

CoreSite Realty Corp
Form 10-K
February 09, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For The Fiscal Year Ended December 31, 2017

or

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

For The Transition Period From To

Commission file number 001-34877

CoreSite Realty Corporation

(Exact name of registrant as specified in its charter)

Maryland	27-1925611
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1001 17th Street, Suite 500	
Denver, CO	80202
(Address of principal executive offices)	(Zip Code)

(866) 777-2673

(Registrant's telephone number, including area code)

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

Title of Class	Name of Exchange On Which Registered
Common Stock, \$0.01 par value per share	New York Stock Exchange

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

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

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

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

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

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

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

Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company	Emerging growth company
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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of common equity held by non-affiliates of the registrant was approximately \$2,571.3 million as of June 30, 2017, the last business day of the registrant's most recently completed second fiscal quarter. For purposes of the foregoing calculation, all directors and executive officers of the registrant and holders of more than 10% of the registrant's common equity are assumed to be affiliates of the registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 7, 2018, there were 34,243,139 shares of the registrant's Common Stock, \$0.01 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed in conjunction with the registrant's 2018 Annual Meeting of Stockholders, which is expected to be filed not later than 120 days after the registrant's fiscal year ended December 31, 2017, are incorporated by reference in Part III of this report.

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Cautionary Note Regarding Forward Looking Statements

This Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (this “Annual Report”), together with other statements and information publicly disseminated by our company, contains certain forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (“PSLRA”), namely Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). We intend such forward looking statements to be covered by the safe harbor provisions for forward looking statements contained in the PSLRA and include this statement for purposes of complying with these safe harbor provisions.

In particular, statements pertaining to our capital resources, portfolio performance, business strategies and results of operations contain forward looking statements. You can identify forward looking statements by the use of forward looking terminology such as “believes,” “expects,” “may,” “will,” “should,” “seeks,” “intends,” “plans,” “pro forma” “anticipates” or the negative of these words and phrases or similar words or phrases that are predictions of or indicate future events or trends and that do not relate solely to historical matters. You can also identify forward looking statements by discussions of strategy, plans or intentions. Such statements are subject to risks, uncertainties and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward looking statements: (i) the geographic concentration of our data centers in certain markets and any adverse developments in local economic conditions or the demand for data center space in these markets; (ii) fluctuations in interest rates and increased operating costs; (iii) difficulties in identifying properties to acquire and completing acquisitions; (iv) the significant competition in our industry and an inability to lease vacant space, renew existing leases or release space as leases expire; (v) lack of sufficient customer demand to realize expected returns on our investments to expand our property portfolio; (vi) decreased revenue from costs and disruptions associated with any failure of our physical infrastructure or services; (vii) our ability to lease available space to existing or new customers; (viii) our failure to obtain necessary outside financing; (ix) our failure to qualify or maintain our status as a Real Estate Investment Trust (“REIT”); (x) financial market fluctuations; (xi) changes in real estate and zoning laws and increases in real property tax rates; (xii) delays or disruptions in third party network connectivity; (xiii) service failures or price increases by third party power suppliers; (xiv) inability to renew net leases on the data center properties we lease; and (xv) other factors affecting the real estate industry generally.

In addition, important factors that could cause actual results to differ materially from the forward looking statements include the risk factors in Item 1A. “Risk Factors” and elsewhere in this Annual Report. New risks and uncertainties arise from time to time, and we cannot predict those events or how they might affect us. We assume no obligation to update any forward looking statements after the date of this Annual Report, except as required by applicable law. Given these risks and uncertainties, investors should not place undue reliance on forward looking statements as a prediction of actual results.

When we use the terms “we,” “us,” “our,” the “Company,” “CoreSite” and “our company” in this Annual Report, we are referring to CoreSite Realty Corporation, a Maryland corporation, together with our consolidated subsidiaries, including CoreSite, L.P., a Delaware limited partnership of which we are the sole general partner and which we refer to as “our Operating Partnership.”

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PART I

ITEM 1. BUSINESS

The Company

We deliver secure, reliable, high performance data center and interconnection solutions to a growing customer ecosystem across eight key North American communication markets. More than 1,200 of the world's leading enterprises, network operators, cloud providers, and supporting service providers choose CoreSite to connect, protect and optimize their performance-sensitive data, applications and computing workloads.

Our Business

We are a fully integrated, self administered, and self managed real estate investment trust ("REIT") for federal income tax purposes and we conduct certain activities through our taxable REIT subsidiaries. Through our controlling interest in CoreSite, L.P., a Delaware limited partnership, our "Operating Partnership," we are engaged in the business of ownership, acquisition, construction and operation of strategically located data centers in some of the largest and fastest growing data center markets in the United States, including the Northern Virginia (including Washington D.C.), New York, and San Francisco Bay areas, Chicago, Los Angeles, Boston, Miami and Denver. We are a Maryland corporation organized in 2010.

Our data centers are highly specialized and secure buildings that house networking, storage and communications technology infrastructure, including servers, storage devices, switches, routers and fiber optic transmission equipment. These buildings are designed to provide the power, cooling and network connectivity necessary to efficiently operate this mission critical equipment. Data centers located at points where many communications networks converge can also function as interconnection hubs where customers are able to connect to multiple networks and exchange traffic with each other. Our data centers feature advanced reliable and efficient power, cooling and security systems, including generally twenty-four-hours-a-day, seven-days-a-week in house security staffing, and many are points of network interconnection that provide the evolved ecosystems our customers need to meet their own competitive challenges and business goals. We believe we have the flexibility and scalability to satisfy the full spectrum of our customers' growth requirements and corresponding data center needs by providing data center space ranging in size from an entire building or large dedicated suite to a cage or half cabinet.

The first data center in our portfolio was purchased in 2000 by certain real estate funds (the "Funds") affiliated with The Carlyle Group, our predecessor, and since then we have continued to acquire, develop and operate these types of data center facilities. Our properties are self managed, including construction project management in connection with our development initiatives. As of December 31, 2017, and including the two-acre land parcel acquired for CH2 on January 29, 2018, as described below, our property portfolio included 20 operating data center facilities, office and light industrial space and multiple development projects and space, which collectively comprise, when fully built-out, over 4.1 million net rentable square feet ("NRSF"), of which over 2.2 million NRSF is existing operating data center space.

Recent Developments

On January 29, 2018, we acquired a two-acre land parcel located in downtown Chicago, Illinois, for a purchase price of \$4.5 million. We expect to build a 175,000 square foot turn-key data center building on the acquired land parcel, which we refer to as CH2, upon the receipt of necessary entitlements.

Our Competitive Strengths

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We believe the following key competitive strengths position us to efficiently scale our business, capitalize on the demand for data center space and interconnection services, and thereby grow our cash flow.

Secure, Reliable, and Compliant. We help businesses protect mission critical data, performance sensitive applications and IT infrastructure by delivering secure, reliable, and compliant data center solutions. Our data centers feature advanced efficient power and cooling infrastructure to support our customers' IT infrastructure with additional power capacity to support continued growth. We provide twenty four hours a day, seven days a week in house security

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guard monitoring with customizable security features. We also provide the infrastructure and physical security required to support many of our customers' information, data, and security compliance needs across all of our properties.

High Performance Interconnection. We offer cloud-enabled, network rich data center campuses with over 25,000 interconnections across our portfolio. Our customers have direct access to over 400 carriers and Internet Service Providers ("ISPs") and over 350 leading cloud and IT service providers. In addition to standard interconnection offerings, we also operate the CoreSite Open Cloud Exchange™, and the Any2 Exchange for Internet Peering, the second largest peering exchange in the U.S. The diverse network and cloud connectivity options at many of our data centers provide us with a competitive advantage by creating an ideal environment for enterprises to build holistic, streamlined hybrid cloud solutions. Many providers in our data center facilities can leverage our sites as revenue opportunities by offering their services directly to other customers within our data centers, while enterprises can reduce their total cost of operations by directly connecting to service providers in the same data center in a cost effective manner.

Scalable. Across 20 operating data centers in eight key North American markets, we lease space to enterprises, cloud and IT service providers, and network and mobility providers. We believe our ability to be both flexible and scalable is a key differentiator. We offer many space, power, and interconnection options that allow customers to select products and services that meet their needs. We believe we have a compelling combination of presence in most of the top data center markets in the U.S. with the ability to meet customers' growing capacity requirements within those markets.

We have the ability to increase our occupied data center square footage by approximately 1,719,000 NRSF, or 84%, through leasing our 203,000 NRSF of unoccupied space and the development of 220,000 NRSF space under construction as of December 31, 2017, and approximately 1,296,000 NRSF at multiple facilities that are available for future development based on market supply and demand, including the two-acre CH2 land parcel acquired on January 29, 2018.

High-Quality Customer Experience. We believe our 465 professionals deliver best in class service by placing customer needs first in supporting the planning, implementation and operating requirements of customers. We provide dedicated implementation resources to ensure a seamless onboarding process for customers. Our leasing and sales professionals can develop complex data center solutions for the most demanding customer requirements and our experienced and committed operations and facilities personnel are available for extensive management support. We believe our customer satisfaction is indicated by the 92% of 2017 leasing volume which came from existing customers.

Facilities in Key Markets. Our portfolio is concentrated in some of the largest and most important U.S. metropolitan markets and we expect to continue benefitting from this concentration as customers seek new, high quality data center space and interconnections within our markets, which are many of the key North American network, financial, cloud and commercial hubs. Our data centers are located in the Northern Virginia (including Washington D.C.), New York and San Francisco Bay areas, Chicago, Los Angeles, Boston, Miami and Denver. Many of our facilities are also situated in close proximity to a concentration of key businesses and corporations, driving demand for our data center space and interconnection services.

Diversified Customer Base. We have a diverse, global customer base, which we believe is a reflection of our strong reputation and proven track record, as well as our customers' trust in our ability to house their mission critical applications and vital communications technology. Our diverse customer base spans many industries across eight key North America markets. In addition to geographic markets, we group our customers into the following industry verticals:

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- Enterprises: digital content and multimedia, systems integrators and managed service providers (“SI & MSP”), financial, healthcare, education, government, manufacturing and professional services
- Cloud and IT Service Providers; and
- Networks and Mobility: domestic and international telecommunications carriers, subsea cables, ISPs and Content Delivery Networks (“CDNs”)

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Business and Growth Strategies

Our business objective is to continue growing our position as a provider of strategically located data center space in North America. Key components of our strategy include the following:

Increase Cash Flow from In Place Data Center Space. We actively manage and lease our properties to increase cash flow by:

- Leasing Available Space. We have the ability to increase both our revenue and our revenue per square foot by leasing additional space and power services to new and existing data center customers. As of December 31, 2017, substantially all of our data center facilities had space and power available to offer our customers the ability to increase their square footage under lease as well as the amount of power they use per square foot. Our existing data center facilities have approximately 203,000 NRSF of data center space available to lease, or 9.0% of our current operating data center portfolio. We believe this space, together with available power, enables us to generate incremental revenue within our existing data center footprint.
- Increasing Interconnection in our Facilities. As more customers colocate in our data center facilities, it benefits their business partners and customers to colocate with CoreSite in order to gain the full economic and performance benefits of our interconnection services. We believe this ecosystem of customers continues to drive new and existing customer growth, and in turn, increases the volume of interconnection services and the amount of value add power services such as breakerred AC and DC primary and redundant power.

Capitalize on Embedded Expansion Opportunities. We plan to grow by developing new secure, reliable and high performance data center space. Our development opportunities include leveraging existing in place infrastructure and entitlements in currently operating properties or campuses. In many cases, we are able to strategically deploy capital by developing space in incremental phases to meet customer demand. Including the space currently under construction at December 31, 2017, space and land targeted for future development, and the two-acre CH2 land parcel acquired on January 29, 2018, we own land and buildings sufficient to develop approximately 1,516,000 NRSF of data center space.

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The following table summarizes the NRSF under construction and NRSF held for development throughout our portfolio, each as of December 31, 2017, including the two-acre CH2 land parcel, which was acquired January 29, 2018:

Facilities	Development Opportunities (in NRSF)		
	Under Construction(1)	Held for Development(2)	Total
Santa Clara campus			
SV8(3)	—	175,000	175,000
San Francisco Bay Total	—	175,000	175,000
One Wilshire campus			
LA1	—	10,352	10,352
LA2	87,263	29,770	117,033
LA3(3)	—	180,000	180,000
Los Angeles Total	87,263	220,122	307,385
Northern Virginia			
VA1	—	—	—
DC2	24,563	—	24,563
Reston Campus Expansion(4)	74,759	536,313	611,072
Northern Virginia Total	99,322	536,313	635,635
New York			
NY2	18,121	116,387	134,508