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Seritage Growth Properties  
Form 10-Q  
August 03, 2018  
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 JUNE 30, 2018

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-37420

SERITAGE GROWTH PROPERTIES

(Exact name of registrant as specified in its charter)

Maryland 38-3976287  
(State of Incorporation) (I.R.S. Employer Identification No.)

500 Fifth Avenue, Suite 1530, New York, New York 10110  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (212) 355-7800

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

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

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

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

As of July 27, 2018, the registrant had the following common shares outstanding:

Class	Shares Outstanding
Class A common shares of beneficial interest, par value \$0.01 per share	35,685,933
Class B common shares of beneficial interest, par value \$0.01 per share	1,322,365
Class C common shares of beneficial interest, par value \$0.01 per share	850

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SERITAGE GROWTH PROPERTIES

QUARTERLY REPORT ON FORM 10-Q

QUARTER ENDED JUNE 30, 2018

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## PART I. FINANCIAL INFORMATION

## Item 1. Unaudited Condensed Consolidated Financial Statements

## SERITAGE GROWTH PROPERTIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited, amounts in thousands, except share and per share amounts)

	June 30, 2018	December 31, 2017
<b>ASSETS</b>		
Investment in real estate		
Land	\$711,261	\$799,971
Buildings and improvements	860,739	829,168
Accumulated depreciation	(157,991 )	(139,483 )
	1,414,009	1,489,656
Construction in progress	209,237	224,904
Net investment in real estate	1,623,246	1,714,560
Real estate held for sale	15,139	—
Investment in unconsolidated joint ventures	392,743	282,990
Cash and cash equivalents	100,448	241,569
Restricted cash	166,458	175,665
Tenant and other receivables, net	43,911	30,787
Lease intangible assets, net	251,303	310,098
Prepaid expenses, deferred expenses and other assets, net	21,360	20,148
Total assets	\$2,614,608	\$2,775,817
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Mortgage loans payable, net	\$1,073,762	\$1,202,314
Unsecured term loan, net	144,111	143,210
Accounts payable, accrued expenses and other liabilities	97,541	109,433
Total liabilities	1,315,414	1,454,957
<b>Commitments and contingencies (Note 9)</b>		
<b>Shareholders' Equity</b>		
Class A common shares \$0.01 par value; 100,000,000 shares authorized;		
35,678,749 and 32,415,734 shares issued and outstanding as of		
June 30, 2018 and December 31, 2017, respectively	356	324
Class B common shares \$0.01 par value; 5,000,000 shares authorized;		
1,322,365 and 1,328,866 shares issued and outstanding as of		
June 30, 2018 and December 31, 2017, respectively	13	13
Class C common shares \$0.01 par value; 50,000,000 shares authorized;		
	—	31

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850 and 3,151,131 shares issued and outstanding as of

June 30, 2018 and December 31, 2017, respectively

Series A preferred shares \$0.01 par value; 10,000,000 shares authorized;

2,800,000 shares issued and outstanding as of June 30, 2018

and December 31, 2017; liquidation preference of \$70,000	28	28
Additional paid-in capital	1,122,251	1,116,060
Accumulated deficit	(246,650 )	(229,760 )
Total shareholders' equity	875,998	886,696
Non-controlling interests	423,196	434,164
Total equity	1,299,194	1,320,860
Total liabilities and equity	\$2,614,608	\$2,775,817

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

## SERITAGE GROWTH PROPERTIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, amounts in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<b>REVENUE</b>				
Rental income	\$35,839	\$42,185	\$72,918	\$91,359
Tenant reimbursements	12,517	15,708	29,215	31,932
Management and other fee income	914	—	914	—
Total revenue	49,270	57,893	103,047	123,291
<b>EXPENSES</b>				
Property operating	6,533	4,932	13,774	9,674
Real estate taxes	9,217	11,950	20,598	24,372
Depreciation and amortization	49,551	50,571	84,218	109,234
General and administrative	8,673	5,093	16,470	11,367
Provision for doubtful accounts	109	12	170	51
Total expenses	74,083	72,558	135,230	154,698
Operating loss	(24,813)	(14,665)	(32,183)	(31,407)
Equity in loss of unconsolidated joint ventures	(2,158)	(1,542)	(4,740)	(540)
Interest and other income	456	42	1,136	120
Interest expense	(17,862)	(18,431)	(34,281)	(35,023)
Unrealized loss on interest rate cap	(172)	(124)	(7)	(595)
Loss before income taxes	(44,549)	(34,720)	(70,075)	(67,445)
Provision for income taxes	(240)	(147)	(344)	(266)
Loss before gain on sale of real estate	(44,789)	(34,867)	(70,419)	(67,711)
Gain on sale of real estate	34,187	—	76,018	—
Net income (loss)	(10,602)	(34,867)	5,599	(67,711)
Net (income) loss attributable to non-controlling interests	3,831	13,648	(2,042)	26,654
Net income (loss) attributable to Seritage	\$(6,771)	\$(21,219)	\$3,557	\$(41,057)
Preferred dividends	(1,225)	—	(2,453)	—
Net income (loss) attributable to Seritage common shareholders	\$(7,996)	\$(21,219)	\$1,104	\$(41,057)
Net income (loss) per share attributable to Seritage				
Class A and Class C common shareholders - Basic	\$(0.23)	\$(0.63)	\$0.03	\$(1.22)
Net income (loss) per share attributable to Seritage				
Class A and Class C common shareholders - Diluted	\$(0.23)	\$(0.63)	\$0.03	\$(1.22)
Weighted average Class A and Class C common	35,483	33,766	35,449	33,638

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shares outstanding - Basic				
Weighted average Class A and Class C common				
shares outstanding - Diluted	35,483	33,766	35,588	33,638

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

## SERITAGE GROWTH PROPERTIES

## CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited, amounts in thousands)

	Class A Common Shares		Class B Common Shares		Class C Common Shares		Series A Preferred Shares		Additional Paid-In Capital	Accumulated Deficit	Non- Controlling Interests	Total Equity
Balance at January 1, 2017	25,843	\$ 258	1,589	\$ 16	5,755	\$ 58	—	\$ —	\$ 925,563	\$(121,338)	\$ 619,754	\$ 1,424,311
Net loss	—	—	—	—	—	—	—	—	—	(41,057 )	(26,654 )	(67,711 )
Dividends and distributions declared												
(\$0.50 per share and unit)	—	—	—	—	—	—	—	—	—	(17,002 )	(10,936 )	(27,938 )
Vesting of restricted share units	4	0	—	—	—	—	—	—	(0 )	—	—	—
Stock-based compensation	—	—	—	—	—	—	—	—	779	—	—	779
Share class exchanges, net												
(267,300 common shares)	(267 )	(2 )	—	—	267	2	—	—	—	—	—	—
Share class surrenders												
(154,098 common shares)	—	—	(154 )	(2 )	—	—	—	—	2	—	—	—
OP Unit exchanges												
(2,344,589 units)	2,344	23	—	—	—	—	—	—	69,329	—	(69,352 )	—
Balance at June 30, 2017	27,924	\$ 279	1,435									