, certain key employees may not become our employees but may instead remain employees of the Manager and the Advisor or their respective affiliates, especially if the management functions are internalized but the Manager and the Advisor are not acquired by us. An inability to manage an internalization transaction could effectively result in us incurring excess costs and suffering deficiencies in our disclosure controls and procedures or our internal control over financial reporting. These deficiencies could cause us to incur additional costs, and management’s attention could be diverted from most effectively managing our investments, which could result in us incurring unanticipated costs in connection with any internalization transaction.

If we were deemed an investment company under the Investment Company Act, applicable restrictions could make it impractical for us to continue our business as contemplated and could have an adverse effect on our business.

We are not an investment company under the Investment Company Act, and intend to conduct our operations so that we will not be deemed an investment company. However, if we were to be deemed an investment company, restrictions imposed by the Investment Company Act, including limitations on the nature of investments and ability to transact with affiliates, could make it impractical for us to continue our business as contemplated. In addition, the Investment Company Act imposes certain requirements on companies deemed to be within its regulatory scope, including registration as an investment company, adoption of a specific form of corporate structure and compliance with certain burdensome reporting, record keeping, voting, proxy, disclosure and other rules and regulations. In the event of the characterization of us as an investment company, the failure by us to satisfy such regulatory requirements, whether on a timely basis or at all, would, under certain circumstances, also have a material adverse effect on us.

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results.

An effective system of internal control over financial reporting is necessary for us to provide reliable financial reports, prevent fraud and operate successfully as a public company. As part of our ongoing monitoring of internal controls, we may discover material weaknesses or significant deficiencies in our internal controls that we believe require remediation. If we discover such weaknesses, we will make efforts to improve our internal controls in a timely manner. Any system of internal controls, however well designed and operated, is based in part on certain assumptions and can only provide reasonable, not absolute, assurance that the objectives of the system are met. Any failure to maintain effective internal controls, or implement any necessary improvements in a timely manner, could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock, or cause us to not meet our reporting obligations, which could affect our ability to remain listed with NASDAQ. Ineffective internal controls could also cause investors to lose confidence in our reported financial information, which would likely have a negative effect on the trading price of our securities.

Risks Related to Our Common Stock and Series A Preferred Stock

Future sales of shares of our Common Stock may cause the market price of our Common Stock to drop significantly, even if our business is doing well.

Urban II is entitled to registration rights, subject to certain limitations, with respect to our securities pursuant to the Registration Rights and Lockup Agreement dated March 11, 2014 between us and Urban II (the "Registration Rights and Lockup Agreement"). Urban II is entitled to require us, on up to eight occasions, to register under the Securities Act, shares of our Common Stock it received in connection with the Merger.

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While Urban II was initially subject to lockup restrictions in the Registration Rights and Lockup Agreement, the lockup restrictions have expired and, therefore, CIM REIT may seek to sell or otherwise distribute shares of our Common Stock that it holds. A large volume of sales of shares or other distributions of our Common Stock could decrease the prevailing market price of shares of our Common Stock and could impair our ability to raise additional capital through the sale of equity securities in the future. Even if a substantial number of sales of shares of our Common Stock do not occur, the mere perception of the possibility of these sales could depress the market price of shares of our Common Stock and have a negative effect on our ability to raise capital in the future.

Changes in market conditions could adversely affect the market price of our Common Stock.

As with other publicly traded equity securities, the value of our Common Stock depends on various market conditions, which may change from time to time. In addition to the current economic environment and future volatility in the securities and credit markets, the following market conditions may affect the value of our Common Stock:

- the general reputation of REITs and the attractiveness of our equity securities in comparison to other equity securities, including securities issued by other real estate-based companies;
- our financial performance;
- general stock and bond market conditions;
- government action or regulation, including changes in tax law;
- increases in market interest rates, which may lead investors to expect a higher annual yield from our dividend distributions in relation to the price of shares of our Common Stock;
- changes in federal tax laws;
- our ability to re-lease space as leases expire;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- changes in our credit ratings; and
- any negative change in the level of our dividend or the partial payment thereof in shares of Common Stock.

The market value of our Common Stock is based primarily upon the market's perception of our growth potential and our current and potential future earnings and cash dividends and our capital structure. Consequently, our Common Stock may trade at prices that are higher or lower than our NAV per share of Common Stock. If our future earnings or cash dividends are less than expected, the market price of our Common Stock could diminish.

The limited trading market for our Common Stock subjects our share price to greater volatility and, as a result, a holder of our Common Stock may not be able to resell his or her shares at or above the price paid for them.

Although our Common Stock is listed for trading on NASDAQ, the volume of trading in our Common Stock has been lower than many other companies listed on NASDAQ because, as of March 9, 2017, approximately 98.0% of our Common Stock is presently owned by Urban II, affiliates of CIM Group and our executive officers and directors. See "Item 1A—Risk Factors—We are controlled by an affiliate of CIM Group." A public trading market with depth, liquidity and orderliness depends on the presence in the market of willing buyers and sellers of our Common Stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Limited trading volume may subject our Common Stock to greater price volatility and may make it difficult for investors to sell shares at a price that is attractive to them.

There is no public market for our Series A Preferred Stock or warrants ("Warrants") that are issued in connection with the Series A Preferred Stock and we do not expect one to develop.

There is no public market for our Series A Preferred Stock or Warrants, and we currently have no plan to list these securities on a securities exchange or to include these shares for quotation on any national securities market.

Additionally, our charter contains restrictions on the ownership and transfer of our securities, and these restrictions may inhibit the ability of a holder to sell the Series A Preferred Stock or Warrants promptly or at all. Furthermore, the Warrants will expire on the fifth anniversary of the date of issuance. If a holder of our Series A Preferred Stock and Warrants desires to sell his or her Series A Preferred Stock or Warrants, he or she may only be able to sell them at a substantial discount from the price at which they were purchased.

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The Series A Preferred Stock has not been rated.

We do not plan to obtain a rating for the Series A Preferred Stock, and it is likely the Series A Preferred Stock will never be rated. No assurance can be given, however, that one or more rating agencies will not independently determine to issue such a rating or that such a rating, if issued, will not adversely affect the market price and/or liquidity of the Series A Preferred Stock. In addition, we may elect in the future to obtain a rating of the Series A Preferred Stock, which could adversely impact the market price and/or liquidity of the Series A Preferred Stock. Ratings only reflect the views of the rating agency or agencies issuing the ratings and such ratings could be revised downward, placed on negative outlook or withdrawn entirely at the discretion of the issuing rating agency. While ratings do not reflect market prices or the suitability of a security for a particular investor, such downward revision or withdrawal of a rating could have an adverse effect on the market price and/or liquidity of the Series A Preferred Stock.

Our Common Stock ranks junior to the Series A Preferred Stock with respect to dividends and upon liquidation.

The rights of the holders of shares of Series A Preferred Stock rank senior to the rights of the holders of shares of our Common Stock as to dividends and payments upon liquidation. Unless full cumulative dividends on shares of our Series A Preferred Stock for all past dividend periods have been declared and paid (or set apart for payment), we will not declare or pay dividends with respect to any shares of our Common Stock for any period. Upon liquidation, dissolution or winding up of our Company, the holders of shares of our Series A Preferred Stock are entitled to receive a liquidation preference of the stated value, initially $25 per share ("Stated Value"), plus all accrued but unpaid dividends at the rate of 5.5% per annum, prior and in preference to any dividend distribution to the holders of shares of our Common Stock or any other class of our equity securities.

The terms of our Series A Preferred Stock do not contain any financial covenants.
The terms of our Series A Preferred Stock do not contain any financial covenants such as limitations on indebtedness and distributions. As of December 31, 2016, our total consolidated indebtedness was $967,886,000 and we may incur additional debt in the future. The Series A Preferred Stock is subordinate to all of our existing and future debt and liabilities. Our future debt may include restrictions on our ability to pay dividends to preferred stockholders or make redemptions in the event of a default under such debt agreements or other circumstances. In addition, while the Series A Preferred Stock ranks senior to our Common Stock with respect to payment of dividends and distributions upon liquidation, dissolution or winding up, we are allowed to pay dividends on our Common Stock so long as we are current in the payment of dividends on shares of our Series A Preferred Stock. Further, the terms of our Series A Preferred Stock do not restrict our ability to repurchase shares of our Common Stock. Such dividends on or repurchases of our Common Stock may reduce the amount of cash on hand to pay the redemption price of our Series A Preferred Stock in cash (if we so choose).

We have the option to redeem shares of Series A Preferred Stock under certain circumstances without the consent of the holder of such shares.

From and after the fifth anniversary of the date of original issuance of any shares of Series A Preferred Stock, we will have the right (but not the obligation) to redeem shares of our Series A Preferred Stock at 100% of the Stated Value, plus any accrued but unpaid dividends. We have the right, in our sole discretion, to pay the redemption price 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.

The cash dividend distributions received by holders of Common Stock or Series A Preferred Stock may be less frequent or lower in amount than expected by such holders.

Our Board of Directors will determine the amount and timing of dividend distributions on our Common Stock and Series A Preferred Stock. In making this determination, our Board of Directors will consider all relevant factors, including the amount of cash resources available for dividend distributions, capital spending plans, cash flow, financial position, applicable requirements of the MGCL and any applicable contractual restrictions. We cannot assure that we will be able to consistently generate sufficient available cash flow to fund dividend distributions on our Common Stock or Series A Preferred Stock, nor can we assure that sufficient cash will be available to make dividend distributions on the Common Stock or Series A Preferred Stock. We cannot predict the amount of dividend distributions holders of Common Stock or Series A Preferred Stock may receive and we may be unable to pay, maintain or increase dividend distributions over time.

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The ownership percentage of holders of Common Stock and Series A Preferred Stock may be diluted if we issue new shares of Common Stock or other securities, and issuances of additional preferred stock or other securities by us may further subordinate the rights of the holders of our Series A Preferred Stock and Common Stock (which holders of Series A Preferred Stock may become upon receipt of redemption payments in shares of our Common Stock or exercise of any of their Warrants into Common Stock).

Our Board of Directors is authorized, without stockholder approval, to cause us to issue additional shares of our Common Stock or to raise capital through the issuance of shares of preferred stock, including equity or debt securities convertible into Common Stock, preferred stock, options, warrants and other rights, on such terms and for such consideration as our Board of Directors in its sole discretion may determine. Any such issuance could result in dilution of the equity of our stockholders, as applicable. In addition, our Board of Directors may, in its sole discretion, authorize us to issue Common Stock or other equity or debt securities to persons from whom we purchase properties, as part or all of the purchase price of the property. Our Board of Directors, in its sole discretion, may determine the price of any Common Stock or other equity or debt securities issued in consideration of such properties or services provided, or to be provided, to us.

Our charter also authorizes our Board of Directors, without stockholder approval, to designate and issue one or more classes or series of preferred stock in addition to our Series A Preferred Stock (including equity or debt securities convertible into preferred stock) and to set or change the voting powers, conversion or other rights, preferences, restrictions, limitations as to dividends or other distributions and qualifications or terms or conditions of redemption of each class or series of shares so issued. If any additional preferred stock is publicly offered, the terms and conditions of such preferred stock (including any equity or debt securities convertible into preferred stock) will be set forth in a registration statement registering the issuance of such preferred stock or equity or debt securities convertible into preferred stock. Because our Board of Directors has the power to establish the preferences and rights of each class or series of preferred stock, it may afford the holders of any series or class of preferred stock preferences, powers, and rights senior to the rights of holders of Common Stock or the Series A Preferred Stock. If we ever create and issue additional preferred stock or equity or debt securities convertible into preferred stock with a dividend distribution preference over the Common Stock or the Series A Preferred Stock, payment of any dividend distribution preferences of such new outstanding preferred stock would reduce the amount of funds available for the payment of dividend distributions on our Common Stock and our Series A Preferred Stock. Further, holders of preferred stock are normally entitled to receive a preference payment if we liquidate, dissolve, or wind up before any payment is made to the holders of our Common Stock, likely reducing the amount the holders of our Common Stock would otherwise receive upon such an occurrence. In addition, under certain circumstances, the issuance of additional preferred stock may delay, prevent, render more difficult or tend to discourage, a merger, tender offer, or proxy contest, the assumption of control by a holder of a large block of our securities, or the removal of incumbent management.

In addition, we may make redemption payments under the terms of the Series A Preferred Stock in shares of our Common Stock. Although the dollar amounts of such payments are unknown, the number of shares to be issued in connection with such payments may fluctuate based on the price of our Common Stock. Any sales or perceived sales in the public market of shares of our Common Stock issuable upon such redemption payments could adversely affect the prevailing market prices of shares of our Common Stock. The issuance of shares of our Common Stock upon such redemption payments also may have the effect of reducing our net income per share (or increasing our net loss per share) or reducing our NAV per share of Common Stock. In addition, the existence of Series A Preferred Stock may encourage short selling by market participants because the existence of redemption payments could depress the market price of shares of our Common Stock.

Stockholders have no rights to buy additional shares of stock or other securities if we issue new shares of stock or other securities. We may issue Common Stock, convertible debt or preferred stock pursuant to subsequent public offerings or private placements. Current investors who do not participate in any future stock issuances will experience dilution in the percentage of the issued and outstanding stock they own. In addition, depending on the terms and pricing of any future offerings and the value of our investments, current investors may experience dilution in the book value and fair market value of, and the amount of dividend distributions paid on, their shares of Series A Preferred Stock and/or Common Stock, if any.

Our ability to redeem shares of Series A Preferred Stock may be limited by Maryland law.

Under Maryland law, a corporation may redeem stock as long as, after giving effect to the redemption, the corporation is able to pay its debts as they become due in the usual course (the equity solvency test) and its total assets exceed the sum of its total liabilities plus, unless its charter permits otherwise, the amount that would be needed, if the corporation were to be dissolved at the time of the redemption, to satisfy the preferential rights upon dissolution of stockholders when preferential rights on dissolution are superior to those whose stock is being redeemed (the balance sheet solvency test). If the Company is insolvent at any time when a redemption of shares of Series A Preferred Stock is required to be made, the Company may not be able to effect such redemption.

Our charter and the warrant agreement (the "Warrant Agreement") related to the Warrants issued in conjunction with our Series A Preferred Stock contain restrictions upon ownership and transfer of the Series A Preferred Stock and exercise of the Warrants, which may impair the ability of holders to acquire the Series A Preferred Stock, the Warrants and the shares of our Common Stock upon exercise of the Warrants and upon redemption of Series A Preferred Stock, if the Company elects to pay the redemption price in shares of Common Stock.

Our charter contains restrictions on ownership and transfer of the Series A Preferred Stock and Common Stock that are intended to assist us in maintaining our qualification as a REIT for federal income tax purposes, including a prohibition on the beneficial or constructive ownership of more than 9.8%, in number or value, whichever is more restrictive, of our outstanding shares of capital stock. Additionally, the Warrant Agreement provides that Warrants may not be exercised to the extent such exercise would result in the holder’s beneficial or constructive ownership of more than 9.8%, in number or value, whichever is more restrictive, of our outstanding shares of capital stock.

Holders of our securities are subject to inflation risk.

Inflation is the reduction in the purchasing power of money resulting from the increase in the price of goods and services. Inflation risk is the risk that the inflation-adjusted, or “real,” value of an investment in our Common Stock or Series A Preferred Stock, or the income from that investment, will be worth less in the future. As inflation occurs, the real value of our Common Stock or Series A Preferred Stock and dividends payable on such shares declines because such dividend rates will remain the same.

If market interest rates go up, prospective purchasers of shares of our Common Stock or Series A Preferred Stock may expect a higher dividend rate on their investment. Higher market interest rates would not, however, result in more funds for us to pay dividends and, to the contrary, would likely increase our borrowing costs and potentially decrease funds available for dividends, and higher interest rates will not change the stated dividend rate on the Series A Preferred Stock. Thus, higher market interest rates could cause the market price of our Common Stock or Series A Preferred Stock to decline.

Holders of our securities may be required to recognize taxable income in excess of any cash or other distributions received from us, and Non-U.S. Shareholders could be subject to withholding tax on such amounts.

The Warrant Agreement provides that adjustments may be made to the exercise price or the number of shares of Common Stock issuable upon exercise of the Warrants. In certain cases, such an adjustment could result in the recognition of a taxable dividend to those shares acquired upon exercise of the Warrant even if there was no cash or other distribution from us.

If a Warrant is exercised through a “cashless exercise,” the holder of the warrant may recognize gain or loss.

The Warrant Agreement provides that, in certain cases, a holder may be required to satisfy its obligation to pay the exercise price through a “cashless exercise.” Upon such a cashless exercise, the holder may recognize taxable gain or loss.

The exercise price for our Warrants is established based on the Applicable NAV, and the Applicable NAV may not be indicative of the price at which the shares of Common Stock for which the Warrants may be exercised would trade.

The exercise price of our Warrants is based upon the Applicable NAV. As used herein, “Applicable NAV” means the fair market net asset value of the Company per share of Common Stock as most recently published by the Company at the time of the issuance of the applicable Warrant. The Company determines the Applicable NAV on an annual basis or more frequently if, in the Company’s discretion, significant developments warrant. The Company’s determination of the Applicable NAV is final and binding. The valuation methodologies underlying our NAVs will involve subjective judgments. Valuations of real properties do not necessarily represent the price at which a willing buyer would purchase our properties; therefore, there can be no assurance that we would realize the values underlying our estimated NAVs if we were to sell our assets and distribute the net proceeds to our stockholders. The values of our assets and liabilities are likely to fluctuate over time. The exercise price for Warrants may not be indicative of the price at which the shares of Common Stock for which the Warrants may be exercised would trade or of the proceeds that a stockholder would receive if we were liquidated or dissolved or of the value of our portfolio at the time holders would be able to dispose of their shares.

Shares of Common Stock issuable upon exercise of a Warrant have not been registered under the Securities Act.

If, upon any exercise of any Warrant, a registration statement covering the sale of the Common Stock issuable upon exercise of a Warrant is not effective and an exemption from such registration is not available, the holder of such Warrant may only satisfy its obligation to pay the exercise price through a “cashless exercise.” We have no obligation to file a registration

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statement to register the shares of Common Stock underlying any Warrants.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2016, our real estate portfolio consisted of 31 assets, all of which are fee-simple properties except for one leasehold property. As of December 31, 2016, our 24 office properties (including two parking garages, one of which has street level retail space, and two development sites, one of which is being used as a parking lot), totaling approximately 5.6 million rentable square feet, were 85.7% occupied; our multifamily properties, comprised of 930 units, were 92.0% occupied; and one hotel, which has a total of 503 rooms, had RevPAR of $119.44 for the year ended December 31, 2016.

Office Portfolio Summary as of December 31, 2016

Office

Property	Market	Rentable Square Feet	% Occupied	% Leased (1)	Annualized Rent (2) (in thousands)	Annualized Rent Per Occupied Square Foot
200 S College Street	Charlotte, NC	567,865	90.1 %	90.4 %	$ 12,078	$ 23.60
1 Kaiser Plaza	Oakland, CA	532,059	96.4 %	96.4 %	19,035	37.13
2101 Webster Street	Oakland, CA	472,636	98.9 %	98.9 %	17,601	37.64
980 9th Street	Sacramento, CA	456,266	66.6 %	72.7 %	9,186	30.23
211 Main Street (3)	San Francisco, CA	417,266	100.0 %	100.0 %	12,015	28.80
370 L'Enfant Promenade	District of Columbia	407,321	39.1 %	66.9 %	8,887	55.80
999 N Capitol Street	District of Columbia	321,544	84.0 %	86.3 %	12,209	45.19
899 N Capitol Street	District of Columbia	314,317	74.1 %	84.2 %	11,529	49.49
800 N Capitol Street	District of Columbia	312,759	76.1 %	76.1 %	10,719	45.02
1901 Harrison Street	Oakland, CA	272,908	97.5 %	97.5 %	9,447	35.49
830 1st Street	District of Columbia	247,337	100.0 %	100.0 %	10,859	43.90
1333 Broadway	Oakland, CA	240,051	92.9 %	92.9 %	7,388	33.12

2100 Franklin Street	Oakland, CA	216,666	98.5	%	98.5	%	8,205	38.44
11620 Wilshire Boulevard	Los Angeles, CA	192,818	93.0	%	95.5	%	6,915	38.55
3601 S Congress Avenue (4)	Austin, TX	182,484	94.0	%	95.6	%	5,459	31.84
4750 Wilshire Boulevard	Los Angeles, CA	143,361	100.0	%	100.0	%	3,686	25.71
7083 Hollywood Boulevard	Los Angeles, CA	82,180	97.3	%	97.3	%	3,076	38.45
260 Townsend Street	San Francisco, CA	65,694	78.8	%	78.8	%	3,571	68.97
11600 Wilshire Boulevard	Los Angeles, CA	55,638	80.0	%	82.1	%	2,253	50.62
Lindblade Media Center (5)	Los Angeles, CA	32,428	100.0	%	100.0	%	1,349	41.60
Total Office (20 Properties)		5,533,598	86.1	%	89.6	%	$ 175,467	$ 36.81

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Other Ancillary Properties within Office Portfolio

Property	Market	Rentable Square Feet (Retail)	% Occupied	% Leased (1) (Retail)	Annualized Rent (2) (in thousands)	Annualized Rent Per Occupied Square Foot
1010 8th Street Parking Garage & Retail	Sacramento, CA	31,133	10.7 %	10.7 %	$ 24	$ 7.07
901 N Capitol Street	District of Columbia	N/A (6)	N/A	N/A	N/A	N/A
2353 Webster Street Parking Garage	Oakland, CA	N/A	N/A	N/A	N/A	N/A
2 Kaiser Plaza Parking Lot	Oakland, CA	N/A (7)	N/A	N/A	N/A	N/A
Total Ancillary Office (4 Properties)		31,133	10.7 %	10.7 %	$ 24	$ 7.07

Total Office including Other Ancillary

	Rentable Square Feet	% Occupied	% Leased (1)	Annualized Rent (2) (4) (in thousands)	Annualized Rent Per Occupied Square Foot
Total Office incl. Other Ancillary (24 Properties)	5,564,731	85.7 %	89.1 %	$ 175,491	$ 36.79

(1) Based on leases signed as of December 31, 2016.

(2) Represents gross monthly base rent, as of December 31, 2016, multiplied by twelve. This amount reflects total cash rent before abatements. Where applicable, annualized rent has been grossed up by adding annualized expense reimbursements to base rent.

(3) In February 2017, we entered into an agreement to sell our office building located at 211 Main Street.

(4) 3601 S Congress Avenue consists of ten buildings.

(5) Lindblade Media Center consists of three buildings.

(6) 901 N Capitol Street is a 39,696 square foot parcel of land located between 899 and 999 N Capitol Street. We are entitled to develop a building we have designed with 271,233 rentable square feet.

(7) 2 Kaiser Plaza Parking Lot is a 44,642 square foot parcel of land currently being used as a surface parking lot. We are pursuing entitlements allowing us to develop a building with approximately 440,000 to 840,000 rentable square feet.

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Office Portfolio Detail by Property, Market, and Submarket as of December 31, 2016

Location	Rentable Square Feet	% Occupied		% Leased (1)		Annualized Rent (2) (in thousands)	Annualized Rent Per Occupied Square Foot
NORTHERN CALIFORNIA							
Oakland, CA							
Lake Merritt							
1 Kaiser Plaza	532,059	96.4	%	96.4	%	$ 19,035	$ 37.13
2101 Webster Street	472,636	98.9	%	98.9	%	17,601	37.64
1901 Harrison Street	272,908	97.5	%	97.5	%	9,447	35.49
2100 Franklin Street	216,666	98.5	%	98.5	%	8,205	38.44
2353 Webster Street Parking Garage	N/A	N/A		N/A		N/A	N/A
2 Kaiser Plaza Parking Lot	N/A (6)	N/A		N/A		N/A	N/A
Total Lake Merritt	1,494,269	97.7	%	97.7	%	54,288	37.19
City Center							
1333 Broadway	240,051	92.9	%	92.9	%	7,388	33.12
Total Oakland, CA	1,734,320	97.0	%	97.0	%	61,676	36.66
San Francisco, CA							
South Financial District							
211 Main Street (3)	417,266	100.0	%	100.0	%	12,015	28.80
South of Market							
260 Townsend Street	65,694	78.8	%	78.8	%	3,571	68.97
Total San Francisco, CA	482,960	97.1	%	97.1	%	15,586	33.24
Sacramento, CA							
Downtown/Midtown							
980 9th Street	456,266	66.6	%	72.7	%	9,186	30.23
1010 8th Street Parking Garage & Retail	31,133	10.7	%	10.7	%	24	7.07
Total Sacramento, CA	487,399	63.0	%	68.8	%	9,210	29.98
TOTAL NORTHERN CALIFORNIA	2,704,679	90.9	%	91.9	%	$ 86,472	$ 35.17
SOUTHERN CALIFORNIA							
Los Angeles, CA							
West Los Angeles							
11620 Wilshire Boulevard	192,818	93.0	%	95.5	%	$ 6,915	$ 38.55
11600 Wilshire Boulevard	55,638	80.0	%	82.1	%	2,253	50.62
Lindblade Media Center (4)	32,428	100.0	%	100.0	%	1,349	41.60
Total West Los Angeles	280,884	91.2	%	93.4	%	10,517	41.06
Mid-Wilshire							
4750 Wilshire Boulevard	143,361	100.0	%	100.0	%	3,686	25.71
Hollywood/Sunset							
7083 Hollywood Boulevard	82,180	97.3	%	97.3	%	3,076	38.45
Total Los Angeles, CA	506,425	94.7	%	95.9	%	17,279	36.03
TOTAL SOUTHERN CALIFORNIA	506,425	94.7	%	95.9	%	$ 17,279	$ 36.03

(Continued)

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Office Portfolio Detail by Property, Market, and Submarket as of December 31, 2016 (Continued)

Location	Rentable Square Feet	% Occupied		% Leased (1)		Annualized Rent (2) (in thousands)	Annualized Rent Per Occupied Square Foot
EAST							
Washington, DC							
Capitol Hill							
999 N Capitol Street	321,544	84.0	%	86.3	%	$ 12,209	$ 45.19
899 N Capitol Street	314,317	74.1	%	84.2	%	11,529	49.49
800 N Capitol Street	312,759	76.1	%	76.1	%	10,719	45.02
830 1st Street	247,337	100.0	%	100.0	%	10,859	43.90
901 N Capitol Street	N/A (7)	N/A		N/A		N/A	N/A
Total Capitol Hill	1,195,957	82.6	%	85.9	%	45,316	45.87
Southwest							
370 L'Enfant Promenade	407,321	39.1	%	66.9	%	8,887	55.80
Total Washington, DC	1,603,278	71.6	%	81.1	%	54,203	47.22
Charlotte, NC							
Uptown							
200 S College Street	567,865	90.1	%	90.4	%	12,078	23.60
TOTAL EAST	2,171,143	76.4	%	83.5	%	$ 66,281	$ 39.96
SOUTHWEST							
Austin, TX							
South							
3601 S Congress Avenue (5)	182,484	94.0	%	95.6	%	$ 5,459	$ 31.84
TOTAL SOUTHWEST	182,484	94.0	%	95.6	%	$ 5,459	$ 31.84
TOTAL PORTFOLIO	5,564,731	85.7	%	89.1	%	$ 175,491	$ 36.79

(1) Based on leases signed as of December 31, 2016.

(2) Represents gross monthly base rent, as of December 31, 2016, multiplied by twelve. This amount reflects total cash rent before abatements. Where applicable, annualized rent has been grossed up by adding annualized expense reimbursements to base rent.

(3) In February 2017, we entered into an agreement to sell our office building located at 211 Main Street.

(4) Lindblade Media Center consists of three buildings.

(5) 3601 S Congress Avenue consists of ten buildings.

(6) 2 Kaiser Plaza Parking Lot is a 44,642 square foot parcel of land currently being used as a surface parking lot. We are pursuing entitlements allowing us to develop a building with approximately 440,000 to 840,000 rentable square feet.

(7) 901 N Capitol Street is a 39,696 square foot parcel of land located between 899 and 999 N Capitol Street. We are entitled to develop a building we have designed with 271,233 rentable square feet.

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Multifamily Portfolio Summary as of December 31, 2016

Property	Market	Units	% Occupied (1)		Annualized Rent (2) (in thousands)	Monthly Rent Per Occupied Unit
4649 Cole Avenue (3)	Dallas, TX	334	94.3	%	$ 5,439	$ 1,439
4200 Scotland Street	Houston, TX	308	93.2	%	5,721	1,661
47 E 34th Street	New York, NY	110	85.5	%	5,580	4,947
3636 McKinney Avenue	Dallas, TX	103	92.2	%	1,978	1,735
3839 McKinney Avenue (4)	Dallas, TX	75	86.7	%	1,296	1,661
Total Multifamily (5 Properties)		930	92.0	%	$ 20,014	$ 1,948

(1) Based on number of units occupied as of December 31, 2016.
(2) Represents gross monthly base rent under leases commenced as of December 31, 2016, multiplied by twelve. This amount reflects total cash rent before concessions.
(3) 4649 Cole Avenue consists of fifteen buildings.
(4) 3839 McKinney Avenue consists of two buildings.

Hotel Portfolio Summary as of December 31, 2016

Property	Market	Rooms	% Occupied (1)		Revenue Per Available Room (2)
Sheraton Grand Hotel (3)	Sacramento, CA	503	78.1	%	$ 119.44
Total Hotel (1 Property)		503	78.1	%	$ 119.44

Other Ancillary Properties within Hotel Portfolio

Property	Market	Rentable Square Feet (Retail)	% Occupied (Retail)		% Leased (Retail) (4)		Annualized Rent (Parking and Retail) (5) (in thousands)
Sheraton Grand Hotel Parking Garage & Retail	Sacramento, CA	9,453	88.3	%	88.3	%	$ 1,989
Total Ancillary Hotel (1 Property)		9,453	88.3	%	88.3	%	$ 1,989

(1) Represents trailing 12-month occupancy as of December 31, 2016, calculated as the number of occupied rooms divided by the number of available rooms.
(2) Represents trailing 12-month RevPAR as of December 31, 2016, calculated as room revenue divided by the number of available rooms.
(3) The Sheraton Grand Hotel is part of the Sheraton franchise and is managed by Starwood Hotels and Resorts Worldwide, Inc.
(4) Based on leases signed as of December 31, 2016.
(5) Represents gross monthly contractual rent under parking and retail leases commenced as of December 31, 2016, multiplied by twelve. This amount reflects total cash rent before abatements. Where applicable, annualized rent has been grossed up by adding annualized expense reimbursements to base rent.

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Office Portfolio—Top 10 Tenants by Annualized Rental Revenue as of December 31, 2016

Tenant	Property	Credit Rating (S&P / Moody's / Fitch)	Lease Expiration	Annualized Rent(1) (in thousands)	% of Annualized Rent		Rentable Square Feet	% of Rentable Square Feet	
U.S. Federal Government Agencies (2)	Various	AA+ / Aaa / AAA	2017 - 2026	$ 37,711	21.4	%	864,805	15.5	%
Kaiser Foundation Health Plan, Inc.	1 Kaiser Plaza/2101 Webster Street	AA- / - / A+	2017 - 2027	17,291	9.9	%	469,754	8.4	%
Charles Schwab & Co., Inc.	211 Main Street (3)	A / A2 / A	2028	12,015	6.8	%	417,266	7.5	%
The District of Columbia	899 N Capitol Street	AA / Aa1 / AA	2021	9,109	5.2	%	174,203	3.1	%
Pandora Media, Inc.	2100 Franklin Street/2101 Webster Street	- / - / -	2020	6,980	4.0	%	183,783	3.3	%
Wells Fargo Bank, N.A.	1901 Harrison Street	A / A2 / AA-	2018 - 2023	5,025	2.9	%	147,520	2.7	%
Branch Banking & Trust Company	200 S College Street	A / Aa1 / A+	2017 - 2028	4,771	2.7	%	204,975	3.7	%
Farmers Group, Inc.	4750 Wilshire Boulevard	A+ / A2 / -	2019	3,686	2.1	%	143,361	2.6	%
Neighborhood Reinvestment Corporation	999 N Capitol Street	- / - / -	2023	3,369	1.9	%	67,611	1.2	%
Accenture	370 L'Enfant Promenade/1 Kaiser Plaza	A+ / A1 / A+	2017 - 2018	2,944	1.7	%	55,120	1.0	%
Total for Top Ten Tenants				102,901	58.6	%	2,728,398	49.0	%
All Other Tenants				72,590	41.4	%	2,041,506	36.7	%
Vacant				—	—	%	794,827	14.3	%
Total for Portfolio				$ 175,491	100.0	%	5,564,731	100.0	%

(1) Represents gross monthly base rent, as of December 31, 2016, multiplied by twelve. This amount reflects total cash rent before abatements. Where applicable, annualized rent has been grossed up by adding annualized expense reimbursements to base rent.
(2) Represents 18 different leases at various properties.
(3) In February 2017, we entered into an agreement to sell our office building located at 211 Main Street.

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Office Portfolio—Diversification by NAICS code as of December 31, 2016

NAICS Code	Annualized Rent (1) (in thousands)	% of Annualized Rent		Rentable Square Feet	% of Rentable Square Feet	
Public Administration	$ 54,842	31.2	%	1,264,178	22.8	%
Finance and Insurance	31,659	18.0	%	1,115,671	20.1	%
Professional, Scientific, and Technical Services	27,141	15.4	%	695,531	12.5	%
Health Care and Social Assistance	22,460	12.8	%	590,381	10.6	%
Information	9,963	5.7	%	271,870	4.9	%
Real Estate and Rental and Leasing	6,184	3.5	%	183,745	3.3	%
Other Services (except Public Administration)	6,121	3.5	%	165,733	3.0	%
Educational Services	2,991	1.7	%	94,267	1.7	%
Construction	2,734	1.6	%	49,715	0.9	%
Manufacturing	2,379	1.4	%	62,025	1.1	%
Accommodation and Food Services	2,340	1.3	%	63,311	1.1	%
Arts, Entertainment, and Recreation	2,239	1.3	%	57,931	1.0	%
Administrative and Support and Waste Management and Remediation Services	1,934	1.1	%	79,625	1.4	%
Retail Trade	1,181	0.7	%	40,736	0.7	%
Management of Companies and Enterprises	847	0.5	%	19,072	0.3	%
Wholesale Trade	476	0.3	%	16,113	0.3	%
Vacant	—	—	%	794,827	14.3	%
TOTAL PORTFOLIO	$ 175,491	100.0	%	5,564,731	100.0	%

(1) Represents gross monthly base rent, as of December 31, 2016, multiplied by twelve. This amount reflects total cash rent before abatements. Where applicable, annualized rent has been grossed up by adding annualized expense reimbursements to base rent.

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Office Portfolio—Lease Expiration as of December 31, 2016

Year of Lease Expiration	Square Feet of Expiring Leases	% of Square Feet Expiring		Annualized Rent (1) (in thousands)	% of Annualized Rent Expiring		Annualized Rent Per Occupied Square Foot
2017(2)	373,490	7.8	%	$ 12,115	6.9	%	$ 32.44
2018	453,825	9.5	%	17,296	9.9	%	$ 38.11
2019	522,480	11.0	%	17,549	10.0	%	$ 33.59
2020	505,826	10.6	%	18,385	10.5	%	$ 36.35
2021	706,631	14.8	%	29,551	16.8	%	$ 41.82
2022	362,893	7.6	%	13,703	7.8	%	$ 37.76
2023	345,731	7.2	%	12,965	7.4	%	$ 37.50
2024	48,246	1.0	%	1,619	0.9	%	$ 33.56
2025	385,999	8.1	%	14,333	8.2	%	$ 37.13
2026	347,015	7.3	%	15,862	9.0	%	$ 45.71
Thereafter	717,768	15.1	%	22,113	12.6	%	$ 30.81
Total Occupied	4,769,904	100.0	%	$ 175,491	100.0	%	$ 36.79
Vacant	794,827						
Total Portfolio	5,564,731						

(1) Represents gross monthly base rent, as of December 31, 2016, multiplied by twelve. This amount reflects total cash rent before abatements. Where applicable, annualized rent has been grossed up by adding annualized expense reimbursements to base rent.

(2) Includes 61,210 square feet of month-to-month leases.

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Office Portfolio—Historical Occupancy

Property	December 31, 2016 Rentable Square Feet	Occupancy Rates (1) 2012	2013	2014	2015	2016
200 S College Street	567,865	94.6 %	82.7 %	68.3 %	66.9 %	90.1 %
1 Kaiser Plaza	532,059	89.0 %	90.8 %	91.0 %	96.7 %	96.4 %
2101 Webster Street	472,636	92.9 %	82.8 %	81.9 %	98.9 %	98.9 %
980 9th Street	456,266	84.3 %	80.5 %	83.4 %	64.0 %	66.6 %
211 Main Street (2)	417,266	100.0%	100.0%	100.0%	100.0%	100.0%
370 L'Enfant Promenade	407,321	91.1 %	88.7 %	89.0 %	87.7 %	39.1 %
999 N Capitol Street	321,544	52.6 %	83.1 %	84.0 %	84.0 %	84.0 %
899 N Capitol Street	314,317	62.7 %	51.1 %	52.2 %	73.7 %	74.1 %
800 N Capitol Street	312,759	97.2 %	94.8 %	93.2 %	76.1 %	76.1 %
1901 Harrison Street	272,908	86.8 %	87.0 %	99.4 %	98.2 %	97.5 %
830 1st Street	247,337	100.0%	100.0%	100.0%	100.0%	100.0%
1333 Broadway	240,051	80.7 %	72.1 %	82.6 %	92.9 %	92.9 %
2100 Franklin Street	216,666	54.8 %	73.1 %	83.5 %	96.7 %	98.5 %
11620 Wilshire Boulevard	192,818	66.4 %	65.5 %	84.5 %	91.5 %	93.0 %
3601 S Congress Avenue (3)	182,484	90.6 %	90.7 %	91.1 %	97.4 %	94.0 %
4750 Wilshire Boulevard (4)	143,361	N/A	N/A	100.0%	100.0%	100.0%
7083 Hollywood Boulevard	82,180	92.9 %	96.3 %	96.3 %	97.3 %	97.3 %
260 Townsend Street	65,694	100.0%	100.0%	89.5 %	89.7 %	78.8 %
11600 Wilshire Boulevard	55,638	78.2 %	74.7 %	78.5 %	84.7 %	80.0 %
500 West Santa Ana Boulevard (5)	N/A	100.0%	100.0%	100.0%	N/A	N/A
Lindblade Media Center (6)	32,428	N/A	N/A	100.0%	100.0%	100.0%
1010 8th Street Parking Garage & Retail	31,133	15.8 %	16.3 %	9.9 %	9.6 %	10.7 %
901 N Capitol Street	N/A (7)	N/A	N/A	N/A	N/A	N/A
2353 Webster Street Parking Garage	N/A	N/A	N/A	N/A	N/A	N/A
2 Kaiser Plaza Parking Lot	N/A (8)	N/A	N/A	N/A	N/A	N/A
Total Weighted Average	5,564,731	85.0 %	84.0 %	85.1 %	86.9 %	85.7 %

(1) Historical occupancies for office properties are shown as a percentage of rentable square feet and are based on leases commenced as of December 31st of each historical year.
(2) In February 2017, we entered into an agreement to sell our office building located at 211 Main Street.
(3) 3601 S Congress Avenue consists of ten buildings.
(4) 4750 Wilshire Boulevard was acquired on April 18, 2014.
(5) 500 West Santa Ana Boulevard, with 37,116 rentable square feet, was sold on November 19, 2015.
(6) Lindblade Media Center was acquired on October 21, 2014, and consists of three buildings.
(7) 901 N Capitol Street is a 39,696 square foot parcel of land located between 899 and 999 N Capitol Street. We are entitled to develop a building we have designed with 271,233 rentable square feet.
(8) 2 Kaiser Plaza Parking Lot is a 44,642 square foot parcel of land currently being used as a surface parking lot. We are pursuing entitlements allowing us to develop a building with approximately 440,000 to 840,000 rentable square feet.

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Office Portfolio—Historical Annualized Rents

Property	December 31, 2016 Rentable Square Feet	Annualized Rent Per Occupied Square Foot(1) 2012	2013	2014	2015	2016
200 S College Street	567,865	$22.55	$22.20	$22.61	$23.33	$23.60
1 Kaiser Plaza	532,059	36.68	37.14	36.50	34.24	37.13
2101 Webster Street	472,636	37.68	38.10	38.84	36.76	37.64
980 9th Street	456,266	31.99	31.36	30.47	29.69	30.23
211 Main Street (2)	417,266	28.68	28.78	28.69	28.81	28.80
370 L'Enfant Promenade	407,321	51.21	51.41	51.25	51.94	55.80
999 N Capitol Street	321,544	42.08	42.26	44.18	44.82	45.19
899 N Capitol Street	314,317	46.91	50.22	52.36	50.44	49.49
800 N Capitol Street	312,759	42.68	46.01	45.19	45.36	45.02
1901 Harrison Street	272,908	31.21	33.20	33.74	34.02	35.49
830 1st Street	247,337	39.89	40.73	42.42	42.53	43.90
1333 Broadway	240,051	29.62	28.89	30.17	31.07	33.12
2100 Franklin Street	216,666	38.69	40.96	37.20	37.65	38.44
11620 Wilshire Boulevard	192,818	35.76	35.64	30.50	35.07	38.55
3601 S Congress Avenue (3)	182,484	23.94	25.29	27.28	30.21	31.84
4750 Wilshire Boulevard (4)	143,361	N/A	N/A	25.45	25.03	25.71
7083 Hollywood Boulevard	82,180	32.59	35.37	35.61	38.35	38.45
260 Townsend Street	65,694	31.71	32.48	58.02	64.92	68.97
11600 Wilshire Boulevard	55,638	43.78	43.97	45.89	49.23	50.62
500 West Santa Ana Boulevard (5)	N/A	20.42	20.17	20.40	N/A	N/A
Lindblade Media Center (6)	32,428	N/A	N/A	31.51	39.88	41.60
1010 8th Street Parking Garage & Retail	31,133	5.37	7.16	6.81	6.63	7.07
901 N Capitol Street	N/A (7)	N/A	N/A	N/A	N/A	N/A
2353 Webster Street Parking Garage	N/A	N/A	N/A	N/A	N/A	N/A
2 Kaiser Plaza Parking Lot	N/A (8)	N/A	N/A	N/A	N/A	N/A
Total Weighted Average	5,564,731	$35.39	$36.10	$36.25	$36.75	$36.79

(1) Annualized Rent Per Occupied Square Foot represents annualized gross rent divided by total occupied square feet as of December 31 of each historical year. This amount reflects total cash rent before abatements. Where applicable, annualized rent has been grossed up by adding annualized expense reimbursements to base rent.

(2) In February 2017, we entered into an agreement to sell our office building located at 211 Main Street.

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feet.

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Multifamily Portfolio—Historical Occupancy

		Occupancy Rates (1)				
Property	Units	2012	2013	2014	2015	2016
4649 Cole Avenue (2)	334	92.2 %	93.1 %	88.9 %	93.1%	94.3%
4200 Scotland Street	308	96.4 %	91.9 %	92.2 %	91.2%	93.2%
47 E 34th Street	110	100.0%	100.0%	100.0%	89.1%	85.5%
3636 McKinney Avenue	103	97.1 %	97.1 %	98.1 %	94.2%	92.2%
3839 McKinney Avenue (3)	75	98.7 %	94.7 %	94.7 %	96.0%	86.7%
Total Weighted Average	930	95.6 %	94.1 %	92.8 %	92.4%	92.0%

(1) Historical occupancies for multifamily properties are based on leases commenced as of December 31st of each historical year and were calculated using units and not square feet.
(2) 4649 Cole Avenue consists of fifteen buildings.
(3) 3839 McKinney Avenue consists of two buildings.

Multifamily Portfolio—Historical Annualized Rents

		Monthly Rent Per Occupied Unit (1)				
Property	Units	2012	2013	2014	2015	2016
4649 Cole Avenue (2)	334	$1,188	$1,282	$1,366	$1,404	$1,439
4200 Scotland Street	308	1,740	1,775	1,797	1,768	1,661
47 E 34th Street	110	3,712	3,880	4,188	4,642	4,947
3636 McKinney Avenue	103	1,473	1,529	1,647	1,696	1,735
3839 McKinney Avenue (3)	75	1,479	1,526	1,590	1,597	1,661
Total Weighted Average	930	$1,741	$1,816	$1,919	$1,942	$1,948

(1) Represents gross monthly base rent under leases commenced divided by occupied units as of December 31st of each historical year. This amount reflects total cash rent before concessions.
(2) 4649 Cole Avenue consists of fifteen buildings.
(3) 3839 McKinney Avenue consists of two buildings.

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Multifamily Portfolio Overview as of December 31, 2016

Property	Location	Units	Rentable Square Feet	Year Built	Year Acquired	Annualized Rent (1) (in thousands)	Monthly Rent Per Occupied Unit (2)	% Occupancy (3)
4649 Cole Avenue (4)	Dallas, TX	334	283,438	1994	2010	$ 5,439	$ 1,439	94.3 %
4200 Scotland Street	Houston, TX	308	297,404	2009	2010	5,721	1,661	93.2 %
47 E 34th Street (5)	New York, NY	110	78,085	2009	2011	5,580	4,947	85.5 %
3636 McKinney Avenue	Dallas, TX	103	98,335	2006	2010	1,978	1,735	92.2 %
3839 McKinney Avenue (6)	Dallas, TX	75	68,817	2006	2010	1,296	1,661	86.7 %
Total/Weighted Average		930	826,079					92.0 %

(1) Represents gross monthly base rent under leases commenced as of December 31, 2016, multiplied by twelve. This amount reflects total cash rent before concessions.
(2) Represents gross monthly base rent under leases commenced divided by occupied units as of December 31st of each historical year. This amount reflects total cash rent before concessions.
(3) Based on number of units occupied as of December 31, 2016.
(4) 4649 Cole Avenue consists of fifteen buildings.
(5) Rentable square feet and annualized rent exclude 3,847 rentable square feet of retail, which is 100.0% occupied.
(6) 3839 McKinney Avenue consists of two buildings.

Hotel Portfolio—Historical Occupancy Rates as of December 31, 2016

Hotel Location	Franchise	Rooms	Occupancy (%) (1) 2012	2013	2014	2015	2016
Sacramento, CA	Sheraton	503	73.0%	75.5%	75.3%	77.5%	78.1%
Los Angeles, CA (2) (3)	Holiday Inn	405	N/A	69.0%	89.2%	87.9%	81.1%
Oakland, CA (4)	Courtyard	162	77.7%	79.0%	80.2%	81.9%	74.3%
Weighted Average		1,070	74.2%	75.4%	81.3%	82.1%	78.9%

(1) Historical occupancies for hotel properties are shown as a percentage of rentable rooms and represent the trailing 12-months occupancy as of December 31st of each historical year. For properties sold during the year, occupancy is presented for our period of ownership only.
(2) CIM Urban was the lender to the LAX Holiday Inn and held the first mortgage secured by the property until a subsidiary of CIM Urban submitted the highest bid at a foreclosure auction that took place on October 8, 2013 and subsequently took possession of the LAX Holiday Inn. The 2013 metrics presented above are for a partial year and represent the values for our period of ownership only.
(3) This property was sold in July 2016.
(4) This property was sold in February 2016.

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Hotel Portfolio—Historical Average Daily Rates as of December 31, 2016

Hotel Location	Franchise	Rooms	Average Daily Rate (Price) Per Room/Suite ($) (1)				
			2012	2013	2014	2015	2016
Sacramento, CA	Sheraton	503	$130.82	$129.48	$140.75	$148.24	$152.89
Los Angeles, CA (2) (3)	Holiday Inn	405	N/A	82.25	93.08	100.46	123.24
Oakland, CA (4)	Courtyard	162	122.95	131.83	151.27	173.05	169.58
Weighted Average		1,070	$128.81	$124.70	$122.52	$132.61	$144.06

(1) Represents trailing 12-months average daily rate as of December 31st of each historical year, calculated by dividing the amount of room revenue by the number of occupied rooms. For properties sold during the year, the average daily rate is presented for our period of ownership only.

(2) CIM Urban was the lender to the LAX Holiday Inn and held the first mortgage secured by the property until a subsidiary of CIM Urban submitted the highest bid at a foreclosure auction that took place on October 8, 2013 and subsequently took possession of the LAX Holiday Inn. The 2013 metrics presented above are for a partial year and represent the values for our period of ownership only.

(3) This property was sold in July 2016.

(4) This property was sold in February 2016.

Hotel Portfolio—Historical Revenue per Available Room/Suite as of December 31, 2016

Hotel Location	Franchise	Rooms	Revenue Per Available Room/Suite ($) (1)				
			2012	2013	2014	2015	2016
Sacramento, CA	Sheraton	503	$95.54	$97.74	$105.95	$114.83	$119.44
Los Angeles, CA (2) (3)	Holiday Inn	405	N/A	56.74	83.06	88.35	99.98
Oakland, CA (4)	Courtyard	162	95.57	104.13	121.31	141.72	126.00
Weighted Average		1,070	$95.55	$94.06	$99.61	$108.88	$113.73

(1) Represents trailing 12-months revenue per available room as of December 31st of each historical year, calculated by dividing the amount of room revenue by the number of available rooms. For properties sold during the year, RevPAR is presented for our period of ownership only.

(2) CIM Urban was the lender to the LAX Holiday Inn and held the first mortgage secured by the property until a subsidiary of CIM Urban submitted the highest bid at a foreclosure auction that took place on October 8, 2013 and subsequently took possession of the LAX Holiday Inn. The 2013 metrics presented above are for a partial year and represent the values for our period of ownership only.

(3) This property was sold in July 2016.

(4) This property was sold in February 2016.

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Property Indebtedness as of December 31, 2016

Property	Outstanding Principal Balance (in thousands)	Interest Rate	Maturity Date	Balance Due At Maturity Date (in thousands)	Prepayment/ Defeasance
211 Main Street (6)	$ 26,136	6.65%	7/15/2018	$ 21,136	(1)
4649 Cole Avenue	23,560	5.39%	3/1/2021	21,490	(2)
3636 McKinney Avenue	9,363	5.39%	3/1/2021	8,540	(2)
3839 McKinney Avenue	6,211	5.39%	3/1/2021	5,665	(2)
4200 Scotland Street	29,167	5.18%	6/5/2021	26,232	(3)
1 Kaiser Plaza	97,100	4.14%	7/1/2026	97,100	(4)
2101 Webster Street	83,000	4.14%	7/1/2026	83,000	(4)
2100 Franklin Street	80,000	4.14%	7/1/2026	80,000	(4)
1901 Harrison Street	42,500	4.14%	7/1/2026	42,500	(4)
1333 Broadway	39,500	4.14%	7/1/2026	39,500	(4)
260 Townsend Street	28,200	4.14%	7/1/2026	28,200	(4)
7083 Hollywood Boulevard	21,700	4.14%	7/1/2026	21,700	(4)
830 1st Street	46,000	4.50%	1/5/2027	42,008	(5)
Total/Weighted Average	$ 532,437	4.44%		$ 517,071	

(1) Loan is subject to a prepayment fee equal to the greater of (a) one percent (1%) of the outstanding principal balance of the note or (b) modified yield maintenance.

(2) Loan is prepayable but if prepaid prior to August 31, 2020 is subject to a prepayment fee equal to the greater of (a) one percent (1%) of the principal being prepaid or (b) yield maintenance.

(3) Loan is prepayable but is subject to a prepayment fee equal to the greater of (a) one percent (1%) of the principal amount being prepaid multiplied by the quotient of the number of months until maturity divided by the term of the note or (b) the present value of the loan less the amount being prepaid.

(4) Loan is generally not prepayable prior to April 1, 2026.

(5) Loan is prepayable but is subject to a prepayment fee equal to the greater of (a) one percent (1%) of the principal amount being prepaid multiplied by the quotient of the number of months until maturity divided by the term of the note or (b) the present value of the loan less the principal and accrued interest being prepaid.

(6) In February 2017, we entered into an agreement to sell our office building located at 211 Main Street.

Item 3. Legal Proceedings

We are not currently involved in any material pending or threatened legal proceeding nor, to our knowledge, is any material legal proceeding currently threatened against us, other than routine litigation arising in the ordinary course of business. In the normal course of business we are periodically party to certain legal actions and proceedings involving matters that are generally incidental to our business. While the outcome of these legal actions and proceedings cannot be predicted with certainty, in management's opinion, the resolution of these legal proceedings and actions will not have a material adverse effect on our consolidated financial position, results of operations or cash flow.

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

Marketplace Designation, Sales Price Information and Holders

Shares of our common stock trade on NASDAQ under the ticker symbol "CMCT." The following table sets forth the high and low sales prices by quarter for our Common Stock, as well as the regular dividends per share declared during 2016 and 2015 as reported on NASDAQ.

Quarter Ended	High	Low	Regular Quarterly Dividends Per Share
December 31, 2016	$16.15	$15.14	$0.21875
September 30, 2016	$16.97	$14.54	$0.21875
June 30, 2016	$20.27	$16.01	$0.21875
March 31, 2016	$18.99	$15.14	$0.21875
December 31, 2015	$21.27	$14.72	$0.21875
September 30, 2015	$21.55	$14.31	$0.21875
June 30, 2015	$19.45	$16.90	$0.21875
March 31, 2015	$18.86	$14.50	$0.21875

On March 9, 2017, there were approximately 550 holders of record of our Common Stock, excluding stockholders whose shares were held by brokerage firms, depositories and other institutional firms in "street name" for their customers. The last reported sales price of our Common Stock on March 9, 2017 was $15.85.

2.0% of shares of our Common Stock as of March 9, 2017 were held by non-affiliated stockholders.

Holders of our Common Stock are entitled to receive dividends when and as authorized by the Board of Directors and declared by us. In determining our dividend policy, the Board of Directors considers many factors including the amount of cash resources available for dividend distributions, capital spending plans, cash flow, financial position, applicable requirements of the MGCL and any applicable contractual restrictions. Consequently, the dividend rate on a quarterly basis does not necessarily correlate directly to any individual factor. There can be no assurance that the future dividends declared by our Board of Directors will not differ materially from historical dividend levels. Risks inherent in our ability to pay dividends are further described in "Item 1A—Risk Factors," of this Annual Report on Form 10-K.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information at December 31, 2016 with respect to shares of our Common Stock, either under options or in respect of restricted stock awards that may be issued under existing equity compensation plans, all of which have been approved by our stockholders.

Number of shares of Common Stock remaining

Plan Category	Number of shares of Common Stock to be issued upon exercise of outstanding options	Weighted average exercise price of outstanding options	available for future issuances under equity compensation plans (all in restricted shares of Common Stock)
Equity incentive plan	—	N/A	307,401

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Performance Graph

The information below is not deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 ("Exchange Act") or to the liabilities of Section 18 of the Exchange Act, and will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent the Company specifically incorporates it by reference into such a filing.

The line graph below compares the percentage change in the cumulative total stockholder return on our Common Stock with the cumulative total return of the S&P 500 and the FTSE NAREIT Equity REIT Index. The FTSE NAREIT Equity REIT Index is a free-float adjusted, market capitalization-weighted index of U.S. Equity REITs. The Index includes all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property. In 2014, we transitioned from a mortgage REIT to an equity REIT as a result of the Merger. Therefore, for years prior to 2014, the stock price shown below for CMCT is that of our predecessor, PMC Commercial Trust (ticker symbol "PCC"). All returns assume an investment of $100 on December 31, 2011 and the reinvestment of dividends. The stock price performance shown on the graph is not necessarily indicative of future price performance.

	Period Ending December 31,					
Index	2011	2012	2013	2014	2015	2016
CIM Commercial Trust Corporation	100.00	109.50	140.77	111.01	120.62	126.37
S&P 500	100.00	116.00	153.57	174.60	177.01	198.18
FTSE NAREIT Equity REIT	100.00	118.08	121.15	157.06	161.86	175.95

Source: SNL Financial LC

Recent Sales of Unregistered Securities and Use of Proceeds

None.

Repurchases of Common Stock or Series A Preferred Stock

None.

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Item 6. Selected Financial Data

The following is a summary of our selected financial data as of and for each of the five years in the period ended December 31, 2016. The following data should be read in conjunction with our consolidated financial statements and the notes thereto and "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Form 10-K. The selected financial data presented below has been derived from our audited consolidated financial statements. Certain prior period amounts have been reclassified to conform with the current period presentation.

	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(in thousands, except per share data)				
Total revenues	$265,931	$276,948	$262,827	$235,813	$232,513
Total expenses	273,239	273,122	253,998	221,134	212,716
Bargain purchase gain	—	—	4,918	—	—
Gain on sale of real estate	39,666	3,092	—	—	—
Income from continuing operations before provision for income taxes	32,358	6,918	13,747	14,679	19,797
Provision for income taxes	1,646	806	604	—	—
Net income from continuing operations	30,712	6,112	13,143	14,679	19,797
Net income from discontinued operations (1)	3,853	18,291	11,455	—	—
Net income	34,565	24,403	24,598	14,679	19,797
Net income attributable to noncontrolling interests	(18)	(11)	(220)	(213)	(208)
Net income attributable to the Company	34,547	24,392	24,378	14,466	19,589
Redeemable preferred stock dividends	(9)	—	—	—	—
Net income available to common stockholders	$34,538	$24,392	$24,378	$14,466	$19,589
Funds from operations (FFO) available to common stockholders	$66,840	$93,661	$93,425	$83,110	$89,532
Common dividends (2)	$77,316	$85,389	$85,048	$104,035	$72,987
Common dividends per share (3)	$0.875	$0.875	$0.875	$1.090	$0.765
Weighted average shares of common stock outstanding (3)					
Basic	91,328	97,588	97,173	95,440	95,440
Diluted	91,328	97,588	97,176	95,440	95,440

(1) Net income from discontinued operations represents revenues and expenses from the parts of our lending segment acquired in March 2014 in connection with the Merger, which were discontinued during 2016 and 2015. On December 17, 2015, we sold substantially all of our commercial mortgage loans with a carrying value of $77,121,000 to an unrelated third party and recognized a gain of $5,151,000. On December 29, 2016, we sold our commercial real estate lending subsidiary, which was classified as held for sale and had a carrying value of $27,587,000, which was equal to management's estimate of fair value, to a fund managed by an affiliate of CIM Group. We did not recognize any gain or loss in connection with the transaction. Management's estimate of fair value was determined with assistance from an independent third party valuation firm. In September 2016, we discontinued our efforts to sell the SBA 7 (a) lending platform, and as a result, $1,988,000 and $1,183,000 for the years ended December 31, 2015 and 2014, respectively, has been reclassified from net income from discontinued operations to net income from continuing operations.

(2) Dividends in 2014 do not include PMC Commercial's pre-Merger dividends or the special dividend paid to PMC Commercial's stockholders; however, these amounts do include the dividends paid on the shares of preferred stock issued to Urban II in connection with the Merger on an as converted basis. Dividends in 2012 through the Acquisition Date (March 11, 2014) represent distributions by CIM Urban in respect of its limited partnership interests. Dividends in the year ended December 31, 2013 include five distributions.

(3) Unaudited Pro Forma, as if the shares issued in connection with the Merger occurred on January 1, 2012.

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	At December 31,				
	2016	2015	2014	2013	2012
	(in thousands)				
Total assets (1)	$2,022,884	$2,092,060	$2,088,902	$1,832,349	$1,868,195
Debt (1)	967,886	693,956	644,835	392,977	343,114
Redeemable preferred stock	1,426	—	—	—	—
Equity	966,589	1,297,347	1,359,816	1,376,483	1,466,073

(1) On January 1, 2016, we adopted FASB Accounting Standards Update No. 2015-03, which required our debt issuance costs previously included in deferred rent receivable and charges to be reclassified to debt on our consolidated balance sheets. This change was applied retrospectively to all prior periods presented resulting in a reclassification from total assets to debt of $6,113,000, $5,780,000, $2,128,000 and $2,517,000 for the years ended December 31, 2015, 2014, 2013 and 2012, respectively. Additionally, in September 2016, we discontinued our efforts to sell the SBA 7 (a) lending platform, and we reclassified $37,121,000 and $41,901,000 at December 31, 2015 and 2014, respectively, from liabilities associated with assets held for sale to debt.

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes many forward-looking statements. For cautions about relying on such forward-looking statements, please see "Forward-Looking Statements" at the beginning of this report immediately prior to Item 1. All references to our Common Stock and related per share data have been adjusted in this report to reflect the Reverse Split Amendment.

Executive Summary

The Merger

On July 8, 2013, PMC Commercial entered into the Merger Agreement with CIM REIT, an affiliate of CIM Group, and subsidiaries of the respective parties. CIM REIT was a private commercial REIT and was the owner of CIM Urban. The Merger was completed on March 11, 2014.

The Merger Agreement provided for the business combination of CIM REIT's wholly-owned subsidiary, CIM Urban, and PMC Commercial. Pursuant to the Merger Agreement, Urban II, an affiliate of CIM REIT and CIM Urban, received 4,400,000 shares of newly-issued PMC Commercial common stock and approximately 65,000,000 shares of newly-issued PMC Commercial preferred stock. Following the Merger and subsequent increase in our authorized number of shares, each share of PMC Commercial preferred stock was converted into 1.4 shares of PMC Commercial common stock, resulting in the issuance of 95,440,000 shares of PMC Commercial common stock in the aggregate in connection with the Merger, representing approximately 97.8% of PMC Commercial's outstanding shares of common stock at the time.

All shares of PMC Commercial common stock that were outstanding immediately prior to the closing of the Merger continued to remain outstanding following the Acquisition Date. In addition, stockholders of record of PMC Commercial at the close of the business day prior to the Acquisition Date received a special cash dividend of $27.50 per share of PMC Commercial common stock plus the pro-rata portion of PMC Commercial's regular quarterly cash dividend accrued through the Acquisition Date, each of which was paid on March 25, 2014.

The Merger was accounted for as a reverse acquisition under the acquisition method of accounting with CIM Urban considered to be the accounting acquirer based upon the terms of the Merger Agreement. Based on the determination that CIM Urban was the accounting acquirer in the transaction, CIM Urban allocated the purchase price to the fair value of PMC Commercial’s assets and liabilities as of the Acquisition Date.

On April 28, 2014, PMC Commercial's charter was amended to increase the authorized shares of stock of PMC Commercial from 100,000,000 to 1,000,000,000 shares (of which 900,000,000 are shares of PMC Commercial common stock and 100,000,000 are shares of PMC Commercial preferred stock) and PMC Commercial changed its state of incorporation from Texas to Maryland by means of a merger of PMC Commercial with and into a newly formed, wholly-owned Maryland corporate subsidiary. Also, on April 28, 2014, PMC Commercial Trust changed its name to CIM Commercial Trust Corporation. Our Common Stock is currently traded on NASDAQ under the ticker symbol "CMCT."

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Furthermore, on April 28, 2014, we filed the Reverse Split Amendment to effectuate a one-for-five reverse stock split of our Common Stock, effective April 29, 2014. Pursuant to the reverse stock split, each five shares of Common Stock issued and outstanding immediately prior to the effective time of the reverse stock split were converted into one share of Common Stock. All per share and outstanding share information has been presented to reflect the reverse stock split.

In order to allow CIM Commercial to increase its focus on Class A and creative office investments, our Board of Directors approved a plan in December 2014 for the lending segment that, when completed, would have resulted in the deconsolidation of the lending segment, which at that time was focused on small business lending in the hospitality industry. In July 2015, to maximize value, we modified our strategy from a strategy of selling the lending segment as a whole to a strategy of soliciting buyers for components of the business, including our commercial mortgage loans and the SBA 7(a) lending platform. This change in the sale methodology resulted in the need to extend the period to complete the sale of the remainder of the lending segment beyond one year. On December 17, 2015, pursuant to the modified plan, we sold substantially all of our commercial mortgage loans with a carrying value of $77,121,000 to an unrelated third party and recognized a gain of $5,151,000. In September 2016, we discontinued our efforts to sell the SBA 7(a) lending platform, and the activities related to the SBA 7(a) lending platform have been reclassified to continuing operations for all periods presented. On December 29, 2016, we sold our commercial real estate lending subsidiary, which was classified as held for sale and had a carrying value of $27,587,000, which was equal to management's estimate of fair value, to a fund managed by an affiliate of CIM Group. We did not recognize any gain or loss in connection with the transaction. Management's estimate of fair value was determined with assistance from an independent third party valuation firm.

Business Overview

Our principal business is to invest in, own, and operate Class A and creative office investments 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 believe that the critical mass of redevelopment in such areas creates positive externalities, which enhance the value of substantially stabilized assets in the area. We believe that these assets will provide greater returns than similar assets in other markets, as a result of the improving demographics, public commitment, and significant private investment that characterize these areas.

Our two primary goals are (a) consistently growing our NAV and cash flows per share of Common Stock through our principal business and (b) providing liquidity to our common stockholders at prices reflecting our NAV and cash flow prospects. In that regard, in June 2016 we completed a tender offer for 10 million shares of Common Stock at a price of $21.00 per share of Common Stock, and in September 2016, we repurchased in a privately negotiated transaction, 3,628,116 shares of our Common Stock at $22.00 per share from Urban II. In furtherance of our two primary goals, we anticipate additional such transactions in the future. We are also exploring alternative means of providing liquidity to the stockholders that did not participate in the September 2016 and/or any subsequent private repurchases, to allow those stockholders to receive the economic benefit of such private repurchase(s).

We are managed by affiliates of CIM Group. CIM Group is a vertically-integrated, full-service investment manager with multidisciplinary expertise and in-house research, acquisition, investment, development, finance, leasing, and management capabilities. CIM Group is headquartered in Los Angeles, California and has offices in Oakland, California; Bethesda, Maryland; Dallas, Texas; and New York, New York.

We seek to utilize the CIM platform to acquire and improve assets within CIM's Qualified Communities. We believe assets in these markets provide greater returns as a result of improving demographics, public commitment, and significant private investment within the areas. Over time, we seek to expand our real estate investments in communities targeted by CIM Group for investment, supported by CIM Group's broad real estate investment capabilities, as part of our plan to prudently grow market value and earnings. As a matter of prudent management, we also regularly evaluate each investment within our portfolio as well as our strategies. Such review may result in dispositions when an investment no longer fits our overall objectives or investment strategies or when our view of the market value of such investment is equal to or exceeds its intrinsic value. As a result of such review, we sold an office building in Santa Ana, California in November 2015, a hotel in Oakland, California in February 2016, a hotel in Los Angeles, California in July 2016 and we entered into an agreement in February 2017 to sell an office building in San Francisco, California. Such review is likely to result in additional dispositions in 2017. The net proceeds of such dispositions may be used to provide liquidity to our common stockholders at prices reflecting our NAV and cash flow prospects.

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Properties

As of December 31, 2016, our real estate portfolio consisted of 31 assets, all of which are fee-simple properties except one leasehold property. As of December 31, 2016, our 24 office properties (including two parking garages, one of which has street level retail space, and two development sites, one of which is being used as a parking lot), totaling approximately 5.6 million rentable square feet, were 85.7% occupied; our multifamily properties, comprised of 930 units, were 92.0% occupied; and one hotel, which has a total of 503 rooms, had RevPAR of $119.44 for the year ended December 31, 2016.

Strategy

Our investment strategy is to continue to primarily invest in Class A and creative office investments in vibrant and improving urban communities throughout the United States in a manner that will allow us to increase our NAV and cash flows per share of Common Stock. Our investment strategy is centered around CIM's community qualification process. We believe this strategy provides us with a significant competitive advantage when making urban real estate investments. The qualification process generally takes between six months and five years and is a critical component of CIM's investment evaluation. CIM examines the characteristics of a market to determine whether the district justifies the extensive efforts CIM undertakes in reviewing and making potential investments in its Qualified Communities. Qualified Communities generally fall into one of two categories: (i) transitional urban districts that have dedicated resources to become vibrant urban communities and (ii) well-established, thriving urban areas (typically major central business districts). Qualified Communities are distinct districts which have dedicated resources to become or are currently vibrant communities where people can live, work, shop and be entertained-all within walking distance or close proximity to public transportation. These areas also generally have high barriers to entry, high population density, improving demographic trends and a propensity for growth. CIM believes that a vast majority of the risks associated with making real asset investments are mitigated by accumulating local market knowledge of the community where the investment lies. CIM typically spends significant time and resources qualifying targeted investment communities prior to making any acquisitions. Since 1994, CIM Group has qualified 105 communities and has deployed capital in 63 of these Qualified Communities. Although we may not invest exclusively in Qualified Communities, it is expected that most of our investments will be identified through this systematic process. Our investments may also include side-by-side investments in one or more CIM Group-managed funds as well as a side-by-side or direct investment in a CIM Group-managed debt fund that principally originates loans secured directly or indirectly by commercial real estate properties. Furthermore, as part of our investment strategy, we may invest in or originate loans that are secured directly or indirectly by properties primarily located in Qualified Communities that meet our investment strategy. Such loans may include limited and/or non-recourse junior (mezzanine, B-note or 2nd lien) and senior construction loans that meet our investment strategy or limited and/or non-recourse junior (mezzanine, B-note or 2nd lien) and senior acquisition, bridge or repositioning loans.

CIM seeks to maximize the value of its investments through active asset management. CIM has extensive in-house research, acquisition, investment, development, financing, leasing and property management capabilities, which leverage its deep understanding of urban communities to position properties for multiple uses and to maximize operating income. As a fully integrated owner and operator, CIM’s asset management capabilities are complemented by its in-house property management capabilities. Property managers prepare annual capital and operating budgets and monthly operating reports, monitor results and oversee vendor services, maintenance and capital improvement schedules. In addition, they ensure that revenue objectives are met, lease terms are followed, receivables are collected, preventative maintenance programs are implemented, vendors are evaluated and expenses are controlled. CIM’s Asset Management Committee reviews and approves strategic plans for each investment, including financial, leasing, marketing, property positioning and disposition plans. In addition, the Asset Management Committee reviews and approves the annual business plan for each property, including its capital and operating budget. CIM’s organizational structure provides for investment and asset management continuity through multidisciplinary teams responsible for an asset from the time of the original investment recommendation, through the implementation of the asset's business plan, and any disposition activities.

Lending Segment

In order to allow CIM Commercial to increase its focus on Class A and creative office investments, our Board of Directors approved a plan in December 2014 for the lending segment that, when completed, would have resulted in the deconsolidation of the lending segment, which at that time was focused on small business lending in the hospitality industry. In July 2015, to maximize value, we modified our strategy from a strategy of selling the lending segment as a whole to a strategy of soliciting buyers for components of the business, including our commercial mortgage loans and the SBA 7(a) lending platform. This change in the sale methodology resulted in the need to extend the period to complete the sale of the remainder of the lending segment beyond one year. On December 17, 2015, pursuant to the modified plan, we sold substantially all of our commercial mortgage loans with a carrying value of $77,121,000 to an unrelated third party and recognized a gain of $5,151,000. In September 2016, we discontinued our efforts to sell the SBA 7(a) lending platform, and the activities related to

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the SBA 7(a) lending platform have been reclassified to continuing operations for all periods presented. On December 29, 2016, we sold our commercial real estate lending subsidiary, which was classified as held for sale and had a carrying value of $27,587,000, which was equal to management's estimate of fair value, to a fund managed by an affiliate of CIM Group. We did not recognize any gain or loss in connection with the transaction. Management's estimate of fair value was determined with assistance from an independent third party valuation firm.

Through our SBA 7(a) lending platform, we are a national lender that primarily originates loans to small businesses. We identify loan origination opportunities through personal contacts, internet referrals, attendance at trade shows and meetings, direct mailings, advertisements in trade publications and other marketing methods. We also generate loans through referrals from real estate and loan brokers, franchise representatives, existing borrowers, lawyers and accountants.

Rental Rate Trends

Office Statistics: The following table sets forth occupancy rates and annualized rent per occupied square foot across our office portfolio as of the specified periods:

	As of December 31, 2016	2015	2014
Occupancy	85.7 %	86.9 %	85.1 %
Annualized rent per occupied square foot(1)	$36.79	$36.75	$36.25

(1) Represents gross monthly base rent under leases commenced as of the specified periods, multiplied by twelve. This amount reflects total cash rent before abatements. Total abatements for the years ended December 31, 2016, 2015 and 2014 were $4,251,000, $5,127,000 and $7,312,000, respectively. Where applicable, annualized rent has been grossed up by adding annualized expense reimbursements to base rent. Annualized rent for certain office properties includes rent attributable to retail.

Over the next four quarters, we expect to see expiring cash rents as set forth in the table below:

	For the Three Months Ended March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017
Expiring Cash Rents:				
Expiring square feet(1)	88,270	145,442	57,921	81,857
Expiring rent per square foot(2)	$24.21	$31.89	$ 33.26	$ 41.70

(1) All month-to-month tenants occupying a total of 61,210 square feet are included in the expiring leases in the first quarter listed.

(2) Represents gross monthly base rent, as of December 31, 2016, under leases expiring during the periods above, multiplied by twelve. This amount reflects total cash rent before abatements. Where applicable, annualized rent has been grossed up by adding annualized expense reimbursements to base rent.

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During the year ended December 31, 2016, we executed leases with terms longer than 12 months totaling 1,331,239 square feet. The table below sets forth information on certain of our executed leases during the year ended December 31, 2016, excluding space that was vacant for more than one year.

	Number of Leases (1) (2)	Rentable Square Feet (2)	New Cash Rents per Square Foot (2) (3)	Expiring Cash Rents per Square Foot (2) (3)
Twelve Months Ended December 31, 2016	53	963,177	$ 41.01	$ 33.55

(1) Based on the number of tenants.
(2) Excludes leases for which the space was vacant for longer than one year, month-to-month leases, leases with an original term of less than 12 months, related party leases, and space where the previous tenant was a related party.
(3) Cash rents represent gross monthly base rent, multiplied by twelve. This amount reflects total cash rent before abatements. Where applicable, annualized rent has been grossed up by adding annualized expense reimbursements to base rent.

Fluctuations in submarkets, buildings and terms of the leases cause large variations in these numbers and make predicting the changes in rent in any specific period difficult. Our rental and occupancy rates are impacted by general economic conditions, including the pace of regional and economic growth, and access to capital. Therefore, we cannot give any assurance that leases will be renewed or that available space will be re-leased at rental rates equal to or above the current market rates. Additionally, decreased demand and other negative trends or unforeseeable events that impair our ability to timely renew or re-lease space could have further negative effects on our future financial condition, results of operations and cash flows.

Multifamily Statistics: The following table sets forth occupancy rates and the monthly rent per occupied unit across our multifamily portfolio for the specified periods:

	As of December 31,		
	2016	2015	2014
Occupancy	92.0 %	92.4 %	92.8 %
Monthly rent per occupied unit(1)	$1,948	$1,942	$1,919

(1) Represents gross monthly base rent under leases commenced as of the specified period, divided by occupied units. This amount reflects total cash rent before concessions.

Hotel Statistics: The following table sets forth the occupancy, average daily rate (“ADR”) and RevPAR for the hotel portfolio for the specified periods:

	For the Year Ended December 31,		
	2016	2015	2014
Occupancy(1)	78.9 %	82.1 %	81.3 %
ADR(1)	$144.06	$132.61	$122.52
RevPAR(1)	$113.73	$108.88	$99.61

(1) The Courtyard Oakland and LAX Holiday Inn were sold in February and July 2016, respectively. The occupancy, ADR and RevPAR are presented for our period of ownership only.

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Results of Operations

Comparison of the Year Ended December 31, 2016 to the Year Ended December 31, 2015

Net Income

	Year Ended December 31,		Change	
	2016	2015	$	%
	(dollars in thousands)			
Total revenues	$265,931	$276,948	$(11,017)	(4.0)%
Total expenses	273,239	273,122	117	— %
Gain on sale of real estate	39,666	3,092	36,574	—
Net income from discontinued operations	3,853	18,291	(14,438)	(78.9)%
Net income	34,565	24,403	10,162	41.6 %

Net income increased to $34,565,000, or 41.6%, for the year ended December 31, 2016, compared to $24,403,000 for the year ended December 31, 2015. The increase is primarily attributable to a gain on sale of real estate of $39,666,000 in 2016, as compared to $3,092,000 in 2015, a decrease in corporate general and administrative expenses of $2,390,000 and a decrease of $1,042,000 in transaction costs, partially offset by a decrease of $14,438,000 in net income from discontinued operations, an increase of $11,063,000 in interest expense, a decrease of $2,888,000 in net operating income of our operating segments in continuing operations and an increase of $1,008,000 in asset management and other fees to related parties.

Funds from Operations (“FFO”)

We believe that FFO is a widely recognized and appropriate measure of the performance of a REIT and that it is frequently used by security analysts, investors and other interested parties in the evaluation of REITs, many of which present FFO when reporting their results. FFO represents net income (loss), computed in accordance with GAAP, excluding gains (or losses) from sales of real estate, real estate depreciation and amortization, and adjustments for non-controlling interests. We calculate FFO in accordance with the standards established by the National Association of Real Estate Investment Trusts (“NAREIT”).

Like any metric, FFO should not be used as the only measure of our performance because it excludes depreciation and amortization and captures neither the changes in the value of our real estate properties that result from use or market conditions nor the level of capital expenditures and leasing commissions necessary to maintain the operating performance of our properties, all of which have real economic effect and could materially impact our operating results. Other REITs may not calculate FFO in accordance with the standards established by the NAREIT; accordingly, our FFO may not be comparable to those other REITs’ FFO. Therefore, FFO should be considered only as a supplement to net income as a measure of our performance and should not be used as a supplement to or substitute measure for cash flow from operating activities computed in accordance with GAAP. FFO should not be used as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends.

The following table sets forth a reconciliation of net income available to common stockholders to FFO available to common stockholders:

	Year Ended December 31,

	2016	2015
	(in thousands)	
Net income available to common stockholders	$34,538	$24,392
Depreciation and amortization	71,968	72,361
Gain on sale of depreciable assets	(39,666)	(3,092)
FFO available to common stockholders	$66,840	$93,661

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FFO available to common stockholders was $66,840,000 for the year ended December 31, 2016, a decrease of $26,821,000 compared to $93,661,000 for the year ended December 31, 2015. The decrease was primarily attributable to a decrease of $14,438,000 in net income from discontinued operations, an increase of $11,063,000 in interest expense, a decrease of $2,888,000 in net operating income of our operating segments in continuing operations and an increase of $1,008,000 in asset management and other fees to related parties, which were partially offset by a decrease in corporate general and administrative expenses of $2,390,000 and a decrease of $1,042,000 in transaction costs.

Summary Segment Results

CIM Commercial operates in four segments: office, hotel and multifamily properties and lending. Set forth and described below are summary segment results for our four segments included in continuing operations.

	Year Ended December 31,		Change	
	2016	2015	$	%
	(dollars in thousands)			
Revenues:				
Office	$187,435	$188,270	$(835)	(0.4)%
Hotel	48,379	61,436	(13,057)	(21.3)%
Multifamily	20,303	18,721	1,582	8.5%
Lending	9,814	8,521	1,293	15.2%
Expenses:				
Office	82,451	80,785	1,666	2.1%
Hotel	32,459	41,974	(9,515)	(22.7)%
Multifamily	12,357	12,168	189	1.6%
Lending	5,258	5,727	(469)	(8.2)%

Revenues

Office Revenue: Office revenue includes rental revenues from office properties, expense reimbursements and lease termination income. Office revenue decreased to $187,435,000, or by 0.4%, for the year ended December 31, 2016 compared to $188,270,000 for the year ended December 31, 2015. The decrease is primarily due to a decrease in revenue at certain of our Washington D.C. properties mainly due to expiration of a lease with a large tenant in January 2016, a decrease in revenue at our Sacramento, California property due to expiration of a lease with a large tenant in June 2015, and a decrease in expense reimbursements revenue at one of our Washington D.C. properties. These decreases are partially offset by revenue increases at certain properties in Washington D.C. and California mainly due to a full year of occupancy for certain tenants in 2016 and increased rental rates, as well as the renewal in 2016 of a large lease at market rents at one of our San Francisco properties. Although we signed an approximately 113,000 square foot lease at the Washington D.C. property which experienced the loss of the large tenant in January 2016, the new tenant is not expected to take occupancy until mid-2017. Therefore, we expect the decrease in revenue to be sustained for the first half of 2017 at this property. Further, the pending sale of an office building in San Francisco, if completed, will, and the sale of any additional office properties during 2017 would, cause office revenue to decline in 2017. However, the magnitude of any such decrease cannot be predicted with much accuracy as it will depend on a number of factors such as the number of dispositions that may occur in 2017 and changes to revenue at existing properties.

Hotel Revenue: Hotel revenue decreased to $48,379,000, or by 21.3%, for the year ended December 31, 2016 compared to $61,436,000 for the year ended December 31, 2015. The decrease is primarily due to the sale of our hotel properties in February and July 2016, partially offset by revenue increases at the remaining hotel property due to RevPAR growth resulting from increases in rates and occupancy. Our hotel revenue is expected to decline materially in 2017 as we sold two of our hotels in 2016.

Multifamily Revenue: Multifamily revenue increased to $20,303,000, or by 8.5%, for the year ended December 31, 2016 compared to $18,721,000 for the year ended December 31, 2015. The increase is primarily due to higher revenue as a result of increased rates and a full year of increased occupancy at our New York property in 2016, which we began re-leasing as individual units starting in March 2015 following the termination of the lease by our corporate housing tenant.

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Lending Revenue: Represents revenue from our lending subsidiaries included in continuing operations, including interest income on loans and other loan related fee income. Lending revenue increased to $9,814,000, or by 15.2%, for the year ended December 31, 2016 compared to $8,521,000 for the year ended December 31, 2015. The increase is primarily related to higher revenue as a result of the recognition of accretion for discounts related to increased prepayments on our loans and an increase in premium income from the sale of the guaranteed portion of our SBA 7(a) loans.

Expenses

Office Expenses: Office expenses increased by 2.1% to $82,451,000 for the year ended December 31, 2016 compared to $80,785,000 for the year ended December 31, 2015. The increase is primarily due to an increase in real estate taxes at certain of our California properties, due to supplemental tax assessments received during 2016, and an increase in earthquake insurance premiums at our California properties. The increase at our California properties is partially offset by a decrease in electricity expense at our Washington D.C. properties, a decrease in certain other tenant reimbursable expenses at one of our Washington D.C. properties, and a decrease in expenses associated with our Santa Ana, California property sold in November 2015. Further, the pending sale of an office building in San Francisco, if completed, will, and the sale of any additional office properties during 2017 would, cause office expenses to decline in 2017. However, the magnitude of any such decrease cannot be predicted with much accuracy as it will depend on a number of factors such as the number of dispositions that may occur in 2017 and changes to expenses at existing properties.

Hotel Expenses: Hotel expenses decreased to $32,459,000, or by 22.7%, for the year ended December 31, 2016 compared to $41,974,000 for the year ended December 31, 2015. The decrease is primarily due to the sale of our hotel properties in February and July 2016, partially offset by an increase at our remaining hotel property in operating costs and an increase in real estate taxes due to a reduction in tax accruals during 2015 following the receipt of the actual tax assessment. Our hotel expenses are expected to decline materially in 2017 as we sold two of our hotels in 2016.

Multifamily Expenses: Multifamily expenses increased to $12,357,000, or by 1.6%, for the year ended December 31, 2016 compared to $12,168,000 for the year ended December 31, 2015. The increase is primarily due to an increase in legal fees in 2016 at our New York property, as well as increases in real estate taxes at our Dallas properties, partially offset by lower expenses associated with operating our New York property, which was in the process of being re-leased as individual units during 2015 following the termination of the lease by our corporate housing tenant.

Lending Expenses: Represents expenses from our lending subsidiaries included in continuing operations, including general and administrative expenses and fees to related party, related to the operation of the lending business. Lending expenses decreased by 8.2% to $5,258,000 for the year ended December 31, 2016 compared to $5,727,000 for the year ended December 31, 2015, primarily due to a decrease in the amount of reimbursement of fees to related party as a result of decreased payroll and related expenses, and lower interest expense as a result of secured borrowing prepayments and amortization of related deferred premiums.

Asset Management and Other Fees to Related Parties: Asset management fees totaled $25,753,000 for the year ended December 31, 2016 compared to $24,882,000 for the year ended December 31, 2015. Asset management fees are calculated based on a percentage of the daily average adjusted fair value of CIM Urban’s investments, which are appraised in the fourth quarter of each year. The higher fees reflect a net increase in the fair value of CIM Urban’s real estate investments based on the December 31, 2015 appraised values, as well as incremental capital expenditures during 2016, offset by decreases as a result of dispositions. CIM Commercial also pays a Base Service Fee to the Manager, a related party, which totaled $1,043,000 for the year ended December 31, 2016 compared to $1,010,000 for the year ended December 31, 2015. In addition, the Manager may receive compensation and/or reimbursement for performing certain services for CIM Commercial and its subsidiaries that are not covered under the Base Service Fee.

For the years ended December 31, 2016 and 2015, we expensed $3,120,000 and $2,993,000 for such services, respectively. For the years ended December 31, 2016 and 2015, we also expensed $411,000 and $434,000, respectively, related to corporate services subject to reimbursement by us under the CIM SBA Staffing and Reimbursement Agreement.

Interest Expense: Interest expense, which is not allocated to our operating segments, was $33,848,000 for the year ended December 31, 2016, an increase of $11,063,000, as compared to $22,785,000 for the year ended December 31, 2015. The increase is mainly due to higher average outstanding loan balances under the unsecured credit and term loan facilities during 2016 compared to 2015 combined with a higher overall interest rate including the impact of interest rate swaps, and interest expense on our $392,000,000 mortgage loans entered into in June 2016, partially offset by lower interest expense as a result of the repayment of $71,237,000 in fixed rate mortgages in April and September 2015. Our interest expense is expected to increase in 2017, as the mortgage loans entered into in 2016 will be outstanding for the full year in 2017. However, the

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magnitude of any such increase cannot be predicted with much accuracy as it will depend on a number of factors such as usage of our revolving credit facility and whether any sale of encumbered properties occurs.

General and Administrative Expenses: General and administrative expenses, which have not been allocated to our operating segments, were $4,231,000 for the year ended December 31, 2016, a decrease of $2,390,000, compared to $6,621,000 for the year ended December 31, 2015. The decrease is primarily due to a decrease in legal, other consulting, professional services and stock-based compensation expenses.

Transaction Costs: Transaction costs totaling $340,000 for the year ended December 31, 2016 represent a $1,042,000 decrease from $1,382,000 for the year ended December 31, 2015. The costs incurred in 2016 mostly represent abandoned project costs, while the costs incurred in 2015 represent abandoned project costs, costs related to the planned disposition of the lending segment, costs associated with evaluating strategies for exiting certain of our non-office real estate portfolio, costs related to the acquisition of a parking lot, and due diligence costs related to potential acquisitions.

Depreciation and Amortization Expense: Depreciation and amortization expense was $71,968,000 for the year ended December 31, 2016, a decrease of $393,000, compared to $72,361,000 for the year ended December 31, 2015. The decrease in depreciation expense is primarily due to the sale of an office property in November 2015 and our hotel properties in February and July 2016, and decreased amortization expense resulting from certain acquisition-related assets that became fully depreciated, partially offset by an increase in the depreciation expense associated with additional capital expenditures.

Provision for Income Taxes: Provision for income taxes was $1,646,000 for the year ended December 31, 2016, an increase of $840,000, compared to $806,000 for the year ended December 31, 2015, due to increases in taxable income at our taxable REIT subsidiaries.

Discontinued Operations

Net income from discontinued operations: Net income from discontinued operations represents revenues and expenses from the part of our lending segment that is included in discontinued operations, including interest income on loans and other loan related fee income, offset by expenses, which include general and administrative expenses, fees to related party and direct interest expense. Net income from discontinued operations was $3,853,000 for the year ended December 31, 2016, a decrease of $14,438,000, compared to $18,291,000 for the year ended December 31, 2015. The decrease is mainly due to a gain of $5,151,000 in 2015, decreased interest income related to the sale of substantially all of our commercial mortgage loans in December 2015 and an increase in interest expense resulting from secured borrowings, partially offset by an increase in interest income from the commercial real estate loans at our commercial real estate lending subsidiary sold in December 2016.

Comparison of the Year Ended December 31, 2015 to the Year Ended December 31, 2014

Net Income

	Year Ended December 31,		Change	
	2015	2014	$	%
	(dollars in thousands)			
Total revenues	$276,948	$262,827	$14,121	5.4 %
Total expenses	273,122	253,998	19,124	7.5 %
Bargain purchase gain	—	4,918	(4,918)	—

Gain on sale of real estate	3,092	—	3,092	—
Net income from discontinued operations	18,291	11,455	6,836	59.7 %
Net income	24,403	24,598	(195)	(0.8)%

Net income decreased to $24,403,000, or by 0.8%, for the year ended December 31, 2015, compared to $24,598,000 for the year ended December 31, 2014. The decrease was primarily attributable to an increase of $3,712,000 in interest expense associated with higher debt levels and an increase in amortization of deferred loan costs related to the September 2014 unsecured facility and May 2015 term loan facility, recognition of the bargain purchase gain of $4,918,000 in 2014 related to the Merger, an increase of $4,097,000 in asset management and other fees to related parties, an increase of $3,314,000 in depreciation and amortization expense, and an increase of $1,158,000 in corporate general and administrative expenses, largely

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offset by an increase of $7,097,000 in net operating income of our operating segments in continuing operations, a gain on sale of real estate of $3,092,000 recognized in 2015, and an increase of $6,836,000 in net income from discontinued operations, including a gain related to the sale of substantially all of our commercial mortgage loans of $5,151,000 recognized in 2015.

FFO

We believe that FFO is a widely recognized and appropriate measure of the performance of a REIT and that it is frequently used by security analysts, investors and other interested parties in the evaluation of REITs, many of which present FFO when reporting their results. FFO represents net income (loss), computed in accordance with GAAP, excluding gains (or losses) from sales of real estate, real estate depreciation and amortization, and adjustments for non-controlling interests. We calculate FFO in accordance with the standards established by the NAREIT.

Like any metric, FFO should not be used as the only measure of our performance because it excludes depreciation and amortization and captures neither the changes in the value of our real estate properties that result from use or market conditions nor the level of capital expenditures and leasing commissions necessary to maintain the operating performance of our properties, all of which have real economic effect and could materially impact our operating results. Other REITs may not calculate FFO in accordance with the standards established by the NAREIT; accordingly, our FFO may not be comparable to those other REITs' FFO. Therefore, FFO should be considered only as a supplement to net income as a measure of our performance and should not be used as a supplement to or substitute measure for cash flow from operating activities computed in accordance with GAAP. FFO should not be used as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends.

The following table sets forth a reconciliation of net income available to common stockholders to FFO available to common stockholders:

	Year Ended December 31,	
	2015	2014
	(in thousands)	
Net income available to common stockholders	$24,392	$24,378
Depreciation and amortization	72,361	69,047
Gain on sale of depreciable assets	(3,092)	—
FFO available to common stockholders	$93,661	$93,425

FFO available to common stockholders was $93,661,000 for the year ended December 31, 2015, an increase of $236,000, compared to $93,425,000 for the year ended December 31, 2014. The increase was primarily attributable to an increase of $7,097,000 in net operating income of our operating segments in continuing operations and an increase of $6,836,000 in net income from discontinued operations, including a gain related to the sale of substantially all of our commercial mortgage loans of $5,151,000 recognized in 2015. These increases were largely offset by an increase of $3,712,000 in interest expense associated with higher debt levels and an increase in amortization of deferred loan costs related to the September 2014 unsecured facility and May 2015 term loan facility, recognition of the bargain purchase gain of $4,918,000 in 2014 related to the Merger, an increase of $4,097,000 in asset management and other fees to related parties, and an increase of $1,158,000 in corporate general and administrative expenses.

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Summary Segment Results

Set forth and described below are summary segment results for our four segments included in continuing operations.

	Year Ended December 31,		Change	
	2015	2014	$	%
	(dollars in thousands)			
Revenues:				
Office	$188,270	$179,338	$8,932	5.0 %
Hotel	61,436	56,096	5,340	9.5 %
Multifamily	18,721	20,719	(1,998)	(9.6)%
Lending	8,521	6,674	1,847	27.7 %
Expenses:				
Office	80,785	74,647	6,138	8.2 %
Hotel	41,974	39,694	2,280	5.7 %
Multifamily	12,168	14,402	(2,234)	(15.5)%
Lending	5,727	4,887	840	17.2 %

Revenues

Office Revenue: Office revenue includes include rental revenues from office properties, expense reimbursements and lease termination income. Office revenue increased to $188,270,000, or by 5.0%, for the year ended December 31, 2015 compared to $179,338,000 for the year ended December 31, 2014, primarily due to revenue increases at certain properties in California, which experienced higher occupancy and rental rates as well as revenue from the office properties acquired in April and October 2014, partially offset by a decrease in revenue at our Sacramento, California property due to expiration of a lease with a large tenant on June 30, 2015. Additionally, certain properties in the Washington D.C. area experienced higher expense reimbursements revenue. The increase in revenue at California and the Washington D.C. area properties is partially offset by a decrease at our North Carolina property due to recognition of fees related to the early termination of a large tenant in April 2014.

Hotel Revenue: Hotel revenue increased to $61,436,000, or by 9.5%, for the year ended December 31, 2015 compared to $56,096,000 for the year ended December 31, 2014. The increase is primarily due to RevPAR growth at our three hotels primarily as a result of increased rates.

Multifamily Revenue: Multifamily revenue decreased to $18,721,000, or by 9.6%, for the year ended December 31, 2015 compared to $20,719,000 for the year ended December 31, 2014. The decrease is primarily due to lower multifamily revenue from our New York property for the year ended December 31, 2015, as our corporate housing tenant terminated its lease in March 2015 and the property was in the process of being re-leased as individual units during 2015, partially offset by an increase at our Dallas properties resulting from increased occupancy compared to the corresponding period in 2014.

Lending Revenue: Represents revenue from our lending subsidiaries included in continuing operations, including interest income on loans and other loan related fee income. Lending revenue increased to $8,521,000, or by 27.7%, for the year ended December 31, 2015 compared to $6,674,000 for the year ended December 31, 2014. The increase is primarily related to an increase in premium income from the sale of the guaranteed portion of our SBA 7(a) loans.

Expenses

Office Expenses: Office expenses increased to $80,785,000, or by 8.2%, for the year ended December 31, 2015 compared to $74,647,000 for the year ended December 31, 2014. The increase is primarily due to an increase in real estate taxes at our California and Washington D.C. area properties and certain other tenant reimbursable expenses at our Washington D.C. area properties, partially offset by a decrease in electricity expense at the Washington D.C. area properties.

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Hotel Expenses: Hotel expenses increased to $41,974,000, or by 5.7%, for the year ended December 31, 2015 compared to $39,694,000 for the year ended December 31, 2014. The increase is primarily due to increased variable costs associated with higher revenues for the year ended December 31, 2015 compared to the year ended December 31, 2014 at our three hotel properties, partially offset by a decrease in real estate taxes at our hotel property in Sacramento, California due to a reduction in tax accruals following the receipt of the actual tax assessment.

Multifamily Expenses: Multifamily expenses decreased to $12,168,000, or by 15.5%, for the year ended December 31, 2015 compared to $14,402,000 for the year ended December 31, 2014. The decrease is primarily due to a $4,475,000 non-recurring expense in 2014 in connection with the refund of tax abatements we received during the period of our ownership in which the property was being leased by a corporate housing operator, which was paid in February 2015, partially offset by an increase in expenses during 2015 associated with re-leasing our New York property as individual units.

Lending Expenses: Represents expenses from our lending subsidiaries included in continuing operations, including general and administrative expenses and fees to related party, related to the operation of the lending business. Lending expenses increased to $5,727,000, or by 17.2%, for the year ended December 31, 2015 compared to $4,887,000 for the year ended December 31, 2014. The increase is primarily due to twelve full months of activity for the year ended December 31, 2015 compared to the period from the Acquisition Date to December 31, 2014 for the year ended December 31, 2014.

Asset Management Fees and Other Fees to Related Parties: Asset management fees totaled $24,882,000 for the year ended December 31, 2015 compared to $23,223,000 for the year ended December 31, 2014. Asset management fees are calculated based on a percentage of the average adjusted fair value of CIM Urban's investments, which are appraised in the fourth quarter of each year. The higher fees reflect a net increase in the fair value of CIM Urban's real estate investments based on the December 31, 2014 appraised values, as well as incremental capital expenditures and acquisitions during 2015. CIM Commercial also pays a Base Service Fee to the Manager, a related party, which totaled $1,010,000 for the year ended December 31, 2015 compared to $806,000 for the period from the Acquisition Date to December 31, 2014. In addition, the Manager may receive compensation and/or reimbursement for performing certain services for CIM Commercial and its subsidiaries that are not covered under the Base Service Fee. For the years ended December 31, 2015 and 2014, we expensed $2,993,000 and $1,193,000 for such services, respectively. For the year ended December 31, 2015, we also expensed $434,000 related to corporate services subject to reimbursement by us under the CIM SBA Staffing and Reimbursement Agreement, pursuant to which substantially all our lending segment employees moved to CIM SBA Staffing, an affiliate of CIM Group, effective January 1, 2015. Such costs were included in general and administrative expenses in prior comparable periods.

Interest Expense: Interest expense, which is not allocated to our operating segments, was $22,785,000 for the year ended December 31, 2015, an increase of $3,712,000 compared to $19,073,000 in the corresponding period in 2014. The increase is mainly due to incremental credit facility borrowings during the last three months of 2014 and during the year ended December 31, 2015, an increase in amortization of deferred loan costs related to the September 2014 unsecured credit facility and May 2015 unsecured term loan facility, and an increase related to the borrowings under the term loan facility effective November 2015, partially offset by lower interest expense as a result of the repayment of $71,237,000 in fixed rate mortgages in April and September 2015.

General and Administrative Expenses: General and administrative expenses, which have not been allocated to our operating segments, were $6,621,000 for the year ended December 31, 2015, an increase of $1,158,000, compared to $5,463,000 for the year ended December 31, 2014. The increase is primarily due to a one-time gain of $1,166,000 relating to the settlement of a contractual obligation that reduced expenses for the year ended December 31, 2014, an increase in public company expenses, partially offset by a decrease in salaries, which are included in asset management and other fees to related parties for the year ended December 31, 2015, as a result of the transfer of our lending segment employees to an affiliate effective January 1, 2015.

Transaction Costs: Transaction costs totaling $1,382,000 for the year ended December 31, 2015 represent a $181,000 decrease from $1,563,000 for the year ended December 31, 2014. The costs incurred for the year ended December 31, 2015 represent abandoned project costs, costs related to the planned disposition of the lending segment, costs associated with evaluating strategies for exiting certain of our non-office real estate portfolio, costs related to the acquisition of a parking lot, and due diligence costs related to potential acquisitions. The costs incurred for the year ended December 31, 2014 are mainly associated with the Merger including due diligence costs and legal fees, the acquisition of the two office properties in April and October 2014, and transaction costs related to the lending segment held for sale.

Depreciation and Amortization: Depreciation and amortization expense was $72,361,000 for the year ended December 31, 2015, an increase of $3,314,000 compared to $69,047,000 for the year ended December 31, 2014. The increase is primarily due to the depreciation expense associated with additional capital expenditures, the acquisition of the office

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properties in April and October 2014, and the acceleration of depreciation for certain assets at a property in Southern California that we sold in November 2015 where the tenant ceased operations and vacated the building, partially offset by decreased amortization expense resulting from certain acquisition-related assets that became fully depreciated.

Provision for Income Taxes: Provision for income taxes was $806,000 for the year ended December 31, 2015, an increase of $202,000 compared to $604,000 for the year ended December 31, 2014. The increase is primarily due to increased taxable income at one of our taxable REIT subsidiaries.

Discontinued Operations

Net income from discontinued operations: Net income from discontinued operations represents revenues and expenses from the part of our lending segment that is included in discontinued operations, including interest income on loans and other loan related fee income, offset by expenses, which include general and administrative expenses, fees to related party and direct interest expense. Net income from discontinued operations was $18,291,000 for the year ended December 31, 2015, an increase of $6,836,000, compared to $11,455,000 for the year ended December 31, 2014. The increase is mainly due to a gain of $5,151,000 related to the sale of substantially all of our commercial mortgage loans in December 2015, inclusion of activity for the period from the Acquisition Date to December 31, 2014 for the year ended December 31, 2014 compared to a full year during 2015, as well as an increase in interest income resulting from recognition of unamortized discounts associated with increased loan prepayments.

Liquidity and Capital Resources

Sources and Uses of Funds

In February 2012, CIM Urban entered into an unsecured revolving line of credit with a bank syndicate, which allowed for maximum borrowings of $100,000,000. Outstanding advances under the line of credit bore interest at London Interbank Offered Rate ("LIBOR") plus 1.75% to 2.50% until August 2013. In August 2013, the unsecured revolving line was amended, and outstanding advances under the line of credit bore interest at LIBOR plus 1.25% to 1.85%. The line of credit was also subject to an unused commitment fee of 0.25% or 0.35% depending on the amount of aggregate unused commitments. This line of credit was terminated and repaid in full in September 2014.

In August 2013, CIM Urban entered into another unsecured revolving line of credit with a bank syndicate, as amended in April 2014, which allowed for maximum borrowings of $200,000,000. Outstanding advances under the line of credit bore interest at LIBOR plus 1.25% to 1.85%. The line of credit was also subject to an unused commitment fee of 0.25% or 0.35% depending on the amount of aggregate unused commitments. This line of credit was terminated and repaid in full in September 2014.

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) 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. The delayed-draw term loan was also subject to an unused line fee of 0.25%. 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. Additionally, we permanently reduced the revolving credit commitment under the credit facility to $200,000,000. At both February 28, 2017 and December 31, 2016, $0 was outstanding under the credit facility and $200,000,000 was available for future borrowings, while at December 31, 2015 $107,000,000 ($0 under the revolver and $107,000,000 under the term loans) was outstanding under the credit facility and $450,000,000 was available for future borrowings. Proceeds from the unsecured credit facility were used for acquisitions, funding of the tender offer, general corporate purposes, and to repay mortgage loans and outstanding balances under our prior unsecured credit facilities. At December 31, 2015, the interest rate on the outstanding balances under this unsecured credit facility was 1.57%. In June 2016, we entered into six mortgage loan agreements with an aggregate principal amount of $392,000,000 (see "Item 2—Properties—Property Indebtedness as of December 31, 2016"). 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.

In May 2015, CIM Commercial entered into an unsecured term loan facility with a bank syndicate pursuant to which CIM Commercial can borrow up to a maximum of $385,000,000. The term loan facility ranks pari passu with CIM

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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 unused portion of the term loan facility was also subject to an unused fee of 0.20%. With some exceptions, any prepayment of the term loan facility prior to May 2017 will be subject to a prepayment fee up to 2% of the outstanding principal amount. The term loan facility matures in May 2022. On November 2, 2015, $385,000,000 was drawn under the term loan facility. At February 28, 2017, December 31, 2016 and December 31, 2015, $385,000,000 was outstanding under the term loan facility. Proceeds from the term loan facility were used to repay balances outstanding under our unsecured credit facility. At December 31, 2016 and 2015, the variable interest rate on this unsecured term loan facility was 2.22% and 1.84%, respectively. The interest rate of the loan has been effectively converted to a fixed rate of 3.16% until May 8, 2020 through interest rate swaps.

At December 31, 2016 and 2015, we were in compliance with all of our respective financial covenants under the unsecured credit and term loan facilities.

On April 1, 2015, we paid off a mortgage with an outstanding balance of $12,364,000 using the unsecured credit facility. In addition, on September 1, 2015, we paid off two mortgages with a combined outstanding balance of $58,873,000 using the unsecured credit facility.

On April 22, 2016, we filed a registration statement with the SEC for up to $900,000,000 of units (collectively, the "Units"), with each Unit consisting of (i) a share of Series A Preferred Stock, par value $0.001 per share, with an initial Stated Value of $25.00 per share and (ii) a Warrant to purchase 0.25 of a share of Common Stock, which was declared effective on July 1, 2016 by the SEC. The registration statement allows us to sell up to a maximum of 36,000,000 Units. Holders of our Series A Preferred Stock are entitled to receive, when, and as declared by the Board of Directors, cumulative cash dividends on each share of at an annual rate of 5.50% of the Stated Value. The exercise price of each Warrant will be at a 15.0% premium to the per share estimated NAV of our Common Stock (as most recently published by us at the time of each issuance). As of December 31, 2016, we had issued 61,435 Units and collected net proceeds of $1,431,000 after commissions, fees and allocated costs. As of December 31, 2016, no shares of Series A Preferred Stock have been redeemed.

We currently have substantial borrowing capacity, and will likely finance our future activities through one or more of the following methods: (i) offerings of shares of Common Stock, preferred stock, senior unsecured securities, and/or other equity and debt securities; (ii) credit facilities and term loans; (iii) the addition of senior recourse or non-recourse debt using target acquisitions as well as existing investments as collateral; (iv) the sale of existing investments; and/or (v) cash flows from operations. We expect to employ leverage levels that are comparable to those of other commercial REITs engaged in business strategies similar to our own.

Our long-term liquidity needs will consist primarily of funds necessary for acquisitions of investments, development or repositioning of properties, capital expenditures, refinancing of indebtedness, repurchases of Common Stock (whether through one or more tender offers, share repurchases or otherwise), dividends on the Series A Preferred Stock or any other preferred stock we may issue and redemption of Series A Preferred Stock (if we choose to pay the redemption price in cash instead of in shares of our Common Stock) and dividend distributions on our Common Stock. We may not have sufficient funds on hand or may not be able to obtain additional financing to cover all of these long-term cash requirements although, it should be noted that we do not currently have any significant property development or repositioning projects planned. The nature of our business, and the requirements imposed by REIT rules that we distribute a substantial majority of our REIT taxable income on an annual basis in the form of dividends, may cause us to have substantial liquidity needs over the long-term. We will seek to satisfy our long term liquidity needs through one or more of the methods described in the immediately preceding paragraph. These sources of funding may not be available on attractive terms or at all. If we cannot obtain additional funding for our long-term liquidity needs, our investments may generate lower cash flows or decline in value, or both, which may cause us to sell assets at a time when we would not otherwise do so and could have a material adverse effect on our business, financial condition, results of operations, cash flow or our ability to satisfy our debt service obligations, to maintain our level of Common Stock or Series A Preferred Stock dividend distributions or to engage in further repurchases of Common Stock.

Cash Flow Analysis

Comparison of the Year Ended December 31, 2016 to the Year Ended December 31, 2015

Our cash and cash equivalents, inclusive of cash associated with assets held for sale, totaled $144,449,000 and $140,572,000 at December 31, 2016 and 2015, respectively. Our cash flows from operating activities are primarily dependent upon the occupancy level of our real estate assets, the rental rates achieved through our leases, and the collectability of rent and recoveries from our tenants. Our cash flows from operating activities are also impacted by fluctuations in operating expenses and other general and administrative costs. Net cash provided by operating activities totaled $51,873,000 for the year ended December 31, 2016 compared to $77,035,000 for the year ended December 31, 2015. The decrease is mainly due to a decrease of $21,261,000 in net income adjusted for the gain on real estate and gain on disposition of assets held for sale, a decrease of $8,615,000 resulting from increased funding for loans, and a decrease of $9,444,000 resulting from a higher level of working capital used, partially offset by an increase of $10,562,000 in proceeds from sale of guaranteed loans.

Our cash flows from investing activities are primarily related to property investments and sales, expenditures for development and redevelopment projects, capital expenditures and cash flows associated with loans originated at our lending segment. Net cash provided by investing activities for the year ended December 31, 2016 was $29,526,000 compared to $64,272,000 in the corresponding period in 2015. The decrease is due to a $55,506,000 decrease in proceeds from sale of assets held for sale, an increase in loans funded of $36,153,000, an increase in the change in restricted cash of $26,841,000 primarily related to reserves funded in connection with our six mortgage loan agreements entered into in June 2016, an increase of $8,800,000 in additions to investments in real estate, and a decrease of $6,480,000 in principal collected on loans. These decreases were partially offset by an increase of $86,782,000 in proceeds from the sale of two hotel properties in February and July 2016, compared to the sale of an office property in November 2015, an increase of $11,143,000 relating to an acquisition in 2015 compared to no use of proceeds in 2016 for acquisitions, and an increase of $1,109,000 in other investing activity.

Our cash flows from financing activities are generally impacted by borrowings and capital activities. Net cash used in financing activities for the year ended December 31, 2016 was $77,522,000 compared to $28,287,000 in the corresponding period in 2015. We had net borrowings, inclusive of secured borrowings of the lending business, of $292,491,000 for the year ended December 31, 2016, compared to $60,633,000 in the corresponding period in 2015. Deferred loan costs of $1,994,000 were paid during the year ended December 31, 2016 primarily related to the $392,000,000 mortgage loans compared to $3,596,000 paid during the corresponding period in 2015 primarily related to the $385,000,000 unsecured term loan facility. In addition, the total cash used related to repurchase of our Common Stock during 2016 was $290,134,000. We funded the tender offer using available cash from asset sales and borrowings on our unsecured credit facility and we funded the repurchase using proceeds from the six mortgage loans obtained in June 2016. Proceeds from the issuance of our Units consisting of Series A Preferred Stock and associated Warrants were $1,434,000, while cash used for payment of deferred stock offering costs were $1,960,000 for the year ended December 31, 2016. During the year ended December 31, 2016, dividends of $77,316,000 were sourced from net cash provided by operating activities of $51,873,000 and net proceeds from sale of real estate properties of $94,568,000, while during the year ended December 31, 2015, dividends of $85,389,000 were sourced from net cash provided by operating activities of $77,035,000 and principal collected on loans, net of loans funded, of $10,102,000.

Comparison of the Year Ended December 31, 2015 to the Year Ended December 31, 2014

Our cash and cash equivalents, inclusive of cash associated with assets held for sale, totaled $140,572,000 and $27,552,000 at December 31, 2015 and 2014, respectively. Our cash flows from operating activities are primarily dependent upon the occupancy level of our real estate assets, the rental rates achieved through our leases, and the collectability of rent and recoveries from our tenants. Our cash flows from operating activities are also impacted by fluctuations in operating expenses and other general and administrative costs. Net cash provided by operating activities totaled $77,035,000 for the year ended December 31, 2015 compared to $66,806,000 for the year ended December 31, 2014. The increase was mainly due to an increase of $2,788,000 resulting from lower funding for loans held for sale and an increase of $5,081,000 in proceeds from sale of guaranteed loans, as well as an increase of $3,106,000 resulting from a lower level of working capital used.

Our cash flows from investing activities are primarily related to property investments and sales, expenditures for development and redevelopment projects, capital expenditures and cash flows associated with loans originated at our lending segment. Net cash provided by investing activities for the year ended December 31, 2015 was $64,272,000 compared to net cash used in investing activities of $60,301,000 in the corresponding period in 2014. The increase in net cash from investing activities was primarily due to net proceeds of $82,272,000 from the sale of substantially all of our commercial mortgage loans in December 2015 and net proceeds of $7,786,000 from the sale of an office property in November 2015, combined with an increase of $52,293,000 resulting from less cash used for real estate acquisitions and an increase of $4,796,000 related to changes in restricted cash. These increases in net cash provided were partially offset by an increase in loans funded of $11,284,000, a decrease of $4,974,000 in principal collected on loans, and a decrease in cash and cash equivalents due to $3,185,000 acquired in the Merger.

Our cash flows from financing activities are generally impacted by borrowings and capital activities. Net cash used in financing activities for the year ended December 31, 2015 was $28,287,000 compared to net cash provided by financing activities of $4,251,000 in the corresponding period in 2014. In 2015, we paid dividends to our common stockholders of $85,389,000 which were sourced from net cash provided by operating activities of $77,035,000 and principal collected on loans, net of loans funded, of $10,102,000. In 2014, we paid dividends and distributions of $144,334,000 ($85,048,000 to

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partners and stockholders and $59,286,000 for the acquisition of PMC Commercial) which were sourced from net cash provided by operating activities of $66,806,000, principal collected on loans, net of loans funded, of $26,360,000, and proceeds from unsecured revolving credit facilities. We had net borrowings, inclusive of borrowings of the lending segment held for sale, of $60,633,000 for the year ended December 31, 2015 compared to $156,265,000 for the year ended December 31, 2014. Additionally, deferred loan costs of $3,596,000 were paid during the year ended December 31, 2015 related to the credit facilities, compared to $5,774,000 during the year ended December 31, 2014. During the year ended December 31, 2014, we also paid $1,850,000 to redeem class B shares of subsidiary REITs.

Summarized Contractual Obligations, Commitments and Contingencies

The following summarizes our contractual obligations at December 31, 2016:

	Payments Due by Period				
Contractual Obligations	Total	2017	2018 - 2019	2020 - 2021	Thereafter
	(in thousands)				
Debt:					
Mortgages payable	$532,437	$4,642	$25,819	$63,976	$438,000
Other principal (1)	412,070	—	—	—	412,070
Secured borrowings (2)	27,899	996	2,099	2,255	22,549
Interest and fees:					
Debt (3)	286,794	38,711	73,904	64,426	109,753
Other Contractual Obligations:					
Borrower advances	5,445	5,445	—	—	—
Loan commitments	13,902	13,902	—	—	—
Tenant improvements	50,178	35,725	14,453	—	—
Operating leases (4)	130,079	749	1,110	1,119	127,101
Total contractual obligations	$1,458,804	$100,170	$117,385	$131,776	$1,109,473

(1) Represents the junior subordinated notes and unsecured term loan facility.

(2) Principal payments on secured borrowings are generally dependent upon cash flows received from the underlying loans. Our estimate of their repayment is based on scheduled principal 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. Excludes deferred premiums which do not represent a future outlay of cash since they are amortized over the life of the loan as a reduction to interest expense.

(3) Excludes premiums and discounts. For the mortgages payable, the interest expense is calculated based on the current effective interest rate on the related debt. For our unsecured credit facility, we use the current balance outstanding and the applicable rates in effect at December 31, 2016 to calculate interest expense and unused commitment fees. For our unsecured term loan facility, the impact of the interest rate swap contracts is incorporated. For our secured borrowings related to our government guaranteed loans, we use the variable rate in effect at December 31, 2016.

(4) Represents future minimum lease payments under our operating leases for office space and under the ground lease for one of the projects.

Off Balance Sheet Arrangements

At December 31, 2016, we did not have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates and Recently Issued Accounting Pronouncements

The discussion and analysis of our historical financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and

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liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While we believe that our estimates are based on reasonable assumptions and judgments at the time they are made, some of our assumptions, estimates and judgments will inevitably prove to be incorrect. As a result, actual results could differ from our estimates, and those differences could be material.

We believe the following critical accounting policies, among others, affect our more significant estimates and assumptions used in preparing our consolidated financial statements. For a discussion of recently issued accounting literature, see Note 3 to the consolidated financial statements included in this Form 10-K.

Investments in Real Estate

We apply the acquisition method to all acquired real estate investments. The purchase consideration of the real estate is recorded at fair value 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.

The fair value of the tangible assets of an acquired property is determined by valuing the property as if it were vacant, and the “as-if-vacant” value is then allocated to land (or acquired ground lease if the land is subject to a ground lease), land improvements, building and improvements, and tenant improvements based on management’s determination of the relative fair values of these assets. Management determines the as-if-vacant fair value of a property using methods similar to those used by independent appraisers. Factors considered by management in performing these analyses include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases. In estimating carrying costs, management includes real estate taxes, insurance and other operating expenses, and estimates of lost rental revenue during the expected lease-up periods based on current market demand. Management also estimates costs to execute similar leases, including leasing commissions, legal, and other related costs.

In allocating the purchase consideration of the identified intangible assets and liabilities of an acquired property, above-market, below-market, and in-place lease values are recorded based on the present value (using an interest rate that 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 and (ii) management’s estimate of fair market lease rates for the corresponding in-place leases measured over a period equal to the remaining non-cancelable term of the lease, and for below-market leases, over a period equal to the initial term plus any below-market fixed-rate renewal periods. Acquired above-market and below-market leases are amortized and recorded to rental and other property income over the initial terms of the respective leases.

The aggregate value of other acquired intangible assets, consisting of in-place leases and tenant relationships, is measured by the estimated cost of operations during a theoretical lease-up period to replace in-place leases, including lost revenues and any unreimbursed operating expenses, plus an estimate of deferred leasing commissions for in-place leases. The value of in-place leases is amortized to expense 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.

For hotels, an intangible value was assigned to the expected revenues from advance bookings, which were calculated based on discounted income, and to franchise affiliation, which were calculated based on the difference between the net projected income in the year of acquisition and an estimate of income without the franchise.

Real estate acquisitions are recorded at cost as of the acquisition date. Costs related to the acquisition of properties are expensed as incurred. Investments in real estate are stated at depreciated cost. Depreciation and amortization are recorded on a straight line basis over the estimated useful lives.

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

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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. No impairment of long-lived assets was recognized during the years ended December 31, 2016, 2015 and 2014.

Estimates regarding the allocation of purchase price and the evaluation of impairment require significant judgment, and some of these estimates involve complex calculations. These assessments have a direct impact on our results of operations as the allocations and evaluations impact the amount and timing of depreciation and amortization expense we reflect in our consolidated financial statements.

Loans Receivable

Our loans receivable included in other assets, or assets held for sale in 2015, 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 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 $1,951,000 remained as of December 31, 2016 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 or discontinued operations, 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 years ended December 31, 2016, 2015 and 2014, we recorded $(206,000), $328,000 and $0 (recovery) impairment 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.

The evaluation of the collectability of our loans receivable is highly subjective and is based in part on factors that could differ materially from actual results in future periods. If these factors change, we may recognize an impairment loss, which could be material.

Accounts Receivable

Accounts receivable are carried net of the allowances for uncollectible amounts. Management's determination of the adequacy of these allowances is based primarily upon evaluation of historical loss experience, individual receivables, current economic conditions, and other relevant factors. The allowances are increased or decreased through the provision for bad debts. If our estimates of collectability differ from the cash received, the timing and amount of our reported revenue could be impacted.

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Revenue Recognition

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 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 the primary obligor with respect to incurring expenses and with respect to having the credit risk.

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.

Hotel room sales are recognized upon daily occupancy. Other hotel revenues are recognized as earned upon facility use or food and beverage consumption.

Interest income included in interest and other income or discontinued operations 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.

Derivative Financial Instruments

As part of 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, 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 estimated fair value of the hedge previously deferred to accumulated other comprehensive income, 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 from 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.

Income Taxes

We have elected to be taxed as a REIT under the provisions of the Code. To the extent we qualify for taxation as a REIT, we generally will not be subject to a federal corporate income tax on our taxable income that is distributed to our stockholders. We may, however, be subject to certain federal excise taxes and state and local taxes on our income and property. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and will not be able to qualify as a REIT for four subsequent taxable years. In order to remain qualified as a REIT under the Code, we must satisfy various requirements in each taxable year,

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including, among others, limitations on share ownership, asset diversification, sources of income, and the distribution of at least 90% of our taxable income within the specified time in accordance with the Code.

We have wholly-owned taxable REIT subsidiaries which are subject to federal income taxes. The income generated from the taxable REIT subsidiaries is taxed at normal corporate rates. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

We have established a policy on classification of penalties and interest related to audits of our federal and state income tax returns. If incurred, our policy for recording interest and penalties associated with audits will be to record such items as a component of general and administrative expense or discontinued operations. Penalties, if incurred, will be recorded in general and administrative expense or discontinued operations and interest paid or received will be recorded in interest expense or interest income, respectively, or discontinued operations in the consolidated statements of operations.

ASC 740, Income Taxes, provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing our tax returns to determine whether the tax positions are “more likely than not” of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current period. We have reviewed all open tax years and concluded that the application of ASC 740 resulted in no material effect to our consolidated financial position or results of operations.

Assets Held for Sale and Discontinued Operations

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, 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.

Redeemable Preferred Stock

Beginning on the date of original issuance of any given shares of Series A Preferred Stock, the holder of such shares will have the right to require the Company to redeem such shares at a redemption price of 100% of the Stated Value, 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 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 Stated Value, plus accrued and unpaid dividends. The applicable redemption price payable upon redemption of any Series A Preferred Stock will be 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 Warrants in permanent equity. On the first anniversary of the date of original issuance, we intend to reclassify the 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 Units are allocated to the Series A Preferred Stock and Warrants using their relative fair values on the date of issuance.

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Dividends

Holders of Series A Preferred Stock are entitled to receive, when and as authorized by our Board of Directors, and declared by us out of legally available funds, cumulative cash dividends on each share of Series A Preferred Stock at an annual rate of 5.5% of the Stated Value (i.e., the equivalent of $0.34375 per share per quarter). Dividends on each share of Series A Preferred Stock will begin accruing on, and will be cumulative from, the date of issuance. Dividends will be payable on the 15th day of the month, or if such day is not a business day, on the first business day thereafter, following the quarter for which the dividend was declared. We expect to pay dividends on our Series A Preferred Stock quarterly, unless our results of operations, our general financing conditions, general economic conditions, applicable provisions of MGCL or other factors make it imprudent to do so. The timing and amount of such dividends will be determined by our Board of Directors, in its sole discretion, and may vary from time to time. Cash dividends declared on our Series A Preferred Stock for the year ended December 31, 2016 consist of the following:

Declaration Date	Payment Date	Number of Shares	Aggregate Dividends Declared (in thousands)
December 6, 2016	January 17, 2017	61,435	$ 9

On March 8, 2017, we declared a dividend of $0.34375 per share of our Series A Preferred Stock, or portion thereof for issuances during the period from January 1, 2017 to March 31, 2017, to be paid on April 17, 2017 to the holders of Series A Preferred Stock of record on April 5, 2017.

Holders of our Common Stock are entitled to receive dividends, when and as authorized by the Board of Directors and declared by us. In determining our dividend policy, the Board of Directors considers many factors including the amount of cash resources available for dividend distributions, capital spending plans, cash flow, financial position, applicable requirements of the MGCL and any applicable contractual restrictions. Consequently, the dividend rate on a quarterly basis does not necessarily correlate directly to any individual factor. There can be no assurance that the future dividends declared by our Board of Directors will not differ materially from historical dividend levels. Dividends per share of Common Stock declared during the years ended December 31, 2016 and 2015 consist of the following:

Declaration Date	Payment Date	Dividend Per Common Share
December 6, 2016	December 23, 2016	$0.21875
September 12, 2016	September 28, 2016	0.21875
June 10, 2016	June 28, 2016	0.21875
March 8, 2016	March 29, 2016	0.21875
December 10, 2015	December 29, 2015	0.21875
September 14, 2015	September 30, 2015	0.21875
June 12, 2015	June 29, 2015	0.21875
March 6, 2015	March 27, 2015	0.21875

On March 8, 2017, we declared a common share dividend of $0.21875 per share of Common Stock, to be paid on March 27, 2017 to stockholders of record on March 20, 2017.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The fair value of our mortgages payable is sensitive to fluctuations in interest rates. Discounted cash flow analysis is generally used to estimate the fair value of our mortgages payable, using rates ranging from 4.60% to 4.72% at December 31, 2016 and 4.42% to 4.72% at December 31, 2015. Mortgages payable with book values of $530,793,000 and $145,072,000 as of December 31, 2016 and 2015, respectively, have fair values of $516,892,000 and $147,516,000, respectively.

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevalent market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. We are exposed to market risk in the form of changes in interest rates and the potential impact such changes may have on the cash flows from our

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floating rate debt or the fair values of our fixed rate debt. At December 31, 2016 and 2015 (excluding premiums, discounts, debt issuance costs and any impact related to the interest rate swaps), $532,437,000 (or 54.8%) and $144,791,000 (or 20.4%) of our debt, respectively, was fixed rate mortgage loans, and $439,969,000 (or 45.2%) and $563,498,000 (or 79.6%) was floating rate borrowings. Based on the level of floating rate debt outstanding at December 31, 2016 and 2015, and before the impact of the interest rate swaps, a 12.5 basis point change in LIBOR would result in an annual impact to our earnings of $550,000 and $704,000, respectively. We calculate interest rate sensitivity by multiplying the amount of floating rate debt by the respective change in rate. The sensitivity analysis does not take into consideration possible changes in the balances or fair value of our floating rate debt or the impact of interest rate swaps.

In order to manage financing costs and interest rate exposure related to our $385,000,000 unsecured term loan facility, on August 13, 2015, we entered into interest rate swap agreements with multiple counterparties. These swap agreements became effective on November 2, 2015. These interest rate swaps effectively convert the interest rate on the term loan facility into a fixed weighted average rate of 1.563% plus the credit spread, which was 1.60% at December 31, 2016 and 2015, or an all-in rate of 3.16% until May 8, 2020. However, our use of these derivative instruments to hedge exposure to changes in interest rates exposes us to credit risk from the potential inability of our counterparties to perform under the terms of the agreements. We attempt to minimize this credit risk by contracting with what we believe to be high-quality financial counterparties. For a description of our derivative contracts, see Note 14 to our consolidated financial statements in Item 15 of this report.

Item 8. Financial Statements and Supplementary Data

The information required by this Item is incorporated herein by reference to the Financial Statements and Auditors' Report beginning on page F-1.

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of December 31, 2016, we carried out an evaluation, under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, regarding the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) at the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded, as of that time, that our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit to the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms and include controls and procedures designed to ensure the information required to be disclosed by the Company in such reports is accumulated and communicated to management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management's Report On Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. We reviewed the results of management's assessment with the Audit Committee of the Board of Directors.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2016. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework (2013). Based on their assessment, management determined that as of December 31, 2016, the Company's internal control over financial reporting was effective based on those criteria.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2016 has been audited by BDO USA, LLP, an independent registered public accounting firm as stated in their report which appears herein.

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
CIM Commercial Trust Corporation
Dallas, TX

We have audited CIM Commercial Trust Corporation and its subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). CIM Commercial Trust Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, CIM Commercial Trust Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of CIM Commercial Trust Corporation and its subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2016 and our report dated March 16, 2017 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Los Angeles, CA
March 16, 2017

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Limitations on the Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal controls will prevent all errors and fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with associated policies or procedures. Because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information required by this Item regarding the Company’s directors and executive officers, and corporate governance, including information with respect to beneficial ownership reporting compliance, will appear in the Proxy Statement we will deliver to our stockholders in connection with our 2017 Annual Meeting of Stockholders. Such information is incorporated herein by reference. Information relating to the registrant’s Code of Business Conduct and Ethics that applies to its employees, including its senior financial officers, is included in Part I of this Annual Report on Form 10-K under “Item 1—Business—Available Information.”

Item 11. Executive Compensation

The information required by this Item will appear in the Proxy Statement we will deliver to our stockholders in connection with our 2017 Annual Meeting of Stockholders. Such information is incorporated herein by reference.

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

The information required by this Item regarding security ownership of certain beneficial owners and management will appear in the Proxy Statement we will deliver to our stockholders in connection with our 2017 Annual Meeting of Stockholders. Such information is incorporated herein by reference. Information relating to securities authorized for issuance under the Company’s equity compensation plans is included in Part II of this Annual Report on Form 10-K under “Item 5— Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.”

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

The information required by this Item will appear in the Proxy Statement we will deliver to our stockholders in connection with our 2017 Annual Meeting of Stockholders. Such information is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this Item will appear in the Proxy Statement we will deliver to our stockholders in connection with our 2017 Annual Meeting of Stockholders. Such information is incorporated herein by reference.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1. Financial Statements

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

2. Financial Statement Schedules

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

Note: Other schedules are omitted because of the absence of conditions under which they are required or because the required information is given in the financial statements or notes thereto.

3. Exhibits

The following documents are included or incorporated by reference in this Annual Report on Form 10-K:

2.1	Agreement and Plan of Merger by and among CIM Urban REIT, LLC, CIM Merger Sub, LLC, PMC Commercial Trust and Southfork Merger Sub, LLC dated July 8, 2013 (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K dated July 8, 2013).
2.2	Agreement and Plan of Merger, dated April 28, 2014, between PMC Commercial Trust and PMC Commercial Merger Sub, Inc. (incorporated by reference to Appendix C to the Registrant's Definitive Proxy Statement on Schedule 14A filed with the SEC on April 14, 2014).
3.1	Articles of Amendment and Restatement of PMC Commercial Merger Sub, Inc. (incorporated by reference to the exhibits to the Registrant's Current Report on Form 8-K filed with the SEC on May 9, 2014).
3.1(a)	Articles of Amendment (Name Change) (incorporated by reference to the exhibits to the Registrant's Current Report on Form 8-K filed with the SEC on May 2, 2014).
3.1(b)	Articles of Amendment (Reverse Stock Split) (incorporated by reference to the exhibits to the Registrant's Current Report on Form 8-K filed with the SEC on May 2, 2014).
3.1(c)	Articles of Amendment (Par Value Decrease) (incorporated by reference to the exhibits to the Registrant's Current Report on Form 8-K filed with the SEC on May 2, 2014).
3.2	Articles Supplementary for the Series A Preferred Stock (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the SEC on October 27, 2016).
3.3	Bylaws (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed with the SEC on May 2, 2014).
4.1	Purchase Agreement among PMC Commercial Trust, PMC Preferred Capital Trust-A and Taberna Preferred Funding I, Ltd. dated March 15, 2005 (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005).
4.2	Junior Subordinated Indenture between PMC Commercial Trust and JPMorgan Chase Bank, National Association as Trustee dated March 15, 2005 (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005).
4.3	Amended and Restated Trust Agreement among PMC Commercial Trust, JPMorgan Chase Bank, National Association, Chase Bank USA, National Association and The Administrative Trustees Named Herein dated March 15, 2005 (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005).
4.4	

	Preferred Securities Certificate (incorporated by reference to Exhibit 10.4 to the Registrant’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005).
4.5	Floating Rate Junior Subordinated Note due 2035 (incorporated by reference to Exhibit 10.5 to the Registrant’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005).
4.6	Warrant Agreement, dated June 28, 2016, between CIM Commercial Trust Corporation and American Stock Transfer & Trust Company, LLC (incorporated by reference to Exhibit 4.2 to the Registrant's Registration Statement on Form S-11/A filed with the SEC on June 28, 2016).
+10.1	2005 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005).

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+10.2	First Amendment to PMC Commercial Trust 2005 Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant’s Annual Report on Form 10 K filed with the SEC on March 16, 2015).
+10.3	2015 Equity Incentive Plan (incorporated by reference to Annex A to the Registrant’s Definitive Proxy Statement related to its 2015 annual meeting of stockholders, as filed with the SEC on April 17, 2015).
+10.4	Amended and Restated Executive Employment Contract with Jan F. Salit dated August 30, 2013 (incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed with the SEC on August 30, 2013).
+10.5	Amended and Restated Executive Employment Contract with Barry N. Berlin dated August 30, 2013 (incorporated by reference to Exhibit 10.2 to the Registrant’s Current Report on Form 8-K filed with the SEC on August 30, 2013).
10.6	Consent to Assignment and Limited Waiver to Agreement and Plan of Merger, dated as of November 20, 2013, by and among PMC Commercial Trust, CIM Urban REIT, LLC, Southfork Merger Sub, LLC, and CIM Merger Sub, LLC, the terms of which were acknowledged and agreed to by a new subsidiary formed by CIM Urban REIT, LLC, Urban Partners II, LLC (incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed with the SEC on November 22, 2013).
10.7	Master Services Agreement dated March 11, 2014 by and among PMC Commercial Trust, certain of its subsidiaries, and CIM Service Provider, LLC (incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed with the SEC on March 11, 2014).
10.8	Registration Rights and Lockup Agreement dated March 11, 2014 by and among Urban Partners II, LLC and PMC Commercial Trust (incorporated by reference to Exhibit 10.2 to the Registrant’s Current Report on Form 8-K filed with the SEC on March 11, 2014).
10.9	Service Agreement, dated as of August 7, 2014, by and among CIM Commercial Trust Corporation and CIM Service Provider, LLC, under the Master Services Agreement dated March 11, 2014, by and among PMC Commercial Trust, certain of its subsidiaries, and CIM Service Provider, LLC (incorporated by reference to Exhibit 10.8 to the Registrant’s Quarterly Report on Form 10-Q filed with the SEC on August 11, 2014).
10.10	Form of Indemnification Agreement for directors and officers of CIM Commercial Trust Corporation (incorporated by reference to Exhibit 10.9 to the Registrant’s Quarterly Report on Form 10-Q filed with the SEC on August 11, 2014).
10.11	Credit Agreement, dated as of September 30, 2014, among CIM Commercial Trust Corporation, each guarantor party thereto, each lender party thereto, Bank of America, N.A., as Administrative Agent, and JPMorgan Chase Bank, N.A. as Syndication Agent (incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed with the SEC on October 1, 2014).
10.12	First Amendment to Credit Agreement, dated as of January 14, 2015, among CIM Commercial Trust Corporation, each Lender party thereto and Bank of America, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed with the SEC on January 16, 2015).
10.13	Second Amendment to Credit Agreement, dated as of May 1, 2015, among CIM Commercial Trust Corporation, each Lender party thereto and Bank of America, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on May 4, 2015).
10.14	Staffing and Reimbursement Agreement, dated as of January 1, 2015, by and among CIM SBA Staffing, LLC, PMC Commercial Lending, LLC and CIM Commercial Trust Corporation (incorporated by reference to Exhibit 10.15 to the Registrant’s Annual Report on Form 10-K filed with the SEC on March 16, 2015).
10.15	Investment Management Agreement, dated as of May 20, 2005, between CIM Urban Partners, L.P. and CIM Urban REIT Management, Inc. (incorporated by reference to Exhibit 10.16 to the Registrant’s Annual Report on Form 10-K filed with the SEC on March 16, 2015).
10.16	Investment Management Agreement, dated as of December 10, 2015, between CIM Urban Partners, L.P. and CIM Investment Advisors, LLC (incorporated by reference to Exhibit 10.16 to the Registrant's Annual Report on Form 10-K filed with the SEC on March 16, 2016).
10.17	

	Second Amended and Restated Agreement of Limited Partnership of CIM Urban Partners, L.P., dated as of December 22, 2005, by and among CIM Urban Partners GP, Inc. and CIM Urban REIT, LLC (incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K filed with the SEC on March 16, 2015).
10.18	Term Loan Agreement, dated as of May 8, 2015, among CIM Commercial Trust Corporation, each guarantor party thereto, Wells Fargo Bank, National Association, as Administrative Agent , Wells Fargo Securities, LLC and Capital One, National Association, as Joint Lead Arrangers and Joint Bookrunners, Capital One, National Association as Syndication Agent, PNC Bank, National Association as Documentation Agent and each lender party thereto (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on May 6, 2015).

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10.19	Escrow Agreement, dated June 28, 2016, between CIM Commercial Trust Corporation, International Assets Advisory, LLC and UMB Bank, N.A. (incorporated by reference to Exhibit 10.19 to the Registrant's Registration Statement on Form S-11/A filed with the SEC on June 28, 2016).
10.20	Amendment No. 1 to the Escrow Agreement, dated August 11, 2016, between CIM Commercial Trust Corporation, International Assets Advisory, LLC and UMB Bank, N.A. (incorporated by reference to Exhibit 10.20 to the Registrant's Post-Effective Amendment No. 1 to the Registration Statement on Form S-11 filed with the SEC on August 11, 2016).
*21.1	Subsidiaries of the Registrant.
*23.1	Consent of BDO USA, LLP.
*24.1	Powers of Attorney (included on signature page).
*31.1	Section 302 Officer Certification—Chief Executive Officer.
*31.2	Section 302 Officer Certification—Chief Financial Officer.
*32.1	Section 906 Officer Certification—Chief Executive Officer.
*32.2	Section 906 Officer Certification—Chief Financial Officer.
*101	Interactive data files pursuant to Rule 405 of Regulation S-T.

* Filed herewith.

+ Management contract or compensatory plan

(b) Exhibits

The exhibits listed in Item 15(a)3 are incorporated by reference or attached hereto.

(c) Excluded Financial Statements

None.

Item 16. Form 10-K Summary

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

		CIM Commercial Trust Corporation
Dated:	March 16, 2017	By: /s/ CHARLES E. GARNER II Charles E. Garner II Chief Executive Officer
Dated:	March 16, 2017	By: /s/ DAVID THOMPSON David Thompson Chief Financial Officer

POWERS OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Charles E. Garner II and David Thompson and each of them severally, his true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934 and any rules, regulations and requirements of the U.S. Securities and Exchange Commission in connection with this Annual Report on Form 10-K and any and all amendments hereto, as fully for all intents and purposes as he might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Charles E. Garner II Charles E. Garner II	Chief Executive Officer (Principal Executive Officer)	March 16, 2017
/s/ David Thompson David Thompson	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 16, 2017
/s/ Douglas Bech Douglas Bech	Director	March 16, 2017
/s/ Robert Cresci Robert Cresci	Director	March 16, 2017
/s/ Kelly Eppich Kelly Eppich	Director	March 16, 2017
/s/ Frank Golay Frank Golay	Director	March 16, 2017

/s/ Shaul Kuba Shaul Kuba	Director	March 16, 2017
/s/ Richard Ressler Richard Ressler	Director	March 16, 2017
/s/ Avraham Shemesh Avraham Shemesh	Director	March 16, 2017

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CIM COMMERCIAL TRUST CORPORATION AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
CIM Commercial Trust Corporation
Dallas, TX

We have audited the accompanying consolidated balance sheets of CIM Commercial Trust Corporation and its subsidiaries (the "Company") as of December 31, 2016 and 2015 and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2016. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedules listed in the accompanying index. These consolidated financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedules. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CIM Commercial Trust Corporation and its subsidiaries at December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), CIM Commercial Trust Corporation's internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 16, 2017 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Los Angeles, CA
March 16, 2017

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

	December 31, 2016	2015
ASSETS		
Investments in real estate, net	$1,606,942	$1,691,711
Cash and cash equivalents	144,449	139,101
Restricted cash	32,160	8,086
Accounts receivable, net	13,086	11,164
Deferred rent receivable and charges, net	116,354	97,225
Other intangible assets, net	17,623	20,310
Other assets	92,270	102,401
Assets held for sale, net	—	22,062
TOTAL ASSETS	$2,022,884	$2,092,060
LIABILITIES, REDEEMABLE PREFERRED STOCK, AND EQUITY		
LIABILITIES:		
Debt	$967,886	$693,956
Accounts payable and accrued expenses	39,155	42,121
Intangible liabilities, net	3,576	6,086
Due to related parties	10,196	9,472
Other liabilities	34,056	32,826
Liabilities associated with assets held for sale	—	10,252
Total liabilities	1,054,869	794,713
COMMITMENTS AND CONTINGENCIES (Note 17)		
REDEEMABLE PREFERRED STOCK: Series A, $0.001 par value; 36,000,000 shares authorized; 61,435 and 0 shares issued and outstanding at December 31, 2016 and 2015, respectively; liquidation preference of $25.00 per share	1,426	—
EQUITY:		
Common stock, $0.001 par value; 900,000,000 shares authorized; 84,048,081 and 97,589,598 shares issued and outstanding at December 31, 2016 and 2015, respectively	84	98
Additional paid-in capital	1,566,073	1,820,451
Accumulated other comprehensive income (loss)	(509)	(2,519)
Distributions in excess of earnings	(599,971)	(521,620)
Total stockholders’ equity	965,677	1,296,410
Noncontrolling interests	912	937
Total equity	966,589	1,297,347
TOTAL LIABILITIES, REDEEMABLE PREFERRED STOCK, AND EQUITY	$2,022,884	$2,092,060

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 data)

	Year Ended December 31,		
	2016	2015	2014
REVENUES:			
Rental and other property income	$241,413	$252,994	$240,892
Expense reimbursements	12,502	13,394	10,954
Interest and other income	12,016	10,560	10,981
	265,931	276,948	262,827
EXPENSES:			
Rental and other property operating	124,703	133,178	126,874
Asset management and other fees to related parties	33,882	33,169	25,222
Interest	34,385	23,630	20,250
General and administrative	7,961	9,402	11,042
Transaction costs	340	1,382	1,563
Depreciation and amortization	71,968	72,361	69,047
	273,239	273,122	253,998
Bargain purchase gain	—	—	4,918
Gain on sale of real estate (Note 4)	39,666	3,092	—
INCOME FROM CONTINUING OPERATIONS BEFORE PROVISION FOR INCOME TAXES	32,358	6,918	13,747
Provision for income taxes	1,646	806	604
NET INCOME FROM CONTINUING OPERATIONS	30,712	6,112	13,143
DISCONTINUED OPERATIONS:			
Income from operations of assets held for sale (Note 8)	3,853	13,140	11,455
Gain on disposition of assets held for sale (Note 8)	—	5,151	—
NET INCOME FROM DISCONTINUED OPERATIONS	3,853	18,291	11,455
NET INCOME	34,565	24,403	24,598
Net income attributable to noncontrolling interests	(18)	(11)	(220)
NET INCOME ATTRIBUTABLE TO THE COMPANY	34,547	24,392	24,378
Redeemable preferred stock dividends (Note 12)	(9)	—	—
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$34,538	$24,392	$24,378
BASIC AND DILUTED NET INCOME AVAILABLE TO COMMON STOCKHOLDERS PER SHARE:			
Continuing operations	$0.34	$0.06	$0.13
Discontinued operations	$0.04	$0.19	$0.12
Net income	$0.38	$0.25	$0.25
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING:			
Basic	91,328	97,588	97,173
Diluted	91,328	97,588	97,176

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)

	Year Ended December 31,		
	2016	2015	2014
NET INCOME	$34,565	$24,403	$24,598
Other comprehensive income (loss): cash flow hedges	2,010	(2,519)	—
COMPREHENSIVE INCOME	36,575	21,884	24,598
Comprehensive income attributable to noncontrolling interests	(18)	(11)	(220)
COMPREHENSIVE INCOME ATTRIBUTABLE TO THE COMPANY	$36,557	$21,873	$24,378

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 data)

Years Ended December 31, 2016, 2015 and 2014

	Common Stock Outstanding	Common Stock Par Value	Preferred Stock Outstanding	Preferred Stock Par Value	Additional Paid - in Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Earnings	Treasury Stock	Noncontrolling Interests	Total Equity
Balances, December 31, 2013	4,400,000	$ 220	65,028,571	$ 650	$ 1,772,821	$ —	$ (399,953)	$ —	$ 2,745	$ 1,376,483
Distributions pre-merger	—	—	—	—	—	—	(16,100)	—	—	(16,100)
Contributions from noncontrolling interests	—	—	—	—	—	—	—	—	10	10
Distributions to noncontrolling interests	—	—	—	—	—	—	—	—	(264)	(264)
Redemption of Class B shares of subsidiary REITs	—	—	—	—	—	—	—	—	(1,850)	(1,850)
Reverse acquisition capital transaction	2,119,244	111	—	—	49,400	—	—	(4,901)	—	44,610
Conversion of preferred stock to common stock	91,039,999	910	(65,028,571)	(650)	(260)	—	—	—	—	—
Change in par value	—	(1,143)	—	—	1,143	—	—	—	—	—
Exercise of stock options	14,500	—	—	—	201	—	—	—	—	201
Stock-based compensation expense	8,000	—	—	—	1,079	—	—	—	—	1,079
Retirement of fractional shares	(145)	—	—	—	(3)	—	—	—	—	(3)
Common dividends ($0.70625 per share)	—	—	—	—	—	—	(64,363)	—	—	(64,363)
Preferred dividends ($0.0705 per	—	—	—	—	—	—	(4,585)	—	—	(4,585)

share)				
Net income	—	—	—	—