CoreSite Realty Corp
Form 10-Q
November 01, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2013.

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from to .

Commission file number: 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.)
1050 17th Street, Suite 800 Denver, CO	**80265**

(Address of principal executive offices)	(Zip Code)

(866) 777-2673

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The number of shares of common stock outstanding at October 30, 2013 was 21,383,226.

Table of Contents

CORESITE REALTY CORPORATION
FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2013
TABLE OF CONTENTS

	PAGE NO.
PART I. FINANCIAL INFORMATION	3
ITEM 1. Financial Statements	3
Condensed Consolidated Balance Sheets as of September 30, 2013, and December 31, 2012 (unaudited)	3
Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2013, and 2012 (unaudited)	4
Condensed Consolidated Statement of Equity for the nine months ended September 30, 2013 (unaudited)	5
Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2013, and 2012 (unaudited)	6
Notes to Condensed Consolidated Financial Statements (unaudited)	7
ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	17
ITEM 3. Quantitative and Qualitative Disclosures About Market Risk	26
ITEM 4. Controls and Procedures	27
PART II. OTHER INFORMATION	27
ITEM 1. Legal Proceedings	27
ITEM 1A. Risk Factors	27
ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds	27
ITEM 3. Defaults Upon Senior Securities	28
ITEM 4. Mine Safety Disclosures	28
ITEM 5. Other Information	28
ITEM 6. Exhibits	28
Signatures	29

Exhibit 31.1
Exhibit 31.2
Exhibit 32.1

Exhibit 32.2
EX-101 INSTANCE DOCUMENT
EX-101 SCHEMA DOCUMENT
EX-101 CALCULATION LINKBASE DOCUMENT
EX-101 LABELS LINKBASE DOCUMENT
EX-101 PRESENTATION LINKBASE DOCUMENT
EX-101 DEFINITION LINKBASE DOCUMENT

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CORESITE REALTY CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited and in thousands except share data)

		September 30, 2013		December 31, 2012
ASSETS				
Investments in real estate:				
Land	$	76,227	$	85,868
Building and building improvements		668,580		596,405
Leasehold improvements		92,996		85,907
		837,803		768,180
Less: Accumulated depreciation and amortization		(142,133)		(105,433)
Net investment in operating properties		695,670		662,747
Construction in progress		157,200		61,328
Net investments in real estate		852,870		724,075
Cash and cash equivalents		702		8,130
Accounts and other receivables, net of allowance for doubtful accounts of $320 and $625 as of September 30, 2013, and December 31, 2012, respectively		11,095		9,901
Lease intangibles, net of accumulated amortization of $20,026 and $33,050 as of September 30, 2013, and December 31, 2012, respectively		12,460		19,453
Goodwill		41,191		41,191
Other assets		47,583		42,582
Total assets	$	965,901	$	845,332
LIABILITIES AND EQUITY				
Liabilities:				
Revolving credit facility	$	108,000	$	
Mortgage loans payable		58,625		59,750
Accounts payable and accrued expenses		75,248		50,624
Deferred rent payable		9,579		4,329
Acquired below-market lease contracts, net of accumulated amortization of $5,702 and $10,062 as of September 30, 2013, and December 2012, respectively		7,050		8,539
Prepaid rent and other liabilities		11,697		11,317
Total liabilities		270,199		134,559
Stockholders equity:				
Series A Cumulative Preferred Stock 7.25%, $115,000 liquidation preference ($25.00 per share, $0.01 par value), 4,600,000 shares issued and outstanding as of September 30, 2013, and December 31, 2012		115,000		115,000
Common Stock, par value $0.01, 100,000,000 shares authorized and 21,412,432 and 21,202,673 shares issued and outstanding at September 30, 2013, and December 31, 2012,		208		207

respectively				
Additional paid-in capital		265,483		259,009
Distributions in excess of net income		(45,953)		(35,987)
Total stockholders equity		334,738		338,229
Noncontrolling interests		360,964		372,544
Total equity		695,702		710,773
Total liabilities and equity	$	965,901	$	845,332

See accompanying notes to condensed consolidated financial statements.

Table of Contents

CORESITE REALTY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited and in thousands except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Operating revenues:				
Rental revenue	$ 35,283	$ 31,603	$ 102,590	$ 91,837
Power revenue	15,979	14,230	43,994	39,543
Interconnection revenue	7,441	6,177	21,066	15,268
Tenant reimbursement and other	1,932	1,752	5,743	5,034
Total operating revenues	60,635	53,762	173,393	151,682
Operating expenses:				
Property operating and maintenance	17,368	16,360	47,013	46,029
Real estate taxes and insurance	2,226	2,158	6,750	6,304
Depreciation and amortization	16,424	16,583	48,634	47,991
Sales and marketing	3,206	2,231	10,931	6,941
General and administrative	7,045	6,389	20,225	18,777
Rent	5,082	4,689	14,631	13,957
Transaction costs	25	293	279	576
Total operating expenses	51,376	48,703	148,463	140,575
Operating income	9,259	5,059	24,930	11,107
Interest income	14	5	18	12
Interest expense	(708)	(1,595)	(1,930)	(3,922)
Income before income taxes	8,565	3,469	23,018	7,197
Income tax expense	(56)	(522)	(435)	(1,059)
Net income	8,509	2,947	22,583	6,138
Net income attributable to noncontrolling interests	3,524	1,627	8,962	3,389
Net income attributable to CoreSite Realty Corporation	4,985	1,320	13,621	2,749
Preferred stock dividends	(2,084)		(6,253)	
Net income attributable to common shares	$ 2,901	$ 1,320	$ 7,368	$ 2,749
Net income per share attributable to common shares:				
Basic	$ 0.14	$ 0.06	$ 0.35	$ 0.13
Diluted	$ 0.14	$ 0.06	$ 0.34	$ 0.13
Weighted average common shares outstanding				
Basic	20,871,504	20,554,893	20,793,596	20,514,713
Diluted	21,479,971	21,027,635	21,465,710	20,890,894

See accompanying notes to condensed consolidated financial statements.

Table of Contents

CORESITE REALTY CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(unaudited and in thousands except share data)

	Preferred Stock	Common Shares Number	Common Shares Amount	Additional Paid-in Capital	Distributions in Excess of Net Income	Total Stockholders Equity	Noncontrolling Interests	Total Equity
Balance at January 1, 2013	$ 115,000	21,202,673	$ 207	$ 259,009	$ (35,987)	$ 338,229	$ 372,544	$ 710,773
Issuance of restricted stock awards, net of forfeitures		169,482	1			1		1
Exercise of stock options		40,277		630		630		630
Offering costs				(27)		(27)		(27)
Amortization of deferred compensation				5,871		5,871		5,871
Dividends declared on preferred stock					(6,253)	(6,253)		(6,253)
Dividends and distributions					(17,334)	(17,334)	(20,542)	(37,876)
Net income					13,621	13,621	8,962	22,583
Balance at September 30, 2013	$ 115,000	21,412,432	$ 208	$ 265,483	$ (45,953)	$ 334,738	$ 360,964	$ 695,702

See accompanying notes to condensed consolidated financial statements.

Table of Contents

CORESITE REALTY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and in thousands)

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 22,583	$ 6,138
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	48,634	47,991
Amortization of above/below market leases	(672)	(1,241)
Amortization of deferred financing costs	1,293	1,307
Amortization of share-based compensation	5,337	4,083
Bad debt expense	241	276
Changes in operating assets and liabilities:		
Accounts receivable	(1,435)	(3,559)
Deferred rent receivable	(1,660)	(3,262)
Deferred leasing costs	(5,373)	(2,936)
Other assets	(2,713)	1,000
Accounts payable and accrued expenses	3,361	1,206
Prepaid rent and other liabilities	380	(3,883)
Deferred rent payable	5,250	663
Net cash provided by operating activities	75,226	47,783
CASH FLOWS FROM INVESTING ACTIVITIES		
Tenant improvements	(5,214)	(5,266)
Real estate improvements	(117,964)	(50,276)
Acquisition of NY2	(21,889)	
Acquisition of Comfluent, net of cash received		(2,581)
Changes in reserves for capital improvements		8,690
Net cash used in investing activities	(145,067)	(49,433)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of stock options	630	874
Offering costs	(27)	
Proceeds from revolving credit facility	108,000	57,750
Principal payments on mortgage loans	(1,125)	(25,233)
Payments of loan fees and costs	(2,621)	(119)
Dividends and distributions paid on common stock and OP units	(37,508)	(24,829)
Dividends paid on preferred stock	(4,936)	
Net cash provided by financing activities	62,413	8,443
Net change in cash and cash equivalents	(7,428)	6,793
Cash and cash equivalents, beginning of period	8,130	6,628
Cash and cash equivalents, end of period	$ 702	$ 13,421
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 3,205	$ 4,092
NON-CASH INVESTING AND FINANCING ACTIVITY		
Construction costs payable capitalized to real estate	$ 32,291	$ 11,891
Accrual of dividends and distributions	$ 15,051	$ 8,640

See accompanying notes to condensed consolidated financial statements.

Table of Contents

CORESITE REALTY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2013

(unaudited)

1. Organization and Description of Business

CoreSite Realty Corporation, through its controlling interest in CoreSite, L.P. (the Operating Partnership) and the subsidiaries of the Operating Partnership (collectively, the Company, we, or our), is a fully-integrated, self-administered, and self-managed real estate investment trust (REIT). The Company was organized in the State of Maryland on February 17, 2010, completed its initial public offering of common stock (the IPO) on September 28, 2010, and is the sole general partner of the Operating Partnership. As of September 30, 2013, the Company owns a 45.1% common interest in the Operating Partnership.

We are engaged in the business of owning, acquiring, constructing and managing technology-related real estate and as of September 30, 2013, our property portfolio included 14 operating data center facilities and multiple development projects located in some of the largest and fastest growing data center markets in the United States, including Los Angeles, the San Francisco Bay and Northern Virginia areas, Chicago, Boston, New York City, Miami and Denver. The development projects include construction of new facilities in the San Francisco Bay, Northern Virginia and New York areas.

2. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by our management in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and in compliance with the rules and regulations of the United States Securities and Exchange Commission. Accordingly, these condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of our management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the nine months ended September 30, 2013, are not necessarily indicative of the expected results for the year ending December 31, 2013. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2012. Intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of these condensed consolidated financial statements in conformity with GAAP requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. We evaluate our estimates, including those related to assessing the carrying values of our real estate properties, accrued liabilities, and performance-based equity compensation plans. We base our estimates on historical experience, current market conditions, and various other assumptions that we believe to be reasonable under the circumstances. Actual results may vary from those estimates and those estimates could vary under different assumptions or conditions.

Adjustments and Reclassifications

Interconnection revenue, included on the condensed consolidated statements of operations, and cash used for tenant improvement investing activities, included in the accompanying condensed consolidated statements of cash flows for 2012, have been reclassified to conform to the 2013 financial statement presentation. In addition, certain other immaterial amounts included in the condensed consolidated financial statements for 2012 have been reclassified to conform to the 2013 financial statement presentation.

Investments in Real Estate

Real estate investments are carried at cost less accumulated depreciation and amortization. The cost of real estate includes the purchase price of the property and leasehold improvements. Expenditures for maintenance and repairs are expensed as incurred. Significant renovations and betterments that extend the economic useful lives of assets are capitalized. During land development and construction periods, we capitalize construction costs, legal fees, financing costs, real estate taxes and insurance and internal costs of personnel performing development, if such costs are incremental and identifiable to a specific development project. Capitalization begins upon commencement of development efforts and ceases when the property is ready for its intended use and held available for occupancy. Interest is capitalized during the period of development based upon applying the weighted-average borrowing rate to the actual development costs expended. Capitalized interest costs were $1.1 million and $0.3 million for the three months ended September 30, 2013, and 2012, respectively, and $3.0 million and $1.5 million for the nine months ended September 30, 2013, and 2012, respectively.

Table of Contents

Depreciation and amortization are calculated using the straight-line method over the following useful lives of the assets:

Buildings	27 to 40 years
Building improvements	1 to 15 years
Leasehold improvements	The shorter of the lease term or useful life of the asset

Depreciation expense was $13.7 million and $10.7 million for the three months ended September 30, 2013, and 2012, respectively, and $38.9 million and $29.7 million for the nine months ended September 30, 2013, and 2012, respectively.

Acquisition of Investment in Real Estate

Purchase accounting is applied to the assets and liabilities related to all real estate investments acquired. The fair value of the real estate acquired is allocated to the acquired tangible assets, consisting primarily of land, building and improvements, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, value of in-place leases and the value of customer relationships.

The fair value of the land and building of an acquired property is determined by valuing the property as if it were vacant, and the as-if-vacant fair value is then allocated to land and building based on management s determination of the 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.

The fair value of intangibles related to in-place leases includes the value of lease intangibles for above-market and below-market leases, lease origination costs, and customer relationships, determined on a lease-by-lease basis. Above-market and below-market leases are valued based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases 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. Lease origination costs include estimates of costs avoided associated with leasing the property, including tenant allowances and improvements and leasing commissions. Customer relationship intangibles relate to the additional revenue opportunities expected to be generated through interconnection services and utility services to be provided to the in-place lease tenants.

The capitalized values for above and below-market lease intangibles, lease origination costs, and customer relationships are amortized over the term of the underlying leases or the expected customer relationship. Amortization related to above-market and below-market leases where the Company is the lessor is recorded as either a reduction of or an increase to rental income, amortization related to above-market and below-market leases where the Company is the lessee is recorded as either a reduction of or an increase to rent expense and amortization for lease origination costs and customer relationships are recorded as amortization expense. If a lease is terminated prior to its stated expiration, all unamortized amounts relating to that lease are written off. The carrying value of intangible assets is reviewed for impairment in connection with its respective asset group whenever events or changes in circumstances indicate that the asset group may not be recoverable. An impairment loss is recognized if the carrying amount of the asset group is not recoverable and its carrying amount exceeds its estimated fair value. No impairment loss was recognized for the three and nine months ended September 30, 2013, and 2012.

The excess of the cost of an acquired business over the net of the amounts assigned to assets acquired (including identified intangible assets) and liabilities assumed is recorded as goodwill. As of September 30, 2013, and December 31, 2012, we had approximately $41.2 million of goodwill at each date. The Company s goodwill has an indeterminate life and is not amortized, but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired. No impairment loss was recognized for the three and nine months ended September 30, 2013, and 2012.

Cash and Cash Equivalents

Cash and cash equivalents include all non-restricted cash held in financial institutions and other non-restricted highly liquid short-term investments with original maturities at acquisition of three months or less.

Deferred Costs

Deferred leasing costs include commissions and other direct and incremental costs incurred to obtain new customer leases, which are capitalized and amortized over the terms of the related leases using the straight-line method. If a lease terminates prior to the expiration of its initial term, any unamortized costs related to the lease are written off to amortization expense.

Deferred financing costs include costs incurred in connection with obtaining debt and extending existing debt. These financing costs are capitalized and amortized on a straight-line basis, which approximates the effective-interest method, over the term of the loan and are included as a component of interest expense.

Table of Contents

Recoverability of Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is recognized when estimated expected future cash flows (undiscounted and without interest charges) are less than the carrying amount of the assets. The estimation of expected future net cash flows is inherently uncertain and relies, to a considerable extent, on assumptions regarding current and future economics and market conditions and the availability of capital. If, in future periods, there are changes in the estimates or assumptions incorporated into the impairment review analysis, the changes could result in an adjustment to the carrying amount of the long-lived assets. To the extent that impairment has occurred, the excess of the carrying amount of long-lived assets over its estimated fair value would be recognized as an impairment loss charged to net income. For the three and nine months ended September 30, 2013, and 2012, no impairment was recognized.

Revenue Recognition

All leases are classified as operating leases and minimum rents are recognized on a straight-line basis over the non-cancellable term of the agreements. The excess of rents recognized over amounts contractually due pursuant to the underlying leases are included in deferred rent receivable. If a lease terminates prior to its stated expiration, the deferred rent receivable relating to that lease is written off as a reduction of rental revenue.

When arrangements include multiple elements, the revenue associated with separate elements is allocated based on the relative fair values of those elements. The revenue associated with each element is then recognized as earned. Interconnection services are considered as separate earnings processes that are provided and completed on a month-to-month basis and revenue is recognized in the period that services are performed. Set-up charges and utility installation fees are initially deferred and recognized over the term of the arrangement as revenue or the expected period of performance unless management determines a separate earnings process exists related to an installation charge.

Tenant reimbursements for real estate taxes, common area maintenance, and other recoverable costs are recognized as revenue in the period that the related expenses are incurred.

Above-market and below-market lease intangibles that were acquired are amortized on a straight-line basis as decreases and increases, respectively, to rental revenue over the remaining non-cancellable term of the underlying leases. For the three months ended September 30, 2013, and 2012, the net effect of amortization of acquired above-market and below-market leases resulted in an increase to rental revenue of $0.2 million and $0.4 million, respectively. For the nine months ended September 30, 2013, and 2012, the net effect of amortization of acquired above-market and below-market leases resulted in an increase to rental income of $0.5 million and $1.2 million, respectively.

A provision for uncollectible accounts is recorded if a receivable balance relating to contractual rent, rent recorded on a straight-line basis, or tenant reimbursements is considered by management to be uncollectible. At September 30, 2013, and December 31, 2012, the allowance for doubtful accounts totaled $0.3 million and $0.6 million, respectively.

Share-Based Compensation

We account for share-based compensation using the fair value method of accounting. The estimated fair value of the stock options granted by us is calculated based on Black-Scholes option-pricing model and is amortized on a straight-line basis over the vesting period. The fair value of restricted share-based and Operating Partnership unit compensation is based on the market value of our common stock on the date of the grant and is amortized on a straight-line basis over the vesting period.

Asset Retirement and Environmental Remediation Obligations

We record accruals for estimated retirement and environmental remediation obligations. The obligations relate primarily to the removal of asbestos and contaminated soil during development of the properties as well as the estimated equipment removal costs upon termination of a certain lease where we are the lessee. At September 30, 2013, and December 31, 2012, the amount included in other liabilities on the condensed consolidated balance sheets was approximately $2.5 million and $2.6 million, respectively.

Table of Contents

Income Taxes

We elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the Code), commencing with our taxable year ended December 31, 2010. To qualify as a REIT, we are required to distribute at least 90% of our taxable income to our stockholders and meet various other requirements imposed by the Code relating to such matters as operating results, asset holdings, distribution levels and diversity of stock ownership. Provided we qualify for taxation as a REIT, we are generally not subject to corporate level federal income tax on the earnings distributed currently to our stockholders. If we fail to qualify as a REIT in any taxable year, and are unable to avail ourselves of certain savings provisions set forth in the Code, all of our taxable income would be subject to federal income tax at regular corporate rates, including any applicable alternative minimum tax.

To maintain REIT status, we must distribute a minimum of 90% of our taxable income. However, it is our policy and intent, subject to change, to distribute 100% of our taxable income and therefore no provision is required in the accompanying financial statements for federal income taxes with regards to activities of the REIT and its subsidiary pass-through entities. Any taxable income prior to the completion of the IPO is the responsibility of the Company s prior member. The allocable share of income is included in the income tax returns of the members. The Company is subject to the statutory requirements of the locations in which it conducts business. State and local income taxes are accrued as deemed required in the best judgment of management based on analysis and interpretation of respective tax laws.

We have elected to treat certain subsidiaries as taxable REIT subsidiaries (TRS). Certain activities that we undertake must be conducted by a TRS, such as services for our tenants that could be considered otherwise impermissible for us to perform and holding assets that we cannot hold directly. A TRS is subject to corporate level federal and state income taxes. Relative deferred tax assets and liabilities arising from temporary differences in financial reporting versus tax reporting are also established as determined by management.

Deferred income taxes are recognized in certain taxable entities. Deferred income tax is generally a function of the period s temporary differences (items that are treated differently for tax purposes than for financial reporting purposes), the utilization of tax net operating losses generated in prior years that previously had been recognized as deferred income tax assets and the reversal of any previously recorded deferred income tax liabilities. A valuation allowance for deferred income tax assets is provided if we believe all or some portion of the deferred income tax asset may not be realized. Any increase or decrease in the valuation allowance resulting from a change in circumstances that causes a change in the estimated realizability of the related deferred income tax asset is included in deferred tax expense. As of September 30, 2013, the deferred income taxes were not material.

We currently have no liabilities for uncertain tax positions. The earliest tax year for which we are subject to examination is 2010.

Concentration of Credit Risks

Our cash and cash equivalents are maintained in various financial institutions, which, at times, may exceed federally insured limits. We have not experienced any losses in such accounts, and management believes that we are not exposed to any significant credit risk in this area. We have no off-balance sheet concentrations of credit risk, such as foreign exchange contracts, option contracts, or foreign currency hedging arrangements.

Segment Information

We manage our business as one reportable segment consisting of investments in data centers located in the United States. Although we provide services in several markets, these operations have been aggregated into one reportable segment based on the similar economic characteristics amongst all markets, including the nature of the services provided and the type of customers purchasing these services.

Table of Contents

3. Investment in Real Estate

On February 7, 2013, the Company acquired land and a vacant building, NY2, in Secaucus, New Jersey, with a total real estate value of $23.0 million. NY2 is being developed into a data center facility. In addition to NY2, during the nine months ended September 30, 2013, the Company commenced development on two other data center facilities, VA2, in Reston, Virginia, and SV5, in Santa Clara, California. Based on the relative fair values of the parcels, land was allocated to each of VA2 and SV5 and was reclassified during the first quarter of 2013 to construction in progress in the condensed consolidated balance sheets. The reclassification equaled $5.2 million and $2.4 million for VA2 and SV5, respectively.

The following is a summary of the properties owned and leased at September 30, 2013 (in thousands):

Property Name	Location	Land	Buildings and Improvements	Leasehold Improvements	Construction in Progress	Total Cost
SV1	San Jose, CA	$ 6,863	$ 114,425	$	$ 4,607	$ 125,895
SV2	Milpitas, CA	5,086	23,780		271	29,137
SV3	Santa Clara, CA	3,972	45,821		130	49,923
SV4	Santa Clara, CA	4,442	85,671		942	91,055
SV5	Santa Clara, CA				21,178	21,178
Santa Clara Campus(1)	Santa Clara, CA	8,173	8,221		9,055	25,449
BO1	Somerville, MA	6,100	77,388		2,900	86,388
NY1	New York, NY			32,522	180	32,702
NY2	Secaucus, NJ				78,563	78,563
VA1	Reston, VA	6,903	105,658		3,487	116,048
VA2	Reston, VA				22,227	22,227
DC1	Washington, DC			7,264	262	7,526
CH1	Chicago, IL	5,493	75,951		5,415	86,859
LA1	Los Angeles, CA			51,830	2,363	54,193
LA2	Los Angeles, CA	28,467	121,819		5,486	155,772
MI1	Miami, FL	728	9,846		118	10,692
DE1	Denver, CO			711	15	726
DE2	Denver, CO			669	1	670
Total		$ 76,227	$ 668,580	$ 92,996	$ 157,200	$ 995,003

(1) This campus includes office and light-industrial real estate buildings and land held for development in Santa Clara, CA.

4. Other Assets

Our other assets consisted of the following, net of amortization and depreciation, if applicable, as of September 30, 2013, and December 31, 2012 (in thousands):

	September 30, 2013	December 31, 2012
Deferred leasing costs	$ 13,012	$ 12,444
Deferred rent receivable	16,677	15,017
Deferred financing costs	3,758	2,520
Corporate furniture, fixtures and equipment	4,689	4,152
Other	9,447	8,449
Total	$ 47,583	$ 42,582

Table of Contents

5. Debt

A summary of outstanding indebtedness as of September 30, 2013, and December 31, 2012 is as follows (in thousands):

	Interest Rate	Maturity Date	September 30, 2013	December 31, 2012
SV1 - Mortgage loan	3.69% and 3.71% at September 30, 2013, and December 31, 2012, respectively	October 9, 2014	$ 58,625	$ 59,750
Revolving credit facility	2.18% and 2.46% at September 30, 2013, and December 31, 2012, respectively	January 3, 2017	108,000	
Total principal outstanding			$ 166,625	$ 59,750

SV1 Mortgage Loan

As of September 30, 2013, SV1 was subject to a $58.6 million mortgage loan with a maturity date of October 9, 2014. The loan bears variable interest and requires the payment of interest and principal until maturity. The mortgage requires ongoing compliance by us with various covenants, including liquidity and net operating income covenants. As of September 30, 2013, we were in compliance with the covenants under the mortgage.

Revolving Credit Facility

On January 3, 2013, our Operating Partnership and certain subsidiary co-borrowers entered into a second amended and restated senior unsecured revolving credit facility (the Second Amended and Restated Credit Agreement) with a group of lenders for which KeyBank National Association acts as administrative agent. The Second Amended and Restated Credit Agreement amended the Operating Partnership s senior secured revolving credit facility, dated December 15, 2011 (the Prior Facility), and provides for the release of the properties owned by the Operating Partnership s wholly owned subsidiaries from the existing liens in favor of the credit facility lenders, with the facility continuing on an unsecured basis and unconditionally guaranteed on a senior unsecured basis by the Company. Our Operating Partnership acts as the parent borrower, and our subsidiaries that own or lease real estate properties, are co-borrowers under the Second Amended and Restated Credit Agreement.

The Second Amended and Restated Credit Agreement increased the commitment from the Prior Facility of $225.0 million to $355.0 million and extended the initial maturity date of the Prior Facility from December 15, 2014, to January 3, 2017, with a one-time extension option, which, if exercised, would extend the maturity date to January 3, 2018. The exercise of the extension option is subject to the payment of an extension fee equal to 25 basis points of the total commitment under the Second Amended and Restated Credit Agreement at initial maturity and certain other customary conditions. The Second Amended and Restated Credit Agreement contains an accordion feature, which allows our Operating Partnership to increase the total commitment by $145.0 million, to $500.0 million, under specified circumstances.

On June 28, 2013, the borrowers under the Second Amended and Restated Credit Agreement partially exercised the accordion feature to increase the aggregate commitments by $50.0 million. As a result of the accordion exercise, the borrowing capacity increased from $355.0 million to $405.0 million. All other terms of the Second Amended and Restated Credit Agreement remain unchanged.

Under the Second Amended and Restated Credit Agreement, our Operating Partnership may elect to have borrowings bear interest at a rate per annum equal to (i) LIBOR plus 200 basis points to 275 basis points, or (ii) a base rate plus 100 basis points to 175 basis points, each depending on our Operating Partnership s leverage ratio.

The total amount available for borrowings under the Second Amended and Restated Credit Agreement is subject to the lesser of the facility amount or the availability calculated based on our unencumbered asset pool. As of September 30, 2013, $396.6 million was available for us to borrow under the Second Amended and Restated Credit Agreement, of which $108.0 million was borrowed and outstanding.

Our ability to borrow under the Second Amended and Restated Credit Agreement is subject to ongoing compliance with a number of financial covenants and other customary restrictive covenants, including, among others:

- a maximum leverage ratio (defined as consolidated total indebtedness to total gross asset value) of 60%. As of September 30, 2013, our leverage ratio was 11.5%;

- a maximum secured debt ratio (defined as consolidated total secured debt to total gross asset value) of 40%. As of September 30, 2013, our secured debt ratio was 3.8%;

- a minimum fixed charge coverage ratio (defined as adjusted consolidated earnings before interest, taxes, depreciation and amortization to consolidated fixed charges) of 1.75 to 1.0. As of September 30, 2013, our fixed charge coverage ratio was 7.5 to 1.0; and

- a maximum unhedged variable rate debt ratio (defined as unhedged variable rate indebtedness to gross asset value) of 30%. As of September 30, 2013, our unhedged variable rate debt ratio was 10.8%.

Table of Contents

As of September 30, 2013, we were in compliance with the covenants under our Second Amended and Restated Credit Agreement.

Debt Maturities

The following table summarizes the amount of our outstanding debt when such debt currently becomes due (in thousands):

Year Ending December 31,		
Remainder of 2013	$	375
2014		58,250
2015		
2016		
2017		108,000
Total	$	166,625

6. Stockholders Equity

We have declared the following dividends per share on our Series A Cumulative Preferred Stock and common shares during the nine months ended September 30, 2013:

Declaration Date	Record Date	Payment Date		Preferred Stock		Common Shares
March 5, 2013	March 28, 2013	April 15, 2013	$	0.6200(1)	$	0.27
May 24, 2013	June 28, 2013	July 15, 2013		0.4531(2)		0.27
August 30, 2013	September 30, 2013	October 15, 2013		0.4531(3)		0.27
			$	1.5262	$	0.81

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(1) Dividend covers the period from the issuance of our Series A Cumulative Preferred Stock, December 12, 2012, to April 14, 2013.

(2) Dividend covers the period from April 15, 2013, to July 14, 2013.

(3) Dividend covers the period from July 15, 2013, to October 14, 2013.

7. Noncontrolling Interests Operating Partnership

Noncontrolling interests represent the limited partnership interests in the Operating Partnership held by individuals and entities other than CoreSite Realty Corporation. Since September 28, 2011, the current holders of Common Operating Partnership units have been eligible to have the Common Operating Partnership units redeemed for cash or, at our option, exchangeable into our common stock on a one-for-one basis. We have evaluated whether we control the actions or events necessary to issue the maximum number of shares that could be required to be delivered

under the share settlement of the Common Operating Partnership units. Based on the results of this analysis, we concluded that the Common Operating Partnership units met the criteria to be classified within equity at September 30, 2013.

The following table shows the ownership interest in the Operating Partnership as of September 30, 2013, and December 31, 2012:

	September 30, 2013		December 31, 2012	
	Number of Units	Percentage of Total	Number of Units	Percentage of Total
The Company	20,872,386	45.1%	20,610,523	44.8%
Noncontrolling interests consist of:				
Common units held by third parties	25,275,390	54.7%	25,275,390	55.0%
Incentive units held by employees	85,457	0.2%	78,319	0.2%
Total	46,233,233	100.0%	45,964,232	100.0%

For each share of common stock issued by the Company, the Operating Partnership issues an equivalent Common Operating Partnership unit to the Company. During the nine months ended September 30, 2013, the Company issued 262,665 shares of common stock related to employee compensation arrangements and, therefore, an equivalent number of Common Operating Partnership units were issued to the Company by the Operating Partnership.

Holders of Common Operating Partnership units of record as of March 28, 2013, June 28, 2013, and September 30, 2013, received quarterly distributions of $0.27 per unit payable in correlation with declared dividends on common shares.

Table of Contents

On December 12, 2012, the Operating Partnership issued 4.6 million Preferred Operating Partnership units to the Company in connection with our issuance of Series A Cumulative Preferred Stock. The Preferred Operating Partnership units rank senior to the Common Operating Partnership units held by the Company and noncontrolling interests.

The redemption value of the noncontrolling interests at September 30, 2013, was $860.7 million based on the closing price of the Company s stock of $33.94 on September 30, 2013, the last trading day of the quarter.

8. Equity Incentive Plan

In connection with our IPO, the Company s Board of Directors adopted the 2010 Equity Incentive Plan (as amended, the 2010 Plan). The 2010 Plan is administered by the Board of Directors, or the plan administrator. Awards issuable under the 2010 Plan include common stock, stock options, restricted stock, stock appreciation rights, dividend equivalents and other incentive awards. Following approval by the Board of Directors on March 30, 2013, our stockholders, on May 22, 2013, approved the amendment and restatement of the 2010 Plan which, among other things, increased the number of shares of common stock authorized for issuance by 3,000,000 shares. We have reserved a total of 6,000,000 shares of our common stock for issuance pursuant to the 2010 Plan, which may be adjusted for changes in our capitalization and certain corporate transactions. To the extent that an award expires, terminates or lapses, or an award is settled in cash without the delivery of shares of common stock to the participant, then any unexercised shares subject to the award will be available for future grant or sale under the 2010 Plan. Shares of restricted stock which are forfeited or repurchased by us pursuant to the 2010 Plan may again be optioned, granted or awarded under the 2010 Plan. The payment of dividend equivalents in cash in conjunction with any outstanding awards will not be counted against the shares available for issuance under the 2010 Plan.

As of September 30, 2013, 3,632,820 shares of our common stock were available for issuance pursuant to the 2010 Plan.

Stock Options

Stock option awards are granted with an exercise price equal to the closing market price of the Company s common stock at the date of grant. The fair value of each option granted under the 2010 Plan is estimated on the date of grant using the Black-Scholes option-pricing model. For the nine months ended September 30, 2013, options to purchase 209,268 shares of common stock were granted. The fair values are being amortized on a straight-line basis over the vesting periods.

The following table sets forth the stock option activity under the 2010 Plan for the nine months ended September 30, 2013:

	Number of Shares Subject to Option	Weighted Average Exercise Price
Options outstanding, December 31, 2012	1,017,195	$ 17.25
Granted	209,268	32.50

Forfeited	(23,865)		21.22
Exercised	(40,277)		15.65
Options outstanding, September 30, 2013	1,162,321	$	19.97

The following table sets forth the number of shares subject to options that are unvested as of September 30, 2013, and the fair value of these options at the grant date:

	Number of Shares Subject to Option		**Weighted Average Fair Value at Grant**
Unvested balance, December 31, 2012	730,159	$	5.70
Granted	209,268		10.01
Forfeited	(23,865)		6.69
Vested	(261,862)		5.55
Unvested balance, September 30, 2013	653,700	$	7.11

As of September 30, 2013, total unearned compensation on options was approximately $3.9 million, and the weighted-average vesting period was 2.2 years.

Table of Contents

Restricted Awards

During the nine months ended September 30, 2013, the Company granted 187,186 shares of restricted stock under the 2010 Plan. Additionally, the Company granted 5,328 restricted stock units, or RSUs under the 2010 Plan. The principal difference between these instruments is that RSUs are not outstanding shares of the Company s common stock and do not have any of the rights or privileges thereof, including voting rights. On the applicable vesting date, the holder of an RSU becomes entitled to one share of common stock for each RSU. Restricted awards are amortized on a straight-line basis over the vesting period. The following table sets forth the number of unvested restricted awards and the weighted average fair value of these awards at the date of grant:

	Restricted Awards		Weighted Average Fair Value at Grant
Unvested balance, December 31, 2012	598,695	$	21.37
Granted	192,514		32.47
Forfeited	(16,902)		25.08
Vested	(229,613)		20.80
Unvested balance, September 30, 2013	544,694	$	25.42

As of September 30, 2013, total unearned compensation on restricted awards was approximately $11.3 million, and the weighted-average vesting period was 2.4 years.

9. Earnings Per Share

The following is a summary of basic and diluted income per share (in thousands, except share and per share amounts):

	Three Months Ended September 30,				Nine Months Ended September 30,			
		2013		2012		2013		2012
Net income attributable to common shares	$	2,901	$	1,320	$	7,368	$	2,749
Weighted average common shares outstanding - basic		20,871,504		20,554,893		20,793,596		20,514,713
Effect of potentially dilutive common shares:								
Stock options		391,398		267,831		388,889		225,520
Unvested restricted awards		217,069		204,911		283,225		150,661
Weighted average common shares outstanding - diluted		21,479,971		21,027,635		21,465,710		20,890,894
Net income per share attributable to common shares								
Basic	$	0.14	$	0.06	$	0.35	$	0.13
Diluted	$	0.14	$	0.06	$	0.34	$	0.13

In the calculations above, we have excluded weighted-average potentially dilutive securities of 211,721 and 200,908 for the three months ended September 30, 2013, and 2012, respectively, and 166,732 and 100,587 for the nine months ended September 30, 2013, and 2012, respectively, as their effect would have been antidilutive.

Table of Contents

10. Estimated Fair Value of Financial Instruments

Authoritative guidance issued by FASB establishes a hierarchy of valuation techniques based on the observability of inputs utilized in measuring assets and liabilities at fair values. This hierarchy establishes market-based or observable inputs as the preferred source of values, followed by valuation models using management assumptions in the absence of market inputs. The three levels of the hierarchy under the authoritative guidance are as follows:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the assessment date.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 Unobservable inputs for the asset or liability.

Our financial instruments consist of cash and cash equivalents, restricted cash, accounts and other receivables, revolving credit facility, mortgage loans payable, interest payable and accounts payable. The carrying values of cash and cash equivalents, restricted cash, accounts and other receivables, interest payable and accounts payable approximate fair values due to the short-term nature of these financial instruments.

The total balance of our mortgage loan payable and revolving credit facility was $166.6 million and $59.8 million as of September 30, 2013, and December 31, 2012, respectively, with a fair value that approximated book value at both periods, based on Level 3 inputs from the fair value hierarchy. Under the discounted cash flow method, the fair values of mortgage notes payable and the revolving credit facility are based on the Company s assumptions of interest rates and terms available incorporating the Company s credit risk.

11. Related Party Transactions

We lease 1,520 net rentable square feet of space at VA1 to an affiliate of The Carlyle Group (Carlyle). Affiliates of Carlyle own a 54.7% common interest in the Operating Partnership. Rental revenue was $0.1 million for the three ended September 30, 2013, and 2012, and $0.2 million for the nine months ended September 30, 2013, and 2012.

12. Commitments and Contingencies

As of September 30, 2013, the Company, as lessee, leases data center space under noncancelable operating lease agreements at LA1, DC1, DE1, DE2 and NY1, and its headquarters located in Denver, Colorado, under noncancelable operating lease agreements. The lease agreements provide

for base rental rate increases at defined intervals during the terms of the leases. In addition, the Company has negotiated rent abatement periods to better match the phased build-out of the data center space. The Company accounts for such abatements and increasing base rentals using the straight-line method over the noncancelable terms of the leases. The difference between the straight-line expense and the cash payment is recorded as deferred rent payable. Rent expense on operating leases for the three months ended September 30, 2013, and 2012, was $5.1 million and $4.7 million, respectively, and for the nine months ended September 30, 2013, and 2012 was $14.6 million and $14.0 million, respectively. Additionally, the Company has commitments related to telecommunications capacity used to connect data centers located within the same market or geographical area and power usage. The following table summarizes our contractual obligations as of September 30, 2013 (in thousands):

Obligation	Remainder of 2013	2014	2015	2016	2017	Thereafter	Total
Operating leases	$ 4,644	$ 18,902	$ 19,258	$ 18,942	$ 17,503	$ 80,893	$ 160,142
Credit Facility(1)	588	2,353	2,353	2,353	108,000		115,647
Mortgages payable (2)	913	59,843					60,756
Construction Contracts (3)	75,808	429					76,237
Other (4)	1,441	1,536	1,071	564	176	1,484	6,272
Total	$ 83,394	$ 83,063	$ 22,682	$ 21,859	$ 125,679	$ 82,377	$ 419,054

(1) Includes $108.0 million outstanding and estimated annual interest payments assuming no draws or payments on the revolving credit facility through the maturity date of January 3, 2017. The revolving credit facility is subject to variable rates and we estimated interest payments based on the interest rate as of September 30, 2013.

(2) Includes $58.6 million of mortgage principal payments and estimated interest payments until debt maturity on October 9, 2014. We estimated interest payments of $0.5 million for the remainder of 2013 and $1.6 million in 2014. The mortgage payable is subject to variable rates and we estimated interest payments based on the interest rate as of September 30, 2013.

(3) Obligations for construction contracts for properties under construction, tenant related capital expenditures, and other capital improvements.

(4) Obligations for power contracts, telecommunications leases, and internal system development.

From time to time, we are party to a variety of legal proceedings arising in the ordinary course of business. We believe that, with respect to any such matters to which we currently are a party, the ultimate disposition of any such matter will not result in a material adverse effect on our business, financial condition, cash flows or results of operations.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This Quarterly Report on Form 10-Q (this Quarterly Report), together with other statements and information publicly disseminated by our company, contains certain forward-looking statements within the meaning of 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 Private Securities Litigation Reform Act of 1995 and include this statement for purposes of complying with these safe harbor provisions.

In particular, statements pertaining to our capital resources, portfolio performance, financial condition, cash flows and results of operations contain certain 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 or anticipates or the negative of these words and phrases 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 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.

While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. We disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, of new information, data or methods, future events or other changes. The risks included here are not exhaustive, and additional factors could adversely affect our business and financial performance, including factors and risks included in other sections of this Quarterly Report. Additional information concerning these and other risks and uncertainties is contained in our other periodic filings with the United States Securities and Exchange Commission, or SEC, pursuant to the Exchange Act. We discussed a number of material risks in Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2012. Those risks continue to be relevant to our performance and financial condition. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Overview

Unless the context requires otherwise, references in this Quarterly Report to we, our, us and our company refer to CoreSite Realty Corporation, a Maryland corporation, together with its consolidated subsidiaries, including CoreSite, L.P., a Delaware limited partnership of which CoreSite Realty Corporation is the sole general partner and which we refer to in this Quarterly Report as our Operating Partnership, and CoreSite Services, Inc., a Delaware corporation, our taxable REIT subsidiary, or TRS .

We provide data center solutions to more than 750 of the world s leading carriers and mobile operators, content and cloud providers, media and entertainment companies and global enterprises. Across 14 high-performance data center campuses in eight North America markets, we connect customers to help them grow their businesses, run performance-sensitive applications and secure their crucial data devices.

We are engaged in the business of ownership, acquisition, construction and management of strategically located data centers in some of the largest and fastest growing data center markets in the United States, including Los Angeles, the San Francisco Bay and Northern Virginia areas, Chicago, Boston, New York City, Miami and Denver. Our high-quality data centers feature ample and redundant power, advanced cooling and security systems and many are points of dense network interconnection.

Our Portfolio

As of September 30, 2013, our property portfolio included 14 operating data center facilities and multiple development projects which collectively comprise over 2.7 million net rentable square feet of space (NRSF), of which approximately 1.3 million NRSF is existing data center space, including pre-stabilized space. The development projects include construction of new facilities in the San Francisco Bay, Northern Virginia and New York areas. The operating portfolio includes approximately 315,000 NRSF of space readily available for lease, of which 238,000 NRSF is available for lease as data center space. Including the space currently under construction or in preconstruction at September 30, 2013, vacant space and land targeted for future development, we own land and buildings sufficient to develop approximately 1.1 million square feet of data center space.

Table of Contents

We expect that this development potential plus any potential expansion into new markets will enable us to accommodate existing and future customer demand and position us to significantly increase our cash flows. We intend to pursue development projects and expansion into new markets when we believe those opportunities support the additional supply in those markets. The following table provides an overview of our properties as of September 30, 2013:

Stabilized Operating NRSF (1)