UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2021

☐ **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 Each Class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.01 par value per share	COR	New York Stock Exchange

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

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

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

Large Accelerated Filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to 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 Exchange Act). Yes ☐ No ☒

The number of shares of common stock outstanding at October 27, 2021, was 44,197,721.

CORESITE REALTY CORPORATION
FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2021
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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CORESITE REALTY CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited and in thousands except share and per share data)

	September 30, 2021	December 31, 2020
ASSETS		
Investments in real estate:		
Land	$ 109,400	$ 104,734
Buildings and improvements	2,315,125	2,273,536
	2,424,525	2,378,270
Less: Accumulated depreciation and amortization	(986,095)	(867,975)
Net investment in operating properties	1,438,430	1,510,295
Construction in progress	375,168	319,411
Net investments in real estate	1,813,598	1,829,706
Operating lease right-of-use assets, net	172,439	173,928
Cash and cash equivalents	3,406	5,543
Accounts and other receivables, net of allowance for doubtful accounts of $57 and $511 as of September 30, 2021, and December 31, 2020, respectively	26,825	20,849
Lease intangibles, net of accumulated amortization of $5,261 and $3,913 as of September 30, 2021, and December 31, 2020, respectively	1,159	2,507
Goodwill	40,646	40,646
Other assets, net	108,922	103,094
Total assets	**$ 2,166,995**	**$ 2,176,273**
LIABILITIES AND EQUITY		
Liabilities:		
Debt, net of unamortized deferred financing costs of $5,961 and $7,589 as of September 30, 2021, and December 31, 2020, respectively	$ 1,781,039	$ 1,715,911
Operating lease liabilities	189,581	189,404
Accounts payable and accrued expenses	89,902	79,140
Accrued dividends and distributions	65,772	63,878
Acquired below-market lease contracts, net of accumulated amortization of $1,833 and $1,684 as of September 30, 2021, and December 31, 2020, respectively	2,164	2,313
Unearned revenue, prepaid rent and other liabilities	48,342	53,149
Total liabilities	**2,176,800**	**2,103,795**
Stockholders' equity (deficit):		
Common Stock, par value $0.01, 100,000,000 shares authorized and 44,201,031 and 42,768,153 shares issued and outstanding at September 30, 2021, and December 31, 2020, respectively	436	422
Additional paid-in capital	570,746	555,595
Accumulated other comprehensive loss	(12,261)	(20,526)
Distributions in excess of net income	(567,771)	(471,910)
Total stockholders' equity (deficit)	(8,850)	63,581
Noncontrolling interests	(955)	8,897
Total equity (deficit)	**(9,805)**	**72,478**
Total liabilities and equity	**$ 2,166,995**	**$ 2,176,273**

See accompanying notes to condensed consolidated financial statements.

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,	
	2021	2020	2021	2020
Operating revenues:				
Data center revenue:				
Rental, power, and related revenue	$ 138,095	$ 130,300	$ 407,864	$ 381,913
Interconnection revenue	22,994	21,144	67,760	62,126
Office, light-industrial and other revenue	2,769	2,537	8,000	7,847
Total operating revenues	163,858	153,981	483,624	451,886
Operating expenses:				
Property operating and maintenance	49,940	44,986	138,536	126,206
Real estate taxes and insurance	5,184	5,989	18,925	17,778
Depreciation and amortization	45,072	41,759	135,067	124,529
Sales and marketing	6,186	5,901	17,852	17,882
General and administrative	12,167	10,854	35,465	33,724
Rent	9,292	8,966	27,352	26,360
Total operating expenses	127,841	118,455	373,197	346,479
Operating income	36,017	35,526	110,427	105,407
Other income	—	—	3,098	—
Interest expense	(11,894)	(11,384)	(35,999)	(33,153)
Income before income taxes	24,123	24,142	77,526	72,254
Income tax expense	(5)	(10)	(18)	(46)
Net income	$ 24,118	$ 24,132	$ 77,508	$ 72,208
Net income attributable to noncontrolling interests	2,339	3,000	8,612	12,557
Net income attributable to common shares	**$ 21,779**	**$ 21,132**	**$ 68,896**	**$ 59,651**
Net income per share attributable to common shares:				
Basic	**$ 0.50**	**$ 0.50**	**$ 1.60**	**$ 1.50**
Diluted	**$ 0.50**	**$ 0.50**	**$ 1.60**	**$ 1.49**
Weighted average common shares outstanding				
Basic	43,712,434	42,234,534	42,963,488	39,823,394
Diluted	43,907,135	42,404,396	43,165,724	39,995,993

See accompanying notes to condensed consolidated financial statements.

CORESITE REALTY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited and in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	**2020**	**2021**	**2020**
Net income	$ 24,118	$ 24,132	$ 77,508	$ 72,208
Other comprehensive (loss) income:				
Unrealized gain (loss) on derivative contracts	(224)	4	4,062	(21,394)
Reclassification of other comprehensive loss to interest expense	1,961	1,836	5,754	3,149
Comprehensive income	25,855	25,972	87,324	53,963
Comprehensive income attributable to noncontrolling interests	2,508	3,224	9,741	7,916
Comprehensive income attributable to CoreSite Realty Corporation	**$ 23,347**	**$ 22,748**	**$ 77,583**	**$ 46,047**

See accompanying notes to condensed consolidated financial statements.

CORESITE REALTY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(unaudited and in thousands except share data)

	Common Shares		Additional Paid-in	Accumulated Other Comprehensive	Distributions in Excess of	Total Stockholders'	Noncontrolling	Total
	Number	Amount	Capital	Income (Loss)	Net Income	Equity (Deficit)	Interests	Equity (Deficit)
Balance at January 1, 2021	42,768,153	$ 422	$ 555,595	$ (20,526)	$ (471,910)	$ 63,581	$ 8,897	$ 72,478
Redemption and reallocation of noncontrolling interests	1,300	1	(447)	(12)	—	(458)	458	—
Issuance of stock awards, net of forfeitures	212,419	—	—	—	—	—	—	—
Exercise of stock options	2,694	—	41	—	—	41	—	41
Share-based compensation	—	1	4,588	—	—	4,589	—	4,589
Dividends and distributions	—	—	—	—	(52,852)	(52,852)	(7,276)	(60,128)
Net income	—	—	—	—	21,868	21,868	3,047	24,915
Other comprehensive income	—	—	—	6,075	—	6,075	847	6,922
Balance at March 31, 2021	42,984,566	$ 424	$ 559,777	$ (14,463)	$ (502,894)	$ 42,844	$ 5,973	$ 48,817
Redemption and reallocation of noncontrolling interests	1,200,000	12	1,612	(409)	—	1,215	(1,215)	—
Issuance of stock awards, net of forfeitures	18,066	—	—	—	—	—	—	—
Exercise of stock options	2,888	—	69	—	—	69	—	69
Share-based compensation	—	—	4,912	—	—	4,912	—	4,912
Dividends and distributions	—	—	—	—	(55,806)	(55,806)	(5,989)	(61,795)
Net income	—	—	—	—	25,249	25,249	3,226	28,475
Other comprehensive income	—	—	—	1,044	—	1,044	113	1,157
Balance at June 30, 2021	44,205,520	$ 436	$ 566,370	$ (13,828)	$ (533,451)	$ 19,527	$ 2,108	$ 21,635
Redemption and reallocation of noncontrolling interests	—	—	(417)	(1)	—	(418)	418	—
Issuance of stock awards, net of forfeitures	(4,489)	—	—	—	—	—	—	—
Share-based compensation	—	—	4,793	—	—	4,793	—	4,793
Dividends and distributions	—	—	—	—	(56,099)	(56,099)	(5,989)	(62,088)
Net income	—	—	—	—	21,779	21,779	2,339	24,118
Other comprehensive income	—	—	—	1,568	—	1,568	169	1,737
Balance at September 30, 2021	**44,201,031**	**$ 436**	**$ 570,746**	**$ (12,261)**	**$ (567,771)**	**$ (8,850)**	**$ (955)**	**$ (9,805)**

	Common Shares		Additional Paid-in	Accumulated Other Comprehensive	Distributions in Excess of	Total Stockholders'	Noncontrolling	Total
	Number	Amount	Capital	Income (Loss)	Net Income	Equity	Interests	Equity
Balance at January 1, 2020	37,701,042	$ 373	$ 512,324	$ (6,026)	$ (348,509)	$ 158,162	$ 55,726	$ 213,888
Redemption of noncontrolling interests	2,140	—	11	—	—	11	(11)	—
Issuance of stock awards, net of forfeitures	199,541	—	—	—	—	—	—	—
Exercise of stock options	3,210	—	73	—	—	73	—	73
Share-based compensation	—	1	3,725	—	—	3,726	—	3,726
Dividends and distributions	—	—	—	—	(46,174)	(46,174)	(13,139)	(59,313)
Net income	—	—	—	—	17,848	17,848	5,140	22,988
Other comprehensive loss	—	—	—	(13,132)	—	(13,132)	(3,782)	(16,914)
Balance at March 31, 2020	37,905,933	$ 374	$ 516,133	$ (19,158)	$ (376,835)	$ 120,514	$ 43,934	$ 164,448
Redemption of noncontrolling interests	4,620,000	46	25,105	(2,594)	—	22,557	(22,557)	—
Issuance of stock awards, net of forfeitures	(1,185)	—	—	—	—	—	—	—
Exercise of stock options	8,672	—	99	—	—	99	—	99
Share-based compensation	—	—	4,477	—	—	4,477	—	4,477
Dividends and distributions	—	—	—	—	(51,857)	(51,857)	(7,502)	(59,359)
Net income	—	—	—	—	20,671	20,671	4,417	25,088
Other comprehensive loss	—	—	—	(2,088)	—	(2,088)	(1,083)	(3,171)
Balance at June 30, 2020	42,533,420	$ 420	$ 545,814	$ (23,840)	$ (408,021)	$ 114,373	$ 17,209	$ 131,582
Redemption of noncontrolling interests	230,172	2	822	(131)	—	693	(693)	—
Issuance of stock awards, net of forfeitures	(5,037)	—	—	—	—	—	—	—
Exercise of stock options	7,932	—	126	—	—	126	—	126
Share-based compensation	—	—	4,465	—	—	4,465	—	4,465
Dividends and distributions	—	—	—	—	(52,139)	(52,139)	(7,222)	(59,361)
Net income	—	—	—	—	21,132	21,132	3,000	24,132
Other comprehensive income	—	—	—	1,616	—	1,616	224	1,840
Balance at September 30, 2020	**42,766,487**	**$ 422**	**$ 551,227**	**$ (22,355)**	**$ (439,028)**	**$ 90,266**	**$ 12,518**	**$ 102,784**

See accompanying notes to condensed consolidated financial statements.

CORESITE REALTY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited and in thousands)

	Nine Months Ended September 30,	
	2021	**2020**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 77,508	$ 72,208
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	135,067	124,529
Amortization of above/below market leases	(112)	(102)
Amortization of deferred financing costs and hedge amortization	2,907	3,100
Share-based compensation	13,636	11,810
Bad debt expense (recovery)	(135)	890
Changes in operating assets and liabilities:		
Accounts receivable	(5,841)	(11,271)
Deferred rent receivable	(4,109)	(1,252)
Initial direct costs	(10,963)	(13,517)
Other assets	(6,347)	(3,642)
Accounts payable and accrued expenses	(910)	8,195
Unearned revenue, prepaid rent and other liabilities	4,397	3,043
Operating leases	1,683	801
Net cash provided by operating activities	206,781	194,792
CASH FLOWS FROM INVESTING ACTIVITIES		
Tenant improvements	(6,551)	(4,555)
Real estate improvements	(83,808)	(219,512)
Net cash used in investing activities	(90,359)	(224,067)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of stock options	110	298
Proceeds from revolving credit facility	196,500	201,000
Payments on revolving credit facility	(133,000)	(143,500)
Proceeds from unsecured debt	—	150,000
Payments of loan fees and costs	(53)	(1,108)
Dividends and distributions	(182,116)	(177,569)
Net cash (used in) provided by financing activities	(118,559)	29,121
Net change in cash and cash equivalents	(2,137)	(154)
Cash and cash equivalents, beginning of period	5,543	3,048
Cash and cash equivalents, end of period	**$ 3,406**	**$ 2,894**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest, net of capitalized amounts	$ 33,268	$ 33,816
Cash paid for operating lease liabilities	$ 20,143	$ 20,108
NON-CASH INVESTING AND FINANCING ACTIVITY		
Construction costs payable capitalized to real estate	$ 26,673	$ 25,537
Accrual of dividends and distributions	$ 65,772	$ 62,796
NON-CASH OPERATING ACTIVITY		
Lease liabilities arising from obtaining right-of-use assets	$ 13,154	$ 7,935

See accompanying notes to condensed consolidated financial statements.

CORESITE REALTY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2021
(unaudited)

1. Organization and Description of Business

CoreSite Realty Corporation (the "Company," "we," "us," or "our") was organized in the State of Maryland on February 17, 2010, and is a fully-integrated, self-administered, and self-managed real estate investment trust ("REIT"). Through our controlling interest in CoreSite, L.P. (our "Operating Partnership"), we are engaged in the business of owning, acquiring, constructing and operating data centers. As of September 30, 2021, the Company owned a 90.3% common interest in our Operating Partnership, and affiliates of The Carlyle Group and others owned a 9.7% interest in our Operating Partnership. See additional discussion in Note 10, Noncontrolling Interests – Operating Partnership.

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 U.S. Securities and Exchange Commission. Accordingly, these unaudited 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 three and nine months ended September 30, 2021, are not necessarily indicative of the expected results for the year ending December 31, 2021, or any other future period. These unaudited 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, 2020.

Our Operating Partnership meets the definition and criteria of a variable interest entity ("VIE") and we are the primary beneficiary of the VIE. Our sole significant asset is the investment in our Operating Partnership, and consequently, substantially all of our assets and liabilities represent those assets and liabilities of our Operating Partnership. Our debt is an obligation of our Operating Partnership where the creditors also have recourse against the credit of the Company. Intercompany balances and transactions have been eliminated upon consolidation.

Recent Accounting Pronouncements Not Yet Adopted

Reference Rate Reform

In March 2020, the FASB issued guidance codified in ASU 2020-04, *Reference Rate Reform* (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. ASU 2020-04 provides optional expedients for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. ASU 2020-04 provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The standard is effective for all entities as of March 12, 2020 through December 31, 2022. An entity can elect to apply the amendments either retrospectively as of any date from the beginning of any interim period that includes or is subsequent to March 12, 2020, or prospectively from any date in an interim period that includes or is subsequent to January 7, 2021 up to the date that financial statements are available to be issued. We are currently evaluating the optional expedients and exceptions provided by ASU 2020-04 to determine the impact on our condensed consolidated financial statements.

We determined that all other recently issued accounting pronouncements will either not have a material impact on our condensed consolidated financial statements or do not apply to our operations.

Use of Estimates

The preparation of these unaudited 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 unaudited 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 our standalone selling prices, performance-based equity compensation plans and the carrying values of our real estate properties, goodwill, and accrued liabilities. 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.

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 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, rent expense and internal costs of personnel performing development, if such costs are incremental and identifiable to a specific development project. Capitalization of costs begins upon commencement of development efforts and ceases when the project 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 $2.9 million and $3.2 million for the three months ended September 30, 2021, and 2020, respectively. Capitalized interest costs were $8.2 million and $9.9 million for the nine months ended September 30, 2021, and 2020, respectively.

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 10 years
Leasehold improvements	The shorter of the lease term or useful life of the asset

Depreciation expense was $40.9 million and $38.2 million for the three months ended September 30, 2021, and 2020, respectively. Depreciation expense was $122.5 million and $112.9 million for the nine months ended September 30, 2021, and 2020, respectively.

Acquisition of Investment in Real Estate

When accounting for business combinations and asset acquisitions, the fair value of the real estate acquired is allocated to the acquired tangible assets, consisting primarily of land, building and building 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 primary difference between business combinations and asset acquisitions is that asset acquisitions require cost accumulation and allocation at a relative fair value. Acquisition costs are capitalized for asset acquisitions and are expensed for business combinations.

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 market lease rates for the corresponding in-place leases, measured over a period equal to the remaining noncancelable term of the lease and, for below-market leases, over a time 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 rental services, 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 revenue, 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. 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 related to these intangible assets was recognized for the three or nine months ended September 30, 2021, or 2020.

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, 2021, and December 31, 2020, we had $40.6 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 or nine months ended September 30, 2021, or 2020.

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.

Initial Direct Costs

Initial direct costs include commissions paid to third parties, including brokers, leasing and referral agents, and internal sales commissions paid to employees for successful execution of customer lease agreements. Initial direct costs are incremental costs that would not have been incurred if the lease agreement had not been executed. These initial direct costs are capitalized and generally amortized over the term of the related leases using the straight-line method. If a customer lease terminates prior to the expiration of its initial term, any unamortized initial direct costs related to the lease are written off to amortization expense. Amortization of initial direct costs was $3.5 million and $2.8 million for the three months ended September 30, 2021, and 2020. Amortization of initial direct costs was $10.0 million and $9.8 million for the nine months ended September 30, 2021, and 2020, respectively. Initial direct costs are included within other assets in the condensed consolidated balance sheets and consisted of the following, net of amortization, as of September 30, 2021, and December 31, 2020 (in thousands):

	September 30, 2021	December 31, 2020
Internal sales commissions	$ 16,797	$ 16,453
Third party commissions	13,597	13,316
Other	280	357
Total	**$ 30,674**	**$ 30,126**

Deferred Financing Costs

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 indebtedness and the amortization is included as a component of interest expense. Depending on the type of debt instrument, deferred financing costs are reported either in other assets or as a direct deduction from the carrying amount of the related debt liabilities in our condensed consolidated balance sheets.

Recoverability of Long-Lived Assets

We review our 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, 2021, and 2020, no impairment of long-lived assets was recognized in the condensed consolidated financial statements.

Derivative Instruments and Hedging Activities

We reflect all derivative instruments at fair value as either assets or liabilities on the condensed consolidated balance sheets. For those derivative instruments that are designated and qualify as hedging instruments, we record the gain or loss on the hedging instruments as a component of accumulated other comprehensive income or loss. For derivatives that do not meet the criteria for hedge accounting, changes in fair value are immediately recognized within net income. See additional discussion in Note 8, Derivatives and Hedging Activities.

Internal-Use Software

We recognize internal-use software development costs based on the development stage of the project and nature of the cost. Internal and external costs incurred during the preliminary project stage are expensed as they are incurred. Internal and external costs incurred to develop internal-use software during the application development stage are capitalized. Internal and external training costs and maintenance costs during the post-implementation-operation stage are expensed as incurred. Completed projects are placed into service and amortized over the estimated useful life of the software. No impairment of internal-use software was recognized in the condensed consolidated financial statements for the three and nine months ended September 30, 2021, and 2020.

Revenue Recognition

Rental, Power, and Related Revenue

We derive our revenues from leases with customers for data center and office and light-industrial space. Our leases include rental revenue lease components and nonlease revenue components, such as power and tenant reimbursements. We have elected to combine all of our nonlease revenue components that have the same pattern of transfer as the related operating lease component into a single combined lease component.

Our leases with customers are classified as operating leases and rental revenue is recognized on a straight-line basis over the customer lease term. Occasionally, our customer leases include options to extend or terminate the lease agreements. We do not include any of these extension or termination options in a customer's lease term for lease classification purposes or for recognizing rental revenue unless we are reasonably certain the customer will exercise these extension or termination options. The excess of rents recognized over amounts contractually due pursuant to the underlying leases is recorded as deferred rent receivable within other assets on our condensed consolidated balance sheets.

In general, we provide two power products for our data center leased space, consisting of a fixed (breakered-amperage) and a variable (sub-metered) model. Customer power arrangements are coterminous with the customer's underlying lease and have the same pattern of transfer over the lease term and are therefore combined with lease revenue within our condensed consolidated statements of operations. For fixed power arrangements, a customer pays us a fixed monthly fee for a committed available amount of power. We recognize the fixed power revenue each month over the term of the lease. For variable power arrangements, a customer pays us variable monthly fees for the specific amount of power utilized at the current utility rates. We recognize variable power revenue each month as the uncertainty related to the consideration is resolved, as power is provided to our customers, and as our customers utilize the power.

Some of our leases contain provisions under which our customers reimburse us for common area maintenance and other executory costs. These customer reimbursements are variable and are recognized in the period that the expenses are recognized. These services have the same pattern of transfer over the lease term and are also combined with lease revenue within our condensed consolidated statements of operations.

Interconnection Revenue

We also derive revenue from interconnection services, which are generally contracted on a month-to-month basis cancellable by us or the customer at any time. Interconnection services are accounted for as separate contracts and are not combined with lease and power arrangements. We recognize interconnection revenue each month as these services are delivered to, and utilized by, our customers.

Allowance for Doubtful Accounts

A provision for uncollectible accounts is recorded if the collectability of a receivable balance relating to contractual rent, rental revenue recorded on a straight-line basis, tenant reimbursements or other billed amounts is considered by management to not be probable. At September 30, 2021, and December 31, 2020, the allowance for doubtful accounts totaled \$0.1 million and \$0.5 million, respectively, on the condensed consolidated balance sheets.

Lessee Accounting

We determine if an arrangement is a lease at inception. Our operating lease agreements are primarily for real estate space and are included within operating lease right-of-use ("ROU") assets and operating lease liabilities on the condensed consolidated balance sheets. We elected the practical expedient to combine our lease and related nonlease components for our lessee building leases.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. Our variable lease payments consist of nonlease services related to the lease. Variable lease payments are excluded from the ROU assets and lease liabilities and are recognized in the period in which the obligation for those payments is incurred. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. ROU assets also include any lease payments made and exclude lease incentives. Many of our lessee agreements include options to extend the lease, which we do not include in our minimum lease terms unless they are reasonably certain to be exercised. Rental expense for lease payments related to operating leases is recognized on a straight-line basis over the lease term.

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 the Black-Scholes option-pricing model. The fair value of restricted share-based and Operating Partnership unit compensation is based on the fair value of our common stock on the date of the grant. The fair value of performance share awards, which have a market condition, is based on a Monte Carlo simulation. The fair value for all share-based compensation is amortized on a straight-line basis over the vesting period. We have elected to account for forfeitures as they occur.

Asset Retirement and Environmental Remediation Obligations

We record accruals for estimated asset retirement and environmental remediation obligations. The obligations relate primarily to the removal of asbestos during development of properties as well as the estimated equipment removal costs upon termination of a certain lease where we are the lessee. At September 30, 2021, and December 31, 2020, the amount included in unearned revenue, prepaid rent and other liabilities on the condensed consolidated balance sheets was approximately \$1.9 million and \$1.8 million, respectively.

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 generally are 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.

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 condensed consolidated financial statements for federal income taxes with regard to our activities and our subsidiary pass-through entities. The allocable share of taxable income is included in the income tax returns of its stockholders. We are subject to the statutory requirements of the locations in which we conduct 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.

Deferred income taxes are recognized in certain taxable entities. Deferred income tax generally is 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 more likely than 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, 2021, and December 31, 2020, the gross deferred income taxes were not material.

We currently have no liabilities for uncertain income tax positions. As of September 30, 2021, the earliest tax year for which we are subject to examination is 2018.

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 the Company is 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.

Risks and Uncertainties

The full impact of the ongoing COVID-19 pandemic to our business and our customers' ability to comply with rent obligations remains dependent on future developments, including, among other factors, the duration of the pandemic, including as a result of COVID-19 variants, along with related government-mandated business shutdowns, travel advisories and restrictions on movement, the effectiveness of efforts to vaccinate in the United States and globally, the recovery time of general employment levels, disrupted supply chains, potentially material staffing shortages, construction and development delays, and uncertainty with respect to accessibility of additional funding sources. As of September 30, 2021, we have not recognized a material loss, impairment, or contingency within our condensed consolidated financial statements as a result of the COVID-19 pandemic.

3. Investment in Real Estate

The following is a summary of the properties owned or leased by market at September 30, 2021 (in thousands):

Market	Land	Buildings and Improvements	Construction in Progress	Total Cost
Boston	$ 5,154	$ 144,670	$ 646	$ 150,470
Chicago	11,725	188,065	60,489	260,279
Denver	—	37,299	477	37,776
Los Angeles	22,127	457,005	104,866	583,998
Miami	728	14,772	33	15,533
New York	3,574	217,035	44,453	265,062
Northern Virginia	21,856	412,883	111,769	546,508
San Francisco Bay	44,236	843,396	52,435	940,067
Total	**$ 109,400**	**$ 2,315,125**	**$ 375,168**	**$ 2,799,693**

The following is a summary of the properties owned or leased by market at December 31, 2020 (in thousands):

Market	Land	Buildings and Improvements	Construction in Progress	Total Cost
Boston	$ 5,154	$ 131,037	$ 4,221	$ 140,412
Chicago	7,059	183,282	58,883	249,224
Denver	—	35,527	955	36,482
Los Angeles	22,127	451,999	68,052	542,178
Miami	728	14,679	10	15,417
New York	3,574	213,051	39,228	255,853
Northern Virginia	21,856	408,534	106,318	536,708
San Francisco Bay	44,236	835,427	41,744	921,407
Total	**$ 104,734**	**$ 2,273,536**	**$ 319,411**	**$ 2,697,681**

4. Other Assets

Other assets consisted of the following, net of amortization and depreciation, if applicable for each line item, as of September 30, 2021, and December 31, 2020 (in thousands):

	September 30, 2021	December 31, 2020
Deferred rent receivable	$ 44,224	$ 40,115
Initial direct costs	30,674	30,126
Internal-use software	10,600	13,403
Prepaid expenses	16,750	11,572
Corporate furniture, fixtures and equipment	4,414	4,813
Deferred financing costs - revolving credit facility	1,764	2,382
Other	496	683
Total	**$ 108,922**	**$ 103,094**

5. Leases

As the lessee, we currently lease real estate space under noncancelable operating lease agreements for our turn-key data centers at NY1, LA1, LA4, DC1, DC2, DE1, and DE2, and our corporate headquarters located in Denver, Colorado. Our leases have remaining lease terms ranging from less than 1 year to 14 years, some of the leases include options to extend the leases for up to an additional 20 years. We do not include any of our renewal options in our lease terms for calculating our lease liability as the renewal options allow us to maintain operational flexibility and we are not reasonably certain we will exercise these renewal options at this time. The weighted-average remaining non-cancelable lease term for our operating leases was 8 years and 9 years at September 30, 2021, and December 31, 2020. The weighted-average discount rate was 4.9% at each date.

On September 27, 2021, we exercised our 5-year renewal option of approximately 48,000 NRSF at our existing NY1 data center from April 2023 to April 2028. As a result of this term extension, we remeasured the lease liability and adjusted the ROU asset by approximately $13.2 million.

The components of lease expense were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Lease expense:				
Operating lease expense	$ 7,266	$ 6,950	$ 21,732	$ 20,756
Variable lease expense	2,026	2,016	5,620	5,604
Rent expense	**$ 9,292**	**$ 8,966**	**$ 27,352**	**$ 26,360**

6. Lease Revenue

The components of data center, office, light-industrial, and other lease revenue were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Lease revenue:				
Minimum lease revenue	$ 115,272	$ 108,878	$ 341,697	$ 322,647
Variable lease revenue	25,592	23,959	74,167	67,113
Total lease revenue	**$ 140,864**	**$ 132,837**	**$ 415,864**	**$ 389,760**

7. Debt

A summary of outstanding indebtedness as of September 30, 2021, and December 31, 2020, is as follows (in thousands):

	Interest Rate	Maturity Date	September 30, 2021	December 31, 2020
Revolving credit facility(1)	1.33% and 1.39% at September 30, 2021, and December 31, 2020, respectively	November 8, 2023	$ 212,000	$ 148,500
2022 Senior unsecured term loan(2)(3)	1.76% at September 30, 2021 and December 31, 2020	April 19, 2022	200,000	200,000
2023 Senior unsecured notes	4.19% at September 30, 2021 and December 31, 2020	June 15, 2023	150,000	150,000
2024 Senior unsecured term loan(2)(3)	2.86% at September 30, 2021 and December 31, 2020	April 19, 2024	150,000	150,000
2024 Senior unsecured notes	3.91% at September 30, 2021 and December 31, 2020	April 20, 2024	175,000	175,000
2025 Senior unsecured term loan(2)(3)	2.32% at September 30, 2021 and December 31, 2020	April 1, 2025	350,000	350,000
2026 Senior unsecured notes(2)	4.52% at September 30, 2021 and December 31, 2020	April 17, 2026	200,000	200,000
2027 Senior unsecured notes	3.75% at September 30, 2021 and December 31, 2020	May 6, 2027	150,000	150,000
2029 Senior unsecured notes	4.31% at September 30, 2021 and December 31, 2020	April 17, 2029	200,000	200,000
Total principal outstanding		`	1,787,000	1,723,500
Unamortized deferred financing costs			(5,961)	(7,589)
Total debt			**$ 1,781,039**	**$ 1,715,911**

(1) Borrowings under the revolving credit facility bear interest at a variable rate per annum equal to either (i) LIBOR plus 125 basis points to 185 basis points, or (ii) a base rate plus 25 basis points to 85 basis points, each depending on

our Operating Partnership's leverage ratio. At September 30, 2021, our Operating Partnership's leverage ratio was 34.0% and the interest rate was LIBOR plus 125 basis points.

(2) Our Operating Partnership has in place swap agreements with respect to the term loans noted above, and previously had a forward starting swap agreement in place with respect to the 2026 senior unsecured notes. The interest rates presented represent the effective interest rates as of September 30, 2021, and December 31, 2020, including the impact of the interest rate swaps, which effectively fix the interest rate on a portion of our variable rate debt. See Note 8, Derivatives and Hedging Activities.

(3) Borrowings under the senior unsecured term loans bear interest at a variable rate per annum equal to either (i) LIBOR plus 120 basis points to 180 basis points, or (ii) a base rate plus 20 basis points to 80 basis points, each depending on our Operating Partnership's leverage ratio. At September 30, 2021, our Operating Partnership's leverage ratio was 34.0% and the interest rate was LIBOR plus 120 basis points.

Revolving Credit Facility

The total amount available for borrowing under the revolving credit facility, is equal to the lesser of $450.0 million or the availability calculated based on our unencumbered asset pool. As of September 30, 2021, the borrowing capacity was $450.0 million. As of September 30, 2021, $212.0 million was borrowed and outstanding, $6.1 million was outstanding under letters of credit, and therefore $231.9 million remained available for us to borrow under the revolving credit facility.

Our ability to borrow under the 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 total consolidated indebtedness to total gross asset value) of 60%, which, as of September 30, 2021, was 34.0%
- a maximum secured debt ratio (defined as total consolidated secured debt to total gross asset value) of 40%, which, as of September 30, 2021, was 0.0%
- a minimum fixed charge coverage ratio (defined as adjusted consolidated earnings before interest, taxes, depreciation and amortization to consolidated fixed charges) of 1.5 to 1.0, which, as of September 30, 2021, was 6.2 to 1.0.

Debt Covenants

All of the Company's debt instruments contain certain financial covenants and other customary restrictive covenants, including limitations on transactions with affiliates, merger, consolidation, and sales of assets, liens and subsidiary indebtedness. The Company's financial covenants include maximum consolidated total unsecured indebtedness to unencumbered asset pool availability, minimum consolidated tangible net worth, a maximum ratio of consolidated total indebtedness to gross asset value, a minimum ratio of adjusted consolidated EBITDA (as defined in the debt instruments) to consolidated fixed charges, and a maximum ratio of secured indebtedness to gross asset value. As of September 30, 2021, we were in compliance with all of the financial covenants.

For further information on the Company's debt instruments, see Note 8, Debt to the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, filed with the SEC on February 5, 2021.

Debt Maturities

The following table summarizes when our debt currently becomes due as of September 30, 2021 (in thousands):

Year Ending December 31,		
2021	$	—
2022		200,000
2023		362,000
2024		325,000
2025		350,000
Thereafter		550,000
Total principal outstanding		1,787,000
Unamortized deferred financing costs		(5,961)
Total debt	**$**	**1,781,039**

8. Derivatives and Hedging Activities

The following table summarizes our derivative positions as of September 30, 2021, and December 31, 2020 (in thousands):

Notional Amount							**Fair Value (Level 2) (1)**	
September 30, 2021	**December 31, 2020**	**Type of Derivative**	**Index**	**Strike Rate**	**Effective Date**	**Expiration Date**	**September 30, 2021**	**December 31, 2020**
$ 75,000	$ 75,000	Interest Rate Swap	1 mo. LIBOR	2.72 %	5/5/2018	4/5/2023	$ (2,868)	$ (4,388)
100,000	100,000	Interest Rate Swap	1 mo. LIBOR	1.59	11/8/2019	4/1/2025	(3,229)	(5,657)
75,000	75,000	Interest Rate Swap	1 mo. LIBOR	1.59	11/8/2019	4/1/2025	(2,423)	(4,243)
200,000	200,000	Interest Rate Swap	1 mo. LIBOR	0.56	3/5/2020	4/19/2022	(504)	(1,109)
75,000	75,000	Interest Rate Swap	1 mo. LIBOR	0.61	3/5/2020	10/5/2023	(435)	(930)
175,000	175,000	Interest Rate Swap	1 mo. LIBOR	0.64	3/5/2020	10/1/2024	(433)	(2,773)
$ 700,000	**$ 700,000**						**$ (9,892)**	**$ (19,100)**

(1) Derivative assets are recorded at fair value in our condensed consolidated balance sheets in other assets and derivative liabilities are recorded at fair value in our condensed consolidated balance sheets in unearned revenue, prepaid rent and other liabilities. We do not net our derivative position by counterparty for purposes of balance sheet presentation and disclosure.

Risk Management Objective of Using Derivatives

We are exposed to certain risks arising from both our business operations and economic conditions. We principally manage our exposures to a wide variety of business and operational risks through management of our core business activities. We manage economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of our debt funding and the use of derivative financial instruments. Specifically, we enter into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known or uncertain cash amounts, the value of which are determined by interest rates. Our derivative financial instruments are used to manage differences in the amount, timing, and duration of our known or expected cash receipts and our known or expected cash payments principally related to our investments and borrowings.

Cash Flow Hedges of Interest Rate Risk

Our objectives in using interest rate derivatives are to reduce variability in interest expense and to manage our exposure to adverse interest rate movements. To accomplish this objective, we primarily use interest rate swaps as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The changes in the fair value of derivatives designated and that qualify as effective cash flow hedges is recorded in accumulated other comprehensive income or loss on the condensed consolidated balance sheets and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings.

Amounts reported in accumulated other comprehensive gain or loss related to derivatives will be reclassified to interest expense as interest payments are made on our variable-rate debt. During the subsequent twelve months, beginning October 1, 2021, we estimate that $7.2 million will be reclassified as an increase to interest expense.

9. Stockholders' Equity (Deficit)

We announced the following dividends per share on our common stock during the nine months ended September 30, 2021:

Declaration Date	Record Date	Payment Date	Common Stock
March 4, 2021	March 31, 2021	April 15, 2021	$ 1.23
May 19, 2021	June 30, 2021	July 15, 2021	1.27
September 2, 2021	September 30, 2021	October 15, 2021	1.27
Total			**$ 3.77**

We announced the following dividends per share on our common stock during the nine months ended September 30, 2020:

Declaration Date	Record Date	Payment Date	Common Stock
March 5, 2020	March 31, 2020	April 15, 2020	$ 1.22
May 20, 2020	June 30, 2020	July 15, 2020	1.22
September 2, 2020	September 30, 2020	October 15, 2020	1.22
Total			**$ 3.66**

10. Noncontrolling Interests — Operating Partnership

Noncontrolling interests represent the limited partnership interests in our Operating Partnership held by individuals and entities other than CoreSite Realty Corporation. The current holders of common Operating Partnership units are eligible to have the common Operating Partnership units redeemed for cash or common stock on a one-for-one basis, at our option.

The following table shows the common ownership interests in our Operating Partnership as of September 30, 2021, and December 31, 2020:

	September 30, 2021		December 31, 2020	
	Number of Units	Percentage of Total	Number of Units	Percentage of Total
CoreSite Realty Corporation	43,672,117	90.3 %	42,276,221	87.7 %
Noncontrolling interests	4,715,485	9.7	5,916,785	12.3
Total	**48,387,602**	**100.0 %**	**48,193,006**	**100.0 %**

For each share of common stock issued by us, our Operating Partnership issues to us an equivalent common Operating Partnership unit. During the nine months ended September 30, 2021, we issued 194,596 shares of common stock related to employee compensation arrangements and therefore an equivalent number of common Operating Partnership units were issued to us by our Operating Partnership.

Holders of common Operating Partnership units received aggregate distributions of $3.73 per unit during the nine months ended September 30, 2021, payable in correlation with declared dividends on shares of our common stock.

During the nine months ended September 30, 2021, 1,201,300 common Operating Partnership units held by The Carlyle Group and other third parties were redeemed on a one-for-one basis for shares of our common stock in connection with the sale by The Carlyle Group and other third parties of shares of our common stock. The redemptions were recorded as a $1.6 million reduction to noncontrolling interests in our Operating Partnership and an increase to total stockholders' equity (deficit) in the condensed consolidated balance sheets.

The redemption value of the noncontrolling interests at September 30, 2021, was $653.3 million based on the closing price of the Company's common stock of $138.54 per share on the last trading day prior to that date.

11. Equity Incentive Plan

Our Board of Directors adopted and, with the approval of our stockholders, amended the 2010 Equity Incentive Plan (as amended, the "2010 Plan") in 2013. The 2010 Plan is administered by the Compensation Committee of our Board of Directors. Awards issuable under the 2010 Plan include common stock, stock options, restricted stock awards, restricted stock units, stock appreciation rights, dividend equivalents, Operating Partnership units and other incentive awards. 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 unvested shares subject to the award will be available for future grant or sale under the 2010 Plan. Shares of restricted stock that are forfeited or repurchased by us pursuant to the 2010 Plan may again be 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, 2021, 2,261,636 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 on 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. The fair values are amortized on a straight-line basis over the vesting periods. Stock options have not been granted since the year ended December 31, 2013.

As of September 30, 2021, there are no stock options outstanding. The following table sets forth stock option activity under the 2010 Plan for the nine months ended September 30, 2021:

	Number of Shares Subject to Option	Weighted-Average Exercise Price
Options outstanding, December 31, 2020	5,582	$ 19.76
Granted	—	—
Exercised	(5,582)	19.76
Forfeited	—	—
Expired	—	—
Options outstanding, September 30, 2021	**—**	**$ —**

Restricted Stock Awards and Units

Restricted stock awards ("RSAs") and restricted stock units ("RSUs") are granted with a fair value equal to the closing market price of the Company's common stock on the date of grant. The principal difference between RSAs and RSUs is that RSUs are not shares of our 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 a share of common stock. The RSAs and RSUs are amortized on a straight-line basis to expense over the vesting period.

The following table sets forth the number of unvested RSAs and RSUs and the weighted-average fair value of these awards at the date of grant:

	Restricted Stock Awards and Units	Weighted-Average Fair Value at Grant Date
Unvested balance, December 31, 2020	302,795	$ 105.35
Granted	153,647	108.72
Forfeited	(10,011)	109.27
Vested	(130,678)	95.16
Unvested balance, September 30, 2021	**315,753**	**$ 108.42**

As of September 30, 2021, total unearned compensation on RSAs and RSUs was approximately $26.5 million, and the weighted-average vesting period was 2.4 years.

Performance Stock Awards

We grant long-term incentives to members of management in the form of performance-based restricted stock awards ("PSAs") under the 2010 Plan. The number of PSAs earned is based on our achievement of relative total shareholder return ("TSR") measured versus the MSCI US REIT Index over a three-year performance period and ranges between 25% and 175% of the target number of shares for PSAs granted in 2019, 2020, and 2021. The PSAs are granted at the maximum percentage of target and are retired annually to the extent we do not meet the maximum relative TSR performance threshold versus the MSCI US REIT Index. The PSAs are earned upon TSR achievement measured both annually and over the full three-year performance period. The PSAs have a service condition and will be released at the end of the three-year performance period, to the extent earned, provided that the holder continues to be employed or otherwise in service of the Company at the end of the three-year performance period. The PSAs are amortized on a straight-line basis to expense over the vesting period. Holders of the PSAs are entitled to dividends on the PSAs, which are accrued and paid in cash at the end of the three-year performance period.

The following table sets forth the number of unvested PSAs and the weighted-average fair value of these awards at the date of grant:

	Performance-Based Restricted Stock Awards			Weighted-Average Fair Value at Grant Date
	Minimum	Maximum	Target	
Unvested balance, December 31, 2020	49,308	197,533	123,426	$ 113.96
Granted	11,360	79,507	45,433	113.95
Performance adjustment (1)	56,361	(4,567)	25,898	—
Forfeited	—	—	—	—
Vested	(50,402)	(50,402)	(50,402)	101.03
Unvested balance, September 30, 2021	**66,627**	**222,071**	**144,355**	**$ 117.77**

(1) Includes the annual adjustment for the number of PSAs earned based on our achievement of relative TSR measured versus the MSCI US REIT Index for the applicable performance periods.

As of September 30, 2021, total unearned compensation on PSAs was approximately $7.5 million, and the weighted-average vesting period was 2.0 years. The fair value of each PSA award is estimated on the date of grant using a Monte Carlo simulation. The simulation requires assumptions for expected volatility, risk-free rate of return, and dividend yield.

The following table summarizes the assumptions used to value the PSAs granted during the nine months ended September 30, 2021, and 2020:

	Nine Months Ended September 30,	
	2021	2020
Expected term (in years)	2.82	2.82
Expected volatility	31.07 %	24.00 %
Expected annual dividend[(1)]	—	—
Risk-free rate	0.18 %	0.56 %

(1) The fair value of the PSAs assumes reinvestment of dividends.

12. Earnings Per Share

Basic net income per share is calculated by dividing the net income attributable to common shares by the weighted-average number of common shares outstanding during the period. Diluted net income per share adjusts basic net income per share for the effects of potentially dilutive common shares, if the effect is not antidilutive. Potentially dilutive common stock consists of shares issuable under the 2010 Plan.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income attributable to common shares	$ 21,779	$ 21,132	$ 68,896	$ 59,651
Weighted-average common shares outstanding - basic	43,712,434	42,234,534	42,963,488	39,823,394
Effect of potentially dilutive common shares:				
Stock options	—	13,715	1,771	20,270
Unvested awards	194,701	156,147	200,465	152,329
Weighted-average common shares outstanding - diluted	**43,907,135**	**42,404,396**	**43,165,724**	**39,995,993**
Net income per share attributable to common shares				
Basic	**$ 0.50**	**$ 0.50**	**$ 1.60**	**$ 1.50**
Diluted	**$ 0.50**	**$ 0.50**	**$ 1.60**	**$ 1.49**

In the calculations above, we have excluded weighted-average potentially dilutive securities of 202 and 267 for the three months ended September 30, 2021, and 2020, respectively, and 722 and 1,857 for the nine months ended September 30, 2021, and 2020, respectively, as their effect would have been antidilutive.

13. 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, accounts and other receivables, interest rate swaps, the revolving credit facility, the senior unsecured term loans, senior unsecured notes, interest payable and accounts payable. The carrying values of cash and cash equivalents, accounts and other receivables, interest payable and accounts payable approximate fair values due to the short-term nature of these financial instruments. The interest rate swaps are recorded at fair value.

The valuation of our derivatives is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative, which reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves. We have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy; however, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by our Operating Partnership and its counterparties. As of September 30, 2021, we have assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions and have determined that the credit valuation adjustment is not significant to the overall valuation of our derivative portfolio. As a result, we classify our derivative valuation in Level 2 of the fair value hierarchy.

The total principal balance of our revolving credit facility, senior unsecured term loans, and senior unsecured notes was $1.8 billion and $1.7 billion as of September 30, 2021 and December 31, 2020, respectively, which approximates the fair value based on Level 3 inputs from the fair value hierarchy. Under the discounted cash flow method, the fair values of the revolving credit facility, the senior unsecured term loans, and the senior unsecured notes are based on our assumptions of market interest rates and terms available incorporating our credit risk for similar loan maturities.

Our lease liabilities are determined based on the estimated present value of our minimum lease payments under our lease agreements at lease commencement. The discount rate used to determine the lease liabilities is based on our estimated incremental borrowing rate at lease commencement, based on Level 3 inputs from the fair value hierarchy.

14. Commitments and Contingencies

Our properties require periodic investments of capital for general capital improvements and for tenant-related capital expenditures. We enter into various construction and equipment contracts with third parties for the development of our properties. At September 30, 2021, we had open commitments related to construction contracts of approximately $37.4 million.

Additionally, we have commitments related to telecommunications capacity used to connect data centers located within the same market or geographical area, power usage, including fuel cell commitments, and company-wide improvements that are ancillary to revenue generation. At September 30, 2021, we had open commitments related to these contracts of approximately $64.7 million, of which $1.9 million is scheduled to be met during the remainder of the year ending December 31, 2021.

In the ordinary course of business, we are subject to claims and administrative proceedings. Except as described below, we are not presently party to any proceeding, which we believe to be material or which we would expect to have, individually or in the aggregate, a material adverse effect on our business, financial condition, cash flows or results of operations. The outcome of litigation and administrative proceedings is inherently uncertain. Therefore, if one or more legal or administrative matters are resolved against us in a reporting period for amounts in excess of management's expectations, our financial condition, cash flows or results of operations for that reporting period could be materially adversely affected.

On May 9, 2019, we filed suit against 32 Sixth Avenue Company LLC, the landlord of our NY1 facility (the "Landlord"), and Telx - New York 6th Ave. LLC, the building's Hub operator ("Telx"), in the Supreme Court of the State of New York, County of New York, asserting claims concerning the pricing for cross-connections in the Hub of the NY1 building. We assert that Telx's September 2018 price increase for new fiber cross-connections violates our lease with the Landlord, which we assert guarantees specific pricing for Hub cross-connections for the duration of the lease term. The Landlord has asserted a counterclaim against us for indemnification.

On February 9, 2021, Telx moved for leave to amend its answer to assert counterclaims against us, seeking a declaration that we are not entitled to such guaranteed pricing for cross-connections and claiming that we have been unjustly enriched by continuing to pay that guaranteed pricing after 2013, when Telx assumed operational control of the Hub and began billing us for Hub access. We have opposed Telx's request for leave and are awaiting the Court's decision. Meanwhile, the parties are engaged in discovery.

We intend to vigorously pursue the claims made by us against the Landlord and Telx, and to defend the Landlord's counterclaim and any counterclaims brought by Telx against us. We have not accrued any amount within our condensed consolidated financial statements for any counterclaims as it is not possible at this time to predict the timing or outcome of this matter or to estimate a potential amount of loss, if any.

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 the Private Securities Litigation Reform Act of 1995 ("PSLRA"), namely Section 27A of the Securities Act of 1933, as amended, 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" or "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 amount of supply of or 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, including indirect competition from cloud service providers, 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 develop and lease available space to existing or new customers; (viii) our failure to obtain necessary outside financing; (ix) our ability to service existing debt; (x) our failure to qualify or maintain our status as a real estate investment trust ("REIT"); (xi) financial market fluctuations; (xii) changes in real estate and zoning laws and increases in real estate taxes; (xiii) the effects on our business operations, demand for our services and general economic conditions resulting from the "COVID-19" pandemic in our markets, as well as orders, directives and legislative action by local, state and federal governments in response to the COVID-19 pandemic; (xiv) delays or disruptions in third-party network connectivity; (xv) service failures or price increases by third party power suppliers; (xvi) inability to renew net leases on the data center properties we lease; and (xvii) other factors affecting the real estate or technology industries 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, except as required by applicable law. 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, including in Item 1A. "Risk Factors" 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 ("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, 2020. 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 our consolidated subsidiaries, including CoreSite, L.P., a Delaware limited partnership of which we are the sole general partner and to which we refer in this Quarterly Report as 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 San Francisco Bay area, Los Angeles, the Northern Virginia area (including Washington D.C.), the New York area, Chicago, Boston, Denver and Miami.

We deliver secure, reliable, high-performance data center, cloud access and interconnection solutions to a growing customer ecosystem across eight key North American communication markets. More than 1,370 customers, including many of the world's leading enterprises, network operators, cloud providers, and supporting service providers, choose us to connect, protect and optimize their performance-sensitive data, applications and computing workloads.

Our focus is to bring together a network and cloud community to support the needs of enterprises, and create a diverse customer ecosystem. Our growth strategy includes (i) increasing cash flow from in-place data center space, (ii) capitalizing on embedded expansion opportunities within existing data centers, (iii) selectively pursuing acquisition and development opportunities in existing and new markets, (iv) expanding existing customer relationships, and (v) attracting new customers.

Our Portfolio

As of September 30, 2021, our property portfolio included 25 operating data center facilities, office and light-industrial space and multiple potential development projects that collectively comprise over 4.6 million net rentable square feet ("NRSF"), of which over 2.7 million NRSF is existing data center space. The approximately 1.5 million NRSF of development projects includes space available for development and construction of new data center facilities. We expect that this development potential plus any incremental investment into existing or new markets will enable us to accommodate existing and future customer demand and position us to continue to increase our operating cash flows.

The following table provides an overview of our property portfolio as of September 30, 2021:

	Data Center Operating Portfolio(1)								
		Stabilized		Pre-Stabilized (2)		Total			
Market	Annualized Rent ($000)(3)	Total NRSF	Percent Occupied(4)	Total NRSF	Percent Occupied(4)	NRSF	Percent Occupied(4)	Total Development NRSF (5)	Total Portfolio NRSF
San Francisco Bay	$ 103,035	940,309	83.4 %	—	— %	940,309	83.4 %	240,000	1,180,309
Los Angeles(6)	96,168	631,557	90.7	—	—	631,557	90.7	119,128	750,685
Northern Virginia(7)	63,003	567,269	85.6	—	—	567,269	85.6	809,742	1,377,011
New York	25,037	168,267	89.0	34,589	35.8	202,856	79.9	81,799	284,655
Chicago	17,396	178,407	83.9	54,798	3.9	233,205	65.1	112,368	345,573
Boston	15,288	122,730	85.8	19,961	9.3	142,691	75.1	110,985	253,676
Denver	6,519	34,924	86.7	—	—	34,924	86.7	—	34,924
Miami	1,870	30,176	86.3	—	—	30,176	86.3	13,154	43,330
Total Data Center Facilities	**$ 328,316**	**2,673,639**	**86.2 %**	**109,348**	**15.0 %**	**2,782,987**	**83.4 %**	**1,487,176**	**4,270,163**
Office and Light-Industrial(8)	9,154	418,110	83.0	—	—	418,110	83.0	(49,799)	368,311
Total Portfolio	**$ 337,470**	**3,091,749**	**85.7 %**	**109,348**	**15.0 %**	**3,201,097**	**83.3 %**	**1,437,377**	**4,638,474**

(1) This table presents NRSF at each market that is currently occupied or readily available for lease as data center space and pre-stabilized data center space. Both occupied and available data center NRSF includes a factor based on management's estimate to account for a customer's proportionate share of the required data center support space (such as the mechanical, telecommunications and utility rooms) and building common areas, which may be updated on a periodic basis to reflect the most current build-out of our properties. Operating data center NRSF may require investment of Deferred Expansion Capital (see definition on page 28).

(2) Pre-stabilized NRSF represents projects or facilities that recently have been developed and are in the initial lease-up phase. Pre-stabilized projects or facilities become stabilized operating properties at the earlier of achievement of 85% occupancy or 24 months after development completion.

(3) "Annualized Rent" represents the monthly contractual rent under existing commenced customer leases as of September 30, 2021, multiplied by 12. This amount reflects total annualized base rent before any one-time or non-recurring rent abatements and excludes power revenue, interconnection revenue and operating expense reimbursement. We use annualized rent as a supplemental performance measure because, when compared quarter over quarter or year over year, it captures profitability of our assets. We offer this measure because we recognize that annualized base rent will be used by investors to compare our profitability with that of other REITs. On a gross basis, our total portfolio annualized rent was approximately $344.3 million as of September 30, 2021, which includes $6.8 million in operating expense reimbursements under modified gross and triple-net leases.

(4) "Percent Occupied" represents customer leases that have commenced and are occupied as of September 30, 2021. The percent occupied is determined based on occupied square feet as a proportion of total operating NRSF as of September 30, 2021. We use percent occupied as a supplemental performance measure because, when compared year-over-year, it captures trends in market demand for our assets. We offer this measure because we recognize that percent occupied will be used by investors as a basis to compare our operating performance with that of other REITs. The percent occupied for stabilized data center space would have been 88.4%, rather than 86.2%, if all leases signed in the current and prior periods had commenced. The percent occupied for our total portfolio, including stabilized data center space, pre-stabilized space and office and light-industrial space, would have been 85.3%, rather than 83.3%, if all leases signed in current and prior periods had commenced.

(5) Represents incremental data center capacity currently vacant in existing facilities in our portfolio that requires significant capital investment in order to develop into data center facilities. Includes NRSF under construction for which substantial activities are ongoing to prepare the property for its intended use following development and NRSF in pre-construction, which are projects in the design and permitting stages. The NRSF reflects management's estimate of engineering drawings and required support space and is subject to change based on final demising of space.

(6) Due to our decision to exit and vacate our leased data center space at LA4 and two computer rooms at LA1 by the end of 2021, we have excluded these leased spaces from the reported Los Angeles market operating property portfolio.

(7) Included within our Northern Virginia market is held for development space is 49,799 NRSF that is currently operating as office and light-industrial space.

(8) Represents space that is currently occupied or readily available for lease as space other than data center space, which typically is offered for office or light-industrial uses.

"Same-Store" statistics are based on space within each data center facility that was leased or available to be leased as of December 31, 2019, excluding space for which development was completed and became available to be leased after December 31, 2019. We track Same-Store space leased or available to be leased at the computer room level within each data center facility. We use Same-Store statistics as a supplemental performance measure because they provide a performance comparison for the computer rooms that have been operating for two years or longer. We offer this measure because we recognize that Same-Store statistics will be used by investors as a basis to compare operating performance of our established computer rooms, excluding the impact of new computer rooms placed into service within the past two years, to that of other REITs. The following table shows the September 30, 2021, Same-Store operating statistics. For comparison purposes, the operating activity totals as of December 31, 2020, and 2019, for this space are provided at the bottom of this table.

	Same-Store Property Portfolio						
		Data Center		Office and Light-Industrial		Total	
Market	Annualized Rent ($000)	Total NRSF	Percent Occupied	Total NRSF	Percent Occupied	NRSF	Percent Occupied
San Francisco Bay	$ 100,533	888,108	82.8 %	233,095	88.6 %	1,121,203	84.0 %
Los Angeles	88,504	581,182	90.9	11,790	71.6	592,972	90.5
Northern Virginia	65,050	567,269	85.6	122,011	85.4	689,280	85.6
New York	23,768	168,266	89.0	20,944	65.4	189,210	86.4
Chicago	17,120	178,408	83.9	4,946	37.2	183,354	82.6
Boston	15,513	142,691	75.1	19,495	52.1	162,186	72.3
Denver	6,519	34,924	86.7	—	—	34,924	86.7
Miami	1,885	30,176	86.3	1,934	37.2	32,110	83.3
Total Facilities at September 30, 2021[1]	**$ 318,892**	**2,591,024**	**85.4** %	**414,215**	**83.5** %	**3,005,239**	**85.1** %
Total Facilities at December 31, 2020	**$ 314,709**		**84.8** %		**80.2** %		**84.1** %
Total Facilities at December 31, 2019	**$ 295,753**		**83.5** %		**80.9** %		**83.2** %

(1) The percent occupied for data center space, office and light-industrial space, and total space would have been 87.1%, 83.6% and 86.7%, respectively, if all leases signed in the current and prior periods had commenced.

Same-Store annualized rent increased to $318.9 million at September 30, 2021, compared to $314.7 million at December 31, 2020. The increase of $4.2 million is primarily due to the commencement of new and expansion leases at SV8 and LA2.

Development space is unoccupied space or land that requires significant capital investment in order to develop data center facilities that are ready for use. The following table summarizes the NRSF under construction and NRSF held for development throughout our portfolio, each as of September 30, 2021:

	Development Opportunities (in NRSF)		
Facilities	**Under Construction(1)**	**Held for Development(2)**	**Total**
San Francisco Bay			
SV9(3)	—	240,000	240,000
One Wilshire campus			
LA1	—	10,352	10,352
LA3	54,388	54,388	108,776
Los Angeles Total	54,388	64,740	119,128
Northern Virginia			
VA3	—	395,997	395,997
Reston Campus Expansion(3)	—	413,745	413,745
Northern Virginia Total	**—**	809,742	809,742
New York			
NY2	34,587	47,212	81,799
Boston			
BO1	—	110,985	110,985
Chicago			
CH2	—	112,368	112,368
Miami			
MI1	—	13,154	13,154
Total Facilities(4)	**88,975**	**1,398,201**	**1,487,176**

(1) Represents NRSF for which substantial construction activities are ongoing to prepare the property for its intended use following development. The NRSF reflects management's estimate of engineering drawings and required support space and is subject to change based on final demising of space.
(2) Represents estimated incremental data center capacity currently vacant in existing facilities or on vacant land in our portfolio that requires significant capital investment in order to develop into data center facilities.
(3) The NRSF for these facilities reflect management's estimates based on our current construction plans and expectations regarding entitlements. These estimates are subject to change based on current economic conditions, final zoning approvals, and the supply and demand dynamics of the market.
(4) In addition to our development opportunities disclosed within this table, we have land adjacent to our NY2 facility, in the form of an existing parking lot. By utilizing this land, we believe that we could develop 100,000 NRSF on our available acreage in Secaucus, New Jersey, upon receipt of necessary entitlements.

Capital Expenditures

The following table sets forth information regarding capital expenditures during the nine months ended September 30, 2021 (in thousands):

	Nine Months Ended September 30, 2021
Data center expansion	$ 77,399
Non-recurring investments	1,863
Tenant improvements	7,237
Recurring capital expenditures - Data Center	13,202
Recurring capital expenditures - Office and Light-industrial	3,574
Total capital expenditures	**$ 103,275**

During the nine months ended September 30, 2021, we incurred approximately $103.3 million of capital expenditures, of which approximately $77.4 million related to data center expansion activities, including new data center construction, the development of capacity within existing data centers and other revenue generating investments. As we construct data center capacity, we work to optimize both the amount of capital we deploy on power and cooling infrastructure and the timing of that capital deployment. As such, we generally construct our power and cooling infrastructure supporting our data center NRSF based on our estimate of customer utilization. This practice can result in our investment at a later time in "Deferred Expansion Capital". We define Deferred Expansion Capital as our estimate of the incremental capital we may invest in the future to add power or cooling infrastructure to support existing or anticipated future customer utilization of NRSF within our operating data centers.

The following table sets forth capital expenditures spent during the nine months ended September 30, 2021 for data center expansion activities, including NRSF under construction as of September 30, 2021.

		NRSF	
Property	**Data Center Expansion**	**Placed into Service**	**Under Construction(1)**
LA3	$ 36,986	—	54,388
CH1(2)	6,280	—	—
NY2	6,209	—	34,587
SV9	4,997	—	—
VA3	4,423	—	—
BO1	4,290	—	—
VA1	2,892	—	—
Other	11,322	—	—
Total	**$ 77,399**	**—**	**88,975**

(1) Represents NRSF under construction for which substantial activities are ongoing to prepare the property for its intended use following development.
(2) Of the $6.3 million of capital expenditures spent at CH1 during the nine months ended September 30, 2021, $4.7 million relates to the acquisition of a parking lot adjacent to the data center property.

During the nine months ended September 30, 2021, we incurred approximately $1.9 million in non-recurring investments, of which $0.1 million was a result of internal information technology software development and the remaining $1.8 million was a result of other non-recurring investments, such as remodel or upgrade projects.

During the nine months ended September 30, 2021, we incurred approximately $7.2 million in tenant improvements, which related to tenant-specific space build-out and power installations at various properties.

During the nine months ended September 30, 2021, we incurred approximately $16.8 million of recurring capital expenditures within our portfolio, which includes required equipment upgrades at our various facilities that have a future economic benefit. We incurred approximately $13.2 million of recurring capital related to various data center spaces within our portfolio and another $3.6 million related to an office and light-industrial customer lease that commenced in the second quarter of 2021.

Factors that May Influence our Results of Operations

A complete discussion of factors that may influence our results of operations can be found in our Annual Report on Form 10-K for the year ended December 31, 2020, filed with the SEC on February 5, 2021, which is accessible on the SEC's website at www.sec.gov.

The ongoing COVID-19 pandemic has caused severe disruption in the U.S. and global economies, and we, our customers and vendors have been impacted to varying degrees. As of the date of this Quarterly Report, we have not seen a significantly adverse overall impact on the demand for data center space or on our ability to operate our business. See Item 1A. "Risk Factors—General Risks – Pandemics or disease outbreaks, such as the novel coronavirus ("COVID-19"), may disrupt our business, as a result of, among other things, increased customer defaults, increased customer bankruptcies or insolvencies, delays in the development and lease-up of our properties, and severe disruption in the U.S. and global economies, which may further disrupt financial markets and could materially adversely impact our financial condition, operations, and liquidity" in our Annual Report on Form 10-K for the year ended December 31, 2020.

Our ability to re-lease expiring space at rental rates equal to or in excess of current rental rates will impact our results of operations. We have 279 and 1,236 data center leases representing approximately 7.2% and 17.8% of the NRSF in our operating property portfolio which are scheduled to expire during the remainder of 2021 and the year ending December 31, 2022, respectively. These leases represent current annualized rent of $30.8 million, or 9.2% of total annualized rent, and $88.2 million, or 26.1% of total annualized rent, with annualized rental rates of $135 per NRSF and $157 per NRSF at expiration during the remainder of 2021 and the year ending December 31, 2022, respectively.

Results of operations may be affected by the amount of pre-stabilized properties in our portfolio. As we placed new development projects into service, such as LA3, SV8, CH2, and VA3 during 2020, the initial investment returns may be lower compared to stabilized properties due to operating expenses being less dependent on occupancy levels than revenues. We expect property operating expenses to increase as we place new data center NRSF into service and as projects become stabilized, we expect the investment returns to increase. During the nine months ended September 30, 2021, we did not place additional pre-stabilized data center space into service.

The amount of revenue generated by the properties in our portfolio depends on several factors, including our ability to lease available unoccupied and under construction space at attractive rental rates. As of September 30, 2021, we had approximately 550,000 NRSF of unoccupied or under construction data center space of which approximately 49,000 NRSF is leased with a future commencement date.

The loss of multiple significant customers could have a material adverse effect on our results of operations because our top ten customers in the aggregate account for 32.6% of our total operating NRSF and 40.5% of our total annualized rent as of September 30, 2021. One of our previously reported top ten customers had $5.1 million of annualized rent that expired at the end of the third quarter and an additional $1.7 million will expire early in the fourth quarter of 2021, neither of which will be renewed. We are actively working to re-lease this space; however, there may be a period of time between the expiration of the current customer lease and a future customer backfill during which we will not earn revenue on this particular data center space.

The following table summarizes our leasing activity during the nine months ended September 30, 2021:

	Three Months Ended	Number of Leases(1)	GAAP Annualized Rent ($000)(2)	Total Leased NRSF(3)	GAAP Rental Rates(4)	GAAP Rent Growth(5)
New / expansion leases commenced	March 31, 2021	130	$ 5,926	28,776	$ 206	
	June 30, 2021	133	8,395	59,174	142	
	September 30, 2021	122	7,094	29,308	242	
	Total	**385**	**$ 21,415**	**117,258**	**$ 183**	
New / expansion leases signed	March 31, 2021	134	$ 6,975	33,306	$ 209	
	June 30, 2021	112	7,798	33,135	235	
	September 30, 2021(6)	122	7,225	50,341	144	
	Total	**368**	**$ 21,998**	**116,782**	**$ 188**	
Renewal leases signed	March 31, 2021	276	$ 15,870	91,605	$ 173	6.1 %
	June 30, 2021	330	20,397	136,564	149	7.1
	September 30, 2021	296	18,660	118,887	157	5.7
	Total	**902**	**$ 54,927**	**347,056**	**$ 158**	**6.3 %**

(1) Number of leases represents each agreement with a customer; a lease agreement could include multiple spaces and a customer could have multiple leases.
(2) GAAP annualized rent represents the monthly average contractual rent as stated on customer contracts, multiplied by 12. This amount is inclusive of any one-time or non-recurring rent abatements and excludes power revenue, interconnection revenue and operating reimbursement.
(3) Total leased NRSF is determined based on contractually leased square feet, including required data center support space (such as the mechanical, telecommunications and utility rooms) and building common areas.
(4) GAAP rental rates represent GAAP annualized rent divided by leased NRSF. We use GAAP annualized rent and GAAP rental rates as supplemental performance measures because, when compared quarter over quarter or year over year, they provide a performance measure that captures sales volume and pricing trends. We offer these measures because we recognize they will be used by investors to compare our sales volume and pricing trends to those of other REITs.
(5) GAAP rent growth represents the increase in rental rates on renewed leases commencing during the period, as compared with the previous period's rental rates for the same space.

(6) On October 7, 2021, we signed a large scale lease at SV7 with annualized GAAP rent of $1.7 million and approximately 11,800 NRSF.

Results of Operations

Three Months Ended September 30, 2021, Compared to the Three Months Ended September 30, 2020

The discussion below relates to our financial condition and results of operations for the three months ended September 30, 2021, and 2020. A summary of our operating results for the three months ended September 30, 2021, and 2020, is as follows (in thousands):

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	$ Change	% Change
Operating revenue	$ 163,858	$ 153,981	$ 9,877	6.4 %
Operating expense	127,841	118,455	9,386	7.9
Operating income	36,017	35,526	491	1.4
Interest expense	11,894	11,384	510	4.5
Net income	24,118	24,132	(14)	(0.1)

Operating Revenue

Operating revenue during the three months ended September 30, 2021, and 2020, was as follows (in thousands):

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	$ Change	% Change
Data center revenue:				
Rental, power, and related revenue	$ 138,095	$ 130,300	$ 7,795	6.0 %
Interconnection revenue	22,994	21,144	1,850	8.7
Total data center revenue	161,089	151,444	9,645	6.4
Office, light-industrial and other revenue	2,769	2,537	232	9.1
Total operating revenues	**$ 163,858**	**$ 153,981**	**$ 9,877**	**6.4 %**

The increase in operating revenues was primarily due to a $7.8 million, or 6.0%, increase in data center rental, power, and related revenue during the three months ended September 30, 2021, compared to the 2020 period. Data center rental, power, and related revenue increased due to the organic growth of our customer revenue base through favorable renewals, new customer leases and lease expansions into new and existing space, and increased power consumption by our customers within their deployments. Most notably, data center rental, power, and related revenue at SV8, LA3, NY2, and VA1, where we have placed into service large contiguous data center NRSF within the last two years, has increased $3.5 million, $2.6 million, $1.6 million, and $0.8 million, respectively, compared to the three months ended September 30, 2020. These increases were primarily due to the commencement of large scale and hyperscale customer leases throughout the past twelve months, which generate variable revenue growth as customers deploy their information technology equipment and increase their power consumption. This activity was offset partially by a customer move-out of 39,950 NRSF at SV7 during the fourth quarter of 2020 and customer service-level agreement payments of approximately $1.1 million during the three months ended September 30, 2021, as well as, other customer move-outs across various properties.

In addition, interconnection revenue increased $1.9 million, or 8.7%, during the three months ended September 30, 2021, compared to the 2020 period. The increase is primarily a result of a net increase in the volume of cross connects from new and existing customers during the three months ended September 30, 2021, and revenue increases resulting from customers migrating to our higher priced fiber and logical cross connect products.

Operating Expenses

Operating expenses during the three months ended September 30, 2021, and 2020, were as follows (in thousands):

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	$ Change	% Change
Property operating and maintenance	$ 49,940	$ 44,986	$ 4,954	11.0 %
Real estate taxes and insurance	5,184	5,989	(805)	(13.4)
Depreciation and amortization	45,072	41,759	3,313	7.9
Sales and marketing	6,186	5,901	285	4.8
General and administrative	12,167	10,854	1,313	12.1
Rent	9,292	8,966	326	3.6
Total operating expenses	**$ 127,841**	**$ 118,455**	**$ 9,386**	**7.9 %**

Property operating and maintenance expense increased $5.0 million, or 11.0%, during the three months ended September 30, 2021, compared to the 2020 period, primarily as a result of an increase in utilities expense due to increased electricity utilization related to the commencement of new and expansion customer leases, net of customer move-outs, and new operations at LA3.

Real estate taxes and insurance expense decreased $0.8 million, or 13.4%, during the three months ended September 30, 2021 as compared with the 2020 period primarily due to the recognition of a net $1.5 million property tax refund during the three months ended September 30, 2021. This decrease was slightly offset by the completion of LA3 Phase 1 during the three months ended December 31, 2020, which caused an increase to real estate tax assessments and insurance, and ceased capitalization of expenses.

Depreciation and amortization expense increased $3.3 million, or 7.9%, during the three months ended September 30, 2021, compared to the 2020 period, primarily as a result of an increase in depreciation expense from placing LA3 Phase 1 into service during the three months ended December 31, 2020, with approximately 50,000 NRSF and a cost basis of approximately $72.5 million.

General and administrative expense increased $1.3 million, or 12.1%, compared to the three months ended September 30, 2020, primarily related to an increased headcount, resulting in higher salaries and non-cash compensation, partially offset by reduced legal expenses in the current quarter as a result of no operating partnership unit redemptions in the current period as compared to 2020.

Rent expense increased by $0.3 million, or 3.6%, during the three months ended September 30, 2021, compared to the 2020 period primarily due to increased straight-line rent expense as a result of our decision to exit the LA4 property at the end of 2021 prior to our contractual lease term date of July 2023.

Interest Expense

Interest expense for the three months ended September 30, 2021, and 2020, was as follows (in thousands):

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	$ Change	% Change
Interest expense and fees	$ 13,852	$ 13,555	$ 297	2.2 %
Amortization of deferred financing costs and hedge amortization	960	1,028	(68)	(6.6)
Capitalized interest	(2,918)	(3,199)	281	8.8
Total interest expense	**$ 11,894**	**$ 11,384**	**$ 510**	**4.5 %**
Percent capitalized	19.7 %	21.9 %		

Total interest expense increased $0.5 million, or 4.5%, during the three months ended September 30, 2021, compared to the 2020 period, primarily as a result of decreased capitalized interest due to placing LA3 Phase 1 into service during the twelve months ended September 30, 2021. In addition, the weighted average principal debt outstanding was $1.8 billion and $1.7 billion during the three months ended September 30, 2021, and 2020, respectively. This increase was partially offset by a decrease in our daily weighted average interest rate to 3.04% during the three months ended September 30, 2021 from 3.19% during the three months ended September 30, 2020.

Nine Months Ended September 30, 2021, Compared to the Nine Months Ended September 30, 2020

The discussion below relates to our financial condition and results of operations for the nine months ended September 30, 2021, and 2020. A summary of our operating results for the nine months ended September 30, 2021, and 2020 is as follows (in thousands):

	Nine Months Ended September 30,			
	2021	2020	$ Change	% Change
Operating revenue	$ 483,624	$ 451,886	$ 31,738	7.0 %
Operating expense	373,197	346,479	26,718	7.7
Operating income	110,427	105,407	5,020	4.8
Other income	3,098	—	3,098	100.0
Interest expense	35,999	33,153	2,846	8.6
Net income	77,508	72,208	5,300	7.3

Operating Revenue

Operating revenue during the nine months ended September 30, 2021, and 2020, was as follows (in thousands):

	Nine Months Ended September 30,			
	2021	2020	$ Change	% Change
Data center revenue:				
Rental, power, and related revenue	$ 407,864	$ 381,913	$ 25,951	6.8 %
Interconnection revenue	67,760	62,126	5,634	9.1
Total data center revenue	475,624	444,039	31,585	7.1
Office, light-industrial and other revenue	8,000	7,847	153	1.9
Total operating revenues	**$ 483,624**	**$ 451,886**	**$ 31,738**	**7.0 %**

The increase in operating revenues was primarily due to a $26.0 million, or 6.8%, increase in data center rental, power, and related revenue during the nine months ended September 30, 2021, compared to the 2020 period. Data center rental, power, and related revenue increased due to the organic growth of our customer revenue base through favorable renewals, new customer leases and lease expansions into new and existing space, and increased power consumption by our customers within their deployments. Most notably, data center rental, power, and related revenue at SV8, LA3, LA2, NY2, and VA3, where we have placed into service large contiguous data center NRSF within the last two years, has increased $10.0 million, $7.3 million, $4.2 million, $3.9 million, and $3.0 million, respectively, compared to the nine months ended September 30, 2020. These increases were primarily due to the commencement of large scale and hyperscale customer leases throughout the past twelve months, which generate variable revenue growth as customers deploy their information technology equipment and increase their power consumption. This activity was offset partially by a customer move-out of 39,950 NRSF at SV7 during the fourth quarter of 2020 and customer service-level agreement payments of approximately $2.0 million during the nine months ended September 30, 2021, as well as, other customer move-outs across various properties.

In addition, interconnection revenue increased $5.6 million, or 9.1%, during the nine months ended September 30, 2021, compared to the 2020 period. The increase is primarily a result of a net increase in the volume of cross connects from new and existing customers during the nine months ended September 30, 2021, and revenue increases resulting from customers migrating to our higher priced fiber and logical cross connect products.

Operating Expenses

Operating expenses during the nine months ended September 30, 2021, and 2020, were as follows (in thousands):

	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020	$ Change	% Change
Property operating and maintenance	$ 138,536	$ 126,206	$ 12,330	9.8 %
Real estate taxes and insurance	18,925	17,778	1,147	6.5
Depreciation and amortization	135,067	124,529	10,538	8.5
Sales and marketing	17,852	17,882	(30)	(0.2)
General and administrative	35,465	33,724	1,741	5.2
Rent	27,352	26,360	992	3.8
Total operating expenses	**$ 373,197**	**$ 346,479**	**$ 26,718**	**7.7 %**

Property operating and maintenance expense increased $12.3 million, or 9.8%, during the nine months ended September 30, 2021, compared to the 2020 period, primarily as a result of an increase in utilities expense due to increased customer electricity utilization related to the commencement of new and expansion leases, net of customer move-outs, and new operations at SV8, CH2, and LA3, as well as, increased costs related to building out customer requirements for their data center deployments.

Real estate taxes and insurance expense increased $1.1 million, or 6.5%, during the nine months ended September 30, 2021 as compared with the 2020 period, primarily due to the completion of CH2 Phase 1, SV8 Phase 3, and LA3 Phase 1 during the year ended December 31, 2020, which caused an increase to real estate tax assessments and insurance, and ceased capitalization of expenses. This increase was offset by the recognition of a net $1.5 million property tax refund during the nine months ended September 30, 2021.

Depreciation and amortization expense increased $10.5 million, or 8.5%, during the nine months ended September 30, 2021, compared to the 2020 period, primarily as a result of recognizing a full nine months of depreciation expense related to the development projects completed throughout 2020, including CH2 Phase 1, SV8 Phase 3, and LA3 Phase 1. These projects comprised approximately 157,000 NRSF placed into service with a cost basis of approximately $196.9 million.

General and administrative expense increased $1.7 million, or 5.2%, compared to the nine months ended September 30, 2020, primarily related to increased headcount, resulting in higher salaries and non-cash compensation, partially offset by savings from reduced legal expenses related to operating partnership unit redemptions during 2020, and reduced travel and events due to the COVID-19 pandemic.

Rent expense increased by $1.0 million, or 3.8%, during the nine months ended September 30, 2021, compared to the 2020 period, primarily due to increased straight-line rent expense as a result of our decision to exit the LA4 property at the end of 2021 prior to our contractual lease term date of July 2023.

Other Income

Other income was $3.1 million during the nine months ended September 30, 2021 as the result of a one-time benefit recorded due to the release of a tax liability that is no longer expected to be incurred. There was no other income during the 2020 period.

Interest Expense

Interest expense for the nine months ended September 30, 2021, and 2020, was as follows (in thousands):

	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020	$ Change	% Change
Interest expense and fees	$ 41,313	$ 39,985	$ 1,328	3.3 %
Amortization of deferred financing costs and hedge amortization	2,907	3,100	(193)	(6.2)
Capitalized interest	(8,221)	(9,932)	1,711	(17.2)
Total interest expense	**$ 35,999**	**$ 33,153**	**$ 2,846**	**8.6 %**
Percent capitalized	18.6 %	23.1 %		

Total interest expense increased $2.8 million, or 8.6%, during the nine months ended September 30, 2021, compared to the 2020 period, primarily as a result of decreased capitalized interest due to placing CH2 Phase 1, SV8 Phase 3, and LA3 Phase 1 into service during the twelve months ended December 31, 2020. In addition, the weighted average principal debt outstanding was $1.8 billion and $1.7 billion during the nine months ended September 30, 2021, and 2020, respectively. This increase was partially offset by a decrease in our daily weighted average interest rate to 3.06% during the nine months ended September 30, 2021 from 3.23% during the nine months ended September 30, 2020.

Liquidity and Capital Resources

Discussion of Cash Flows

Nine Months Ended September 30, 2021, Compared to the Nine Months Ended September 30, 2020

Operating Activities

Net cash provided by operating activities was $206.8 million for the nine months ended September 30, 2021, compared to $194.8 million for the nine months ended September 30, 2020. The increase of $12.0 million, or 6.2%, was driven by organic growth of our operating cash flows as a result of leasing activity within spaces recently placed into service, including SV8 Phase 3 and LA3 Phase 1, and at our LA2 and VA3 data centers. The increase was partially offset by the timing of vendor payments and customer receipts.

Investing Activities

Net cash used in investing activities decreased by $133.7 million, or 59.7%, to $90.4 million for the nine months ended September 30, 2021, compared to $224.1 million for the nine months ended September 30, 2020. This decrease was primarily due to lower construction expenditures after placing SV8 Phase 3, CH2 Phase 1, and LA3 Phase 1 into service during the year ended December 31, 2020.

Financing Activities

Net cash used in financing activities was $118.6 million during the nine months ended September 30, 2021, compared to $29.1 million provided by financing activities during the nine months ended September 30, 2020.

During the nine months ended September 30, 2021, we received cash proceeds, net of payments, of $63.5 million from borrowings under the revolving credit facility. During the nine months ended September 30, 2020, we received cash proceeds, net of payments, of $57.5 million from borrowings under the revolving credit facility.

During the nine months ended September 30, 2020, we received $150.0 million of cash proceeds from the issuance of the 2027 senior unsecured notes.

We paid $182.1 million in dividends and distributions on our common stock and Operating Partnership units during the nine months ended September 30, 2021, compared to $177.6 million during the nine months ended September 30, 2020, as a result of an increase in our quarterly dividend to $3.73 per share or unit paid during the nine months ended September 30, 2021, from $3.66 per share or unit paid during the nine months ended 2020.

Analysis of Liquidity and Capital Resources

We have an effective shelf registration statement that allows us to offer for sale various unspecified classes of equity and debt securities. As circumstances warrant, we may issue debt and/or equity securities from time to time on an opportunistic basis, dependent upon market conditions and available pricing. We make no assurance that we can issue and sell such securities on acceptable terms or at all.

Our short-term liquidity requirements primarily consist of funds needed for interest expense, operating costs, including utilities, site maintenance costs, real estate and personal property taxes, insurance, rental expenses, sales and marketing and general and administrative expenses, certain capital expenditures, including for the development of data center space, discussed below, and future distributions to common stockholders and holders of our common Operating Partnership units during the next twelve months.

Our anticipated capital investment over the next twelve months includes the remaining estimated capital expenditures required to fund our current expansion projects under construction as of September 30, 2021, shown in the table below:

Projects / Facilities	Metropolitan Market	Estimated Completion	NRSF	Costs (in thousands) Incurred to-Date	Estimated Total	Percent Leased	Power (MW)
Turn-Key Data Center (TKD) expansion							
LA3 Phase 2	Los Angeles	Q4 2021	54,388	$ 24,136	$ 30,100	7.6 %	6.0
NY2 Phase 4A	New York	Q1 2022	34,587	4,593	19,400	—	4.0
Total development			88,975	**$** 28,729	**$** 49,500	7.6 **%**	10.0

We expect to meet our short-term liquidity requirements, including our anticipated development activity over the next twelve months, primarily through net cash on hand, cash provided by operations, and borrowing on our revolving credit facility. As of September 30, 2021, we had $231.9 million available for us to borrow under our revolving credit facility. In addition, we anticipate addressing our April 2022 Term Loan maturity within the next three to six months. Timing, pricing, and the type of debt is dependent on market conditions. We provide no assurances that we can access the debt capital markets on acceptable terms or at all.

Our long-term liquidity requirements primarily consist of the costs to fund the Reston Campus Expansion, the ground up construction of new data center buildings, Deferred Expansion Capital, additional phases of our current projects held for development, future development of other space in our portfolio not currently scheduled, property acquisitions, future distributions to common stockholders and holders of our common Operating Partnership units, scheduled debt maturities and other capital expenditures. We expect to meet our long-term liquidity requirements through net cash provided by operations, and by incurring long-term indebtedness, such as drawing on our revolving credit facility, exercising our senior unsecured term loan accordion features or entering into new debt agreements with our bank group or existing and new accredited investors. We also may raise capital in the future through the issuance of additional equity or debt securities, subject to prevailing market conditions, and/or through the issuance of common Operating Partnership units. However, there is no assurance that we will be able to successfully raise additional capital on acceptable terms or at all.

On March 5, 2021, the Financial Conduct Authority ("FCA") announced that USD LIBOR will no longer be published after June 30, 2023. This announcement has several implications, including setting the spread that may be used to automatically convert contracts from LIBOR to the Secured Overnight Financing Rate ("SOFR"), which the Alternative Reference Rates Committee ("ARRC") and the Internal Swaps and Derivatives Association ("ISDA") have both identified as the preferred alternative rate for USD-LIBOR. Additionally, banking regulators are encouraging banks to discontinue new LIBOR debt issuances by December 31, 2021.

While we expect LIBOR to be available in substantially its current form until at least the end of June 30, 2023, it is possible that LIBOR will become unavailable prior to that point. In the event that USD-LIBOR is not available, each of our financial instrument contracts contain fallback provisions to determine the applicable replacement base rate. We anticipate managing the transition to an alternative rate using the language set out in our agreements and through potentially modifying our debt and derivative instruments. However, future market conditions may not allow immediate implementation of our desired modifications and we may incur significant associated costs in doing so. We will continue to monitor and evaluate the potential impact any such event could have on our financial results. As of September 30, 2021, we have $912.0 million of USD-LIBOR based variable-rate debt and $700.0 million of notional derivative contracts.

Indebtedness

A summary of outstanding indebtedness as of September 30, 2021, and December 31, 2020, is as follows (in thousands):

	Interest Rate	Maturity Date	September 30, 2021	December 31, 2020
Revolving credit facility	1.33% and 1.39% at September 30, 2021, and December 31, 2020, respectively	November 8, 2023	$ 212,000	$ 148,500
2022 Senior unsecured term loan	1.76% at September 30, 2021 and December 31, 2020	April 19, 2022	200,000	200,000
2023 Senior unsecured notes	4.19% at September 30, 2021 and December 31, 2020	June 15, 2023	150,000	150,000
2024 Senior unsecured term loan	2.86% at September 30, 2021 and December 31, 2020	April 19, 2024	150,000	150,000
2024 Senior unsecured notes	3.91% at September 30, 2021 and December 31, 2020	April 20, 2024	175,000	175,000
2025 Senior unsecured term loan	2.32% at September 30, 2021 and December 31, 2020	April 1, 2025	350,000	350,000
2026 Senior unsecured notes	4.52% at September 30, 2021 and December 31, 2020	April 17, 2026	200,000	200,000
2027 Senior unsecured notes	3.75% at September 30, 2021 and December 31, 2020	May 6, 2027	150,000	150,000
2029 Senior unsecured notes	4.31% at September 30, 2021 and December 31, 2020	April 17, 2029	200,000	200,000
Total principal outstanding			1,787,000	1,723,500
Unamortized deferred financing costs			(5,961)	(7,589)
Total debt			**$ 1,781,039**	**$ 1,715,911**

As of September 30, 2021, we were in compliance with the financial covenants under our revolving credit facility, senior unsecured term loans and senior unsecured notes. For additional information with respect to our outstanding indebtedness as of September 30, 2021, and December 31, 2020, as well as the available borrowing capacity under our existing revolving credit facility, debt covenant requirements, and future debt maturities, refer to Note 7 Debt, to the condensed consolidated financial statements.

Funds From Operations

We consider funds from operations ("FFO"), a non-generally accepted accounting principles ("GAAP") measure, to be a supplemental measure of our performance which should be considered along with, but not as an alternative to, net income and cash provided by operating activities as a measure of operating performance. We calculate FFO in accordance with the standards established by the National Association of Real Estate Investment Trusts ("Nareit"). Nareit defined FFO represents net income (computed in accordance with GAAP), excluding gains (or losses) from sales of property and undepreciated land and impairment write-downs of depreciable real estate, plus real estate related depreciation and amortization (excluding amortization of deferred financing costs) and after adjustments for unconsolidated partnerships and joint ventures. During the three and nine months ended September 30, 2021, we reported FFO, as adjusted, which excludes from FFO a one-time, non-cash benefit of $3.1 million as a result of the release of a tax liability during the second quarter of 2021 that is no longer expected to be incurred.

We use FFO as a supplemental performance measure because, in excluding real estate related depreciation and amortization and gains and losses from property dispositions, it provides a performance measure that, when compared year over year, captures trends in occupancy rates, rental rates and operating costs.

We offer this measure because we recognize that FFO will be used by investors as a basis to compare our operating performance with that of other REITs. However, because FFO excludes real estate related depreciation and amortization and captures neither the changes in the value of our properties that result from use or market conditions, nor the level of capital expenditures and capitalized leasing commissions necessary to maintain the operating performance of our properties, all of which have real economic effect and could materially impact our financial condition and results from operations, the utility of FFO as a measure of our performance is limited. FFO is a non-GAAP measure and should not be considered a measure of liquidity, an alternative to net income, cash provided by operating activities or any other performance measure determined in accordance with GAAP, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends or make distributions. In addition, our calculations of FFO are not necessarily comparable to FFO as calculated by other REITs that do not use the same definition or implementation guidelines or interpret the Nareit standards differently from us. Investors in our securities should not rely on these measures as a substitute for any GAAP measure, including net income. The following table provides a reconciliation of our net income to FFO (in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net income	$ 24,118	$ 24,132	$ 77,508	$ 72,208
Real estate depreciation and amortization	43,349	40,136	129,874	119,713
FFO attributable to common shares and units	**$ 67,467**	**$ 64,268**	**$ 207,382**	**$ 191,921**
Other income adjustment[(1)]	—	—	(3,098)	—
FFO attributable to common shares and units, as adjusted[(1)]	**$ 67,467**	**$ 64,268**	**$ 204,284**	**$ 191,921**
Total weighted average shares and OP units outstanding - diluted	48,647	48,370	48,610	48,388
FFO per common share and OP unit - diluted	**$ 1.39**	**$ 1.33**	**$ 4.27**	**$ 3.97**
FFO per common share and OP unit - diluted, as adjusted[(1)]	**$ 1.39**	**$ 1.33**	**$ 4.20**	**$ 3.97**

(1) FFO available to shares and units, as adjusted, excludes a one-time benefit of $3.1 million, or $0.06 per share and unit, as a result of the release of a tax liability during the second quarter of 2021 that is no longer expected to be incurred.

Distribution Policy

In order to comply with the REIT requirements of the Code, we generally are required to make annual distributions to our stockholders of at least 90% of our net taxable income. Our common stock distribution policy is to distribute as dividends, at a minimum, a percentage of our cash flow that ensures that we will meet the distribution requirements of the Code and any subsequent increases and/or anticipated increases are correlated to increases in our growth of cash flow.

We have made distributions every quarter since the completion of our initial public offering in 2010. During the nine months ended September 30, 2021, we declared three quarterly dividends totaling $3.77 per share of common stock and Operating Partnership unit. While we plan to continue to make quarterly distributions, no assurances can be made as to the frequency or amounts of any future distributions. The payment of common stock distributions is dependent upon, among other things, restriction in agreements governing out indebtedness, our financial condition, operating results and REIT distribution requirements and may be adjusted at the discretion of our Board of Directors during the year.

The following table summarizes the taxability of our common stock dividends per share for the years ended December 31, 2020, and 2019:

	Year Ended December 31,	
Record Date	**2020**	**2019**
Common Stock:		
Ordinary income	$ 3.14	$ 3.07
Qualified dividend	—	—
Capital gains	—	—
Return of capital	1.74	1.57
Total dividend	**$ 4.88**	**$ 4.64**

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk refers to the risk of loss from adverse changes in market prices and interest rates. The primary market risk to which we believe we are exposed is interest rate risk. Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevalent market interest rates. Many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors that are beyond our control contribute to interest rate risk.

As of September 30, 2021, we had $912.0 million of consolidated principal debt outstanding that bore variable interest based on one-month LIBOR. As of September 30, 2021, we have six interest rate swap agreements in place to fix the interest rate on $700.0 million of our one-month LIBOR variable rate debt. Our variable interest rate risk not covered by an interest rate swap agreement is $212.0 million of variable rate debt outstanding as of September 30, 2021. See additional discussion in Item 1, Note 8, Derivatives and Hedging Activities to the consolidated financial statements. Furthermore, refer to Item 2, Analysis of Liquidity and Capital Resources for discussion of the transition from USD-LIBOR.

We monitor our market interest rate risk exposures using a sensitivity analysis. Our sensitivity analysis estimates the exposure to market interest rate risk sensitive instruments assuming a hypothetical 100 basis points change in interest rates on our $212.0 million of unhedged variable rate debt. If interest rates were to increase or decrease by 100 basis points, the corresponding increase or decrease, as applicable, in interest expense on our unhedged variable rate debt would increase or decrease, as applicable, future earnings and cash flows by approximately $2.1 million per year.

These analyses do not consider the effect of any change in overall economic activity that could impact interest rates. Further, in the event of an increase in interest rates of significant magnitude, we may take actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, these analyses assume no changes in our financial structure.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the SEC’s rules and regulations and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of September 30, 2021, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and our Chief Financial Officer, regarding the effectiveness of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2021.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15(d)-15(f) under the Exchange Act) that occurred during the three months ended September 30, 2021, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For information regarding litigation, see Part I—Item 1. Financial Statements, Note 14 — Commitments and Contingencies.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors included in the section entitled "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2020, filed with the SEC on February 5, 2021, which is accessible on the SEC's website at www.sec.gov.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Description
3.1	Articles of Amendment and Restatement of CoreSite Realty Corporation.(1)
3.2	Amended and Restated Bylaws of CoreSite Realty Corporation.(2)
4.1	Specimen certificate representing the Common Stock of CoreSite Realty Corporation.(3)
31.1†	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2†	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1+	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2+	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

(1) Incorporated by reference to our Registration Statement (Amendment No. 7) on Form S-11 (Registration No. 333-166810) filed on September 22, 2010.
(2) Incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on March 9, 2017.
(3) Incorporated by reference to our Post-Effective Amendment to our Registration Statement on Form S-11 (Registration No. 333-166810) filed on September 22, 2010.

† Filed herewith.
+ Furnished herewith.

SIGNATURES

Pursuant to the requirements 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.

CORESITE REALTY CORPORATION

Date: October 29, 2021

By: /s/ Jeffrey S. Finnin
Jeffrey S. Finnin
Chief Financial Officer
(Principal Financial Officer)

By: /s/ Mark R. Jones
Mark R. Jones
Chief Accounting Officer
(Principal Accounting Officer)