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**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, 2019**

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

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

**Commission File No. 1-12504**

**THE MACERICH COMPANY**

(Exact name of registrant as specified in its charter)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| **Maryland** | | | | | | | | | | | |  | | |  | | |  | | |  | | | **95-4448705** | | |
| (State or other jurisdiction of incorporation or organization) | | | | | | | | | | | |  | | |  | | |  | | |  | | | (I.R.S. Employer Identification Number) | | |
| **401 Wilshire Boulevard,** | | | **Suite 700,** | | | **Santa Monica,** | | | **California** | | |  | | | **90401** | | |  |  |  |  |  |  |  |  |  |
| (Address of principal executive office, including zip code) | | | | | | | | | | | |  | | |  | | |  | | |  | | | (Zip Code) | |  |
|  | | |  | | | **(310)** | | | | | |  | | | **394-6000** | | | | | |  | | |  |  |  |
| (Registrant's telephone number, including area code) | | | | | | | | | | | | | | | | | |  | | |  | | |  | | |  |  |
| **N/A**   (Former name, former address and former fiscal year, if changed since last report) | | | | | | | | | | | | | | | | | |  | | |  | | |  | | |  |  |

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

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
| **Title of each class** | | | **Trading symbol** | | | **Name of each exchange on which registered** | | |
| Common Stock, $0.01 Par Value | | | MAC | | | 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 twelve (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 ninety (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 during the preceding twelve (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, 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 | | | x | | |  | | | 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 ☒

Number of shares outstanding as of November 5, 2019 of the registrant's common stock, par value $0.01 per share: 141,265,383 shares

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| --- | --- | --- |
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**THE MACERICH COMPANY**

**FORM 10-Q**

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**THE MACERICH COMPANY**

**CONSOLIDATED BALANCE SHEETS**

**(Dollars in thousands, except par value)**

**(Unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **September 30, 2019** | | |  | | | **December 31, 2018** | | |
| ASSETS: | | |  | | |  | | |  | | |
| Property, net | | | $ | 6,664,106 |  |  | | | $ | 6,785,776 |  |
|  | | |  | | |  | | |  | | |
| Cash and cash equivalents | | | 98,309 | |  |  | | | 102,711 | |  |
| Restricted cash | | | 8,959 | |  |  | | | 46,590 | |  |
| Tenant and other receivables, net | | | 129,729 | |  |  | | | 123,492 | |  |
| Right-of-use assets, net | | | 150,656 | |  |  | | | — | |  |
| Deferred charges and other assets, net | | | 277,799 | |  |  | | | 390,403 | |  |
|  | | |  | | |  | | |  | | |
| Due from affiliates | | | 9,627 | |  |  | | | 85,181 | |  |
| Investments in unconsolidated joint ventures | | | 1,436,788 | |  |  | | | 1,492,655 | |  |
| Total assets | | | $ | 8,775,973 |  |  | | | $ | 9,026,808 |  |
| LIABILITIES AND EQUITY: | | |  | | |  | | |  | | |
| Mortgage notes payable | | | $ | 4,294,633 |  |  | | | $ | 4,073,916 |  |
| Bank and other notes payable | | | 749,769 | |  |  | | | 908,544 | |  |
| Accounts payable and accrued expenses | | | 61,348 | |  |  | | | 59,392 | |  |
| Lease liabilities | | | 116,683 | |  |  | | | — | |  |
| Other accrued liabilities | | | 253,882 | |  |  | | | 303,051 | |  |
| Distributions in excess of investments in unconsolidated joint ventures | | | 112,326 | |  |  | | | 114,988 | |  |
| Financing arrangement obligation | | | 279,563 | |  |  | | | 378,485 | |  |
| Total liabilities | | | 5,868,204 | |  |  | | | 5,838,376 | |  |
| Commitments and contingencies | | |  | | |  | | |  | | |
| Equity: | | |  | | |  | | |  | | |
| Stockholders' equity: | | |  | | |  | | |  | | |
| Common stock, $0.01 par value, 250,000,000 shares authorized, 141,370,725 and 141,221,712 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively | | | 1,413 | |  |  | | | 1,412 | |  |
| Additional paid-in capital | | | 4,581,551 | |  |  | | | 4,567,643 | |  |
| Accumulated deficit | | | (1,864,807) | |  |  | | | (1,614,357) | |  |
| Accumulated other comprehensive loss | | | (10,946) | |  |  | | | (4,466) | |  |
| Total stockholders' equity | | | 2,707,211 | |  |  | | | 2,950,232 | |  |
| Noncontrolling interests | | | 200,558 | |  |  | | | 238,200 | |  |
| Total equity | | | 2,907,769 | |  |  | | | 3,188,432 | |  |
| Total liabilities and equity | | | $ | 8,775,973 |  |  | | | $ | 9,026,808 |  |

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

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**THE MACERICH COMPANY**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(Dollars in thousands, except per share amounts)**

**(Unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **For the Three Months Ended September 30,** | | | | | | | | |  | | |  | | |  | | | **For the Nine Months Ended September 30,** | | | | | | | | |  | | |  | | |
|  | | | **2019** | | |  | | | **2018** | | |  | | | **2019** | | |  | | | **2018** | | |  |  |  |  |  |  |  |  |  |  |  |  |
| Revenues: | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |
| Leasing revenue | | | $ | 214,260 |  |  | | | $ | 224,251 |  |  | | | $ | 636,290 |  |  | | | $ | 659,377 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Other | | | 6,889 | |  |  | | | 6,895 | |  |  | | | 20,054 | |  |  | | | 22,010 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Management Companies | | | 9,978 | |  |  | | | 11,052 | |  |  | | | 29,277 | |  |  | | | 32,090 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total revenues | | | 231,127 | |  |  | | | 242,198 | |  |  | | | 685,621 | |  |  | | | 713,477 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Expenses: | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |
| Shopping center and operating expenses | | | 69,328 | |  |  | | | 72,101 | |  |  | | | 203,024 | |  |  | | | 214,683 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Leasing expenses | | | 7,162 | |  |  | | | 2,565 | |  |  | | | 22,344 | |  |  | | | 8,591 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Management Companies' operating expenses | | | 15,514 | |  |  | | | 18,961 | |  |  | | | 50,220 | |  |  | | | 72,224 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| REIT general and administrative expenses | | | 5,285 | |  |  | | | 5,439 | |  |  | | | 16,835 | |  |  | | | 18,414 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |
| Costs related to shareholder activism | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 19,369 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Depreciation and amortization | | | 82,787 | |  |  | | | 81,803 | |  |  | | | 246,640 | |  |  | | | 240,608 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | 180,076 | |  |  | | | 180,869 | |  |  | | | 539,063 | |  |  | | | 573,889 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest (income) expense: | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |
| Related parties | | | (36,059) | |  |  | | | 1,074 | |  |  | | | (59,749) | |  |  | | | 8,481 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Other | | | 50,858 | |  |  | | | 43,853 | |  |  | | | 150,014 | |  |  | | | 127,996 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | 14,799 | |  |  | | | 44,927 | |  |  | | | 90,265 | |  |  | | | 136,477 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Loss on extinguishment of debt, net | | | — | |  |  | | | — | |  |  | | | 351 | |  |  | | | — | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total expenses | | | 194,875 | |  |  | | | 225,796 | |  |  | | | 629,679 | |  |  | | | 710,366 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Equity in income of unconsolidated joint ventures | | | 14,582 | |  |  | | | 18,789 | |  |  | | | 34,082 | |  |  | | | 51,330 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Income tax (expense) benefit | | | (678) | |  |  | | | (466) | |  |  | | | (1,703) | |  |  | | | 1,799 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| (Loss) gain on sale or write down of assets, net | | | (131) | |  |  | | | 46,516 | |  |  | | | (15,506) | |  |  | | | (514) | |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income | | | 50,025 | |  |  | | | 81,241 | |  |  | | | 72,815 | |  |  | | | 55,726 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Less net income attributable to noncontrolling interests | | | 3,654 | |  |  | | | 7,213 | |  |  | | | 2,886 | |  |  | | | 7,455 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income attributable to the Company | | | $ | 46,371 |  |  | | | $ | 74,028 |  |  | | | $ | 69,929 |  |  | | | $ | 48,271 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Earnings per common share—attributable to common stockholders:** | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |
| Basic | | | $ | 0.33 |  |  | | | $ | 0.52 |  |  | | | $ | 0.49 |  |  | | | $ | 0.34 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Diluted | | | $ | 0.33 |  |  | | | $ | 0.52 |  |  | | | $ | 0.49 |  |  | | | $ | 0.34 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Weighted average number of common shares outstanding: | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |
| Basic | | | 141,368,000 | |  |  | | | 141,196,000 | |  |  | | | 141,325,000 | |  |  | | | 141,120,000 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Diluted | | | 141,368,000 | |  |  | | | 141,196,000 | |  |  | | | 141,325,000 | |  |  | | | 141,125,000 | |  |  |  |  |  |  |  |  |  |  |  |  |  |

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

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**THE MACERICH COMPANY**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(Dollars in thousands, except per share amounts)**

**(Unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **For the Three Months Ended September 30,** | | | | | | | | |  | | |  | | |  | | | **For the Nine Months Ended September 30,** | | | | | | | | |  | | |  | | |
|  | | | **2019** | | |  | | | **2018** | | |  | | | **2019** | | |  | | | **2018** | | |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income | | | 50,025 | |  |  | | | 81,241 | |  |  | | | $ | 72,815 |  |  | | | $ | 55,726 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Other comprehensive income: | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest rate cap/swap agreements | | | (154) | |  |  | | | 175 | |  |  | | | (6,480) | |  |  | | | 184 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Comprehensive income | | | 49,871 | |  |  | | | 81,416 | |  |  | | | 66,335 | |  |  | | | 55,910 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Less net income attributable to noncontrolling interests | | | 3,654 | |  |  | | | 7,213 | |  |  | | | 2,886 | |  |  | | | 7,455 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Comprehensive income attributable to the Company | | | $ | 46,217 |  |  | | | $ | 74,203 |  |  | | | $ | 63,449 |  |  | | | $ | 48,455 |  |  |  |  |  |  |  |  |  |  |  |  |  |

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

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**THE MACERICH COMPANY**

**CONSOLIDATED STATEMENTS OF EQUITY**

**(Dollars in thousands, except per share data)**

**(Unaudited)**

**Three Months Ended September 30, 2019 and 2018**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  | | | **Stockholders' Equity** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |
|  | | | **Common Stock** | | | | | | | | |  | | |  | | |  | | | **Additional  Paid-in  Capital** | | |  | | | **Accumulated  Deficit** | | |  | | | **Accumulated  Other  Comprehensive  Loss** | | |  | | | **Total  Stockholders'  Equity** | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |
|  | | | **Shares** | | |  | | | **Par Value** | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | | **Noncontrolling Interests** | | |  | | | **Total  Equity** | | |  |  |  |
| Balance at July 1, 2019 | | | 141,364,568 | |  |  | | | $ | 1,413 |  |  | | | $ | 4,578,620 |  |  | | | $ | (1,805,097) |  |  | | | $ | (10,792) |  |  | | | $ | 2,764,144 |  |  | | | $ | 205,226 |  |  | | | $ | 2,969,370 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 46,371 | |  |  | | | — | |  |  | | | 46,371 | |  |  | | | 3,654 | |  |  | | | 50,025 | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest rate cap/swap agreements | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | (154) | |  |  | | | (154) | |  |  | | | — | |  |  | | | (154) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Amortization of share and unit-based plans | | | 6,157 | |  |  | | | — | |  |  | | | 3,315 | |  |  | | | — | |  |  | | | — | |  |  | | | 3,315 | |  |  | | | — | |  |  | | | 3,315 | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| Distributions declared ($0.75 per share) | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | (106,081) | |  |  | | | — | |  |  | | | (106,081) | |  |  | | | — | |  |  | | | (106,081) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Distributions to noncontrolling interests | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | (8,742) | |  |  | | | (8,742) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Contributions from noncontrolling interests | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 50 | |  |  | | | 50 | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| Redemption of noncontrolling interests | | | — | |  |  | | | — | |  |  | | | (6) | |  |  | | | — | |  |  | | | — | |  |  | | | (6) | |  |  | | | (8) | |  |  | | | (14) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Adjustment of noncontrolling interests in Operating Partnership | | | — | |  |  | | | — | |  |  | | | (378) | |  |  | | | — | |  |  | | | — | |  |  | | | (378) | |  |  | | | 378 | |  |  | | | — | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance at September 30, 2019 | | | 141,370,725 | |  |  | | | $ | 1,413 |  |  | | | $ | 4,581,551 |  |  | | | $ | (1,864,807) |  |  | | | $ | (10,946) |  |  | | | $ | 2,707,211 |  |  | | | $ | 200,558 |  |  | | | $ | 2,907,769 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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|  | | | **Stockholders' Equity** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |
|  | | | **Common Stock** | | | | | | | | |  | | |  | | |  | | | **Additional  Paid-in  Capital** | | |  | | | **Accumulated  Deficit** | | |  | | | **Accumulated  Other  Comprehensive  (Loss) Income** | | |  | | | **Total  Stockholders'  Equity** | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |
|  | | | **Shares** | | |  | | | **Par Value** | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | | **Noncontrolling Interests** | | |  | | | **Total  Equity** | | |  |  |  |
| Balance at July 1, 2018 | | | 141,184,335 | |  |  | | | $ | 1,412 |  |  | | | $ | 4,558,873 |  |  | | | $ | (1,489,742) |  |  | | | $ | (33) |  |  | | | $ | 3,070,510 |  |  | | | $ | 244,665 |  |  | | | $ | 3,315,175 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 74,028 | |  |  | | | — | |  |  | | | 74,028 | |  |  | | | 7,213 | |  |  | | | 81,241 | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest rate cap | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 175 | |  |  | | | 175 | |  |  | | | — | |  |  | | | 175 | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Amortization of share and unit-based plans | | | 3,517 | |  |  | | | — | |  |  | | | 4,616 | |  |  | | | — | |  |  | | | — | |  |  | | | 4,616 | |  |  | | | — | |  |  | | | 4,616 | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| Distributions declared ($0.74 per share) | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | (104,495) | |  |  | | | — | |  |  | | | (104,495) | |  |  | | | — | |  |  | | | (104,495) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Distributions to noncontrolling interests | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | (8,203) | |  |  | | | (8,203) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Contributions from noncontrolling interests | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 16 | |  |  | | | 16 | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Conversion of noncontrolling interests to common shares | | | 12,008 | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Redemption of noncontrolling interests | | | — | |  |  | | | — | |  |  | | | (402) | |  |  | | | — | |  |  | | | — | |  |  | | | (402) | |  |  | | | (194) | |  |  | | | (596) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Adjustment of noncontrolling interests in Operating Partnership | | | — | |  |  | | | — | |  |  | | | 16 | |  |  | | | — | |  |  | | | — | |  |  | | | 16 | |  |  | | | (16) | |  |  | | | — | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance at September 30, 2018 | | | 141,199,860 | |  |  | | | $ | 1,412 |  |  | | | $ | 4,563,103 |  |  | | | $ | (1,520,209) |  |  | | | $ | 142 |  |  | | | $ | 3,044,448 |  |  | | | $ | 243,481 |  |  | | | $ | 3,287,929 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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

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**THE MACERICH COMPANY**

**CONSOLIDATED STATEMENTS OF EQUITY (Continued)**

**(Dollars in thousands, except per share data)**

**(Unaudited)**

**Nine Months Ended September 30, 2019 and 2018**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  | | | **Stockholders' Equity** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |
|  | | | **Common Stock** | | | | | | | | |  | | |  | | |  | | | **Additional  Paid-in  Capital** | | |  | | | **Accumulated  Deficit** | | |  | | | **Accumulated  Other  Comprehensive  Loss** | | |  | | | **Total  Stockholders'  Equity** | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |
|  | | | **Shares** | | |  | | | **Par Value** | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | | **Noncontrolling Interests** | | |  | | | **Total  Equity** | | |  |  |  |
| Balance at January 1, 2019 | | | 141,221,712 | |  |  | | | $ | 1,412 |  |  | | | $ | 4,567,643 |  |  | | | $ | (1,614,357) |  |  | | | $ | (4,466) |  |  | | | $ | 2,950,232 |  |  | | | $ | 238,200 |  |  | | | $ | 3,188,432 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 69,929 | |  |  | | | — | |  |  | | | 69,929 | |  |  | | | 2,886 | |  |  | | | 72,815 | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cumulative effect of adoption of ASC 842 | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | (2,203) | |  |  | | | — | |  |  | | | (2,203) | |  |  | | | — | |  |  | | | (2,203) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest rate cap/swap agreements | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | (6,480) | |  |  | | | (6,480) | |  |  | | | — | |  |  | | | (6,480) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Amortization of share and unit-based plans | | | 101,213 | |  |  | | | 1 | |  |  | | | 13,352 | |  |  | | | — | |  |  | | | — | |  |  | | | 13,353 | |  |  | | | — | |  |  | | | 13,353 | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| Employee stock purchases | | | 26,800 | |  |  | | | — | |  |  | | | 819 | |  |  | | | — | |  |  | | | — | |  |  | | | 819 | |  |  | | | — | |  |  | | | 819 | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Distributions declared ($2.25 per share) | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | (318,176) | |  |  | | | — | |  |  | | | (318,176) | |  |  | | | — | |  |  | | | (318,176) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Distributions to noncontrolling interests | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | (41,200) | |  |  | | | (41,200) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Contributions from noncontrolling interests | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 460 | |  |  | | | 460 | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Conversion of noncontrolling interests to common shares | | | 21,000 | |  |  | | | — | |  |  | | | 1,005 | |  |  | | | — | |  |  | | | — | |  |  | | | 1,005 | |  |  | | | (1,005) | |  |  | | | — | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Redemption of noncontrolling interests | | | — | |  |  | | | — | |  |  | | | (26) | |  |  | | | — | |  |  | | | — | |  |  | | | (26) | |  |  | | | (25) | |  |  | | | (51) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Adjustment of noncontrolling interests in Operating Partnership | | | — | |  |  | | | — | |  |  | | | (1,242) | |  |  | | | — | |  |  | | | — | |  |  | | | (1,242) | |  |  | | | 1,242 | |  |  | | | — | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance at September 30, 2019 | | | 141,370,725 | |  |  | | | $ | 1,413 |  |  | | | $ | 4,581,551 |  |  | | | $ | (1,864,807) |  |  | | | $ | (10,946) |  |  | | | $ | 2,707,211 |  |  | | | $ | 200,558 |  |  | | | $ | 2,907,769 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **Stockholders' Equity** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |
|  | | | **Common Stock** | | | | | | | | |  | | |  | | |  | | | **Additional  Paid-in  Capital** | | |  | | | **Accumulated  Deficit** | | |  | | | **Accumulated  Other  Comprehensive  (Loss) Income** | | |  | | | **Total  Stockholders'  Equity** | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |
|  | | | **Shares** | | |  | | | **Par Value** | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | | **Noncontrolling Interests** | | |  | | | **Total  Equity** | | |  |  |  |
| Balance at January 1, 2018 | | | 140,993,985 | |  |  | | | $ | 1,410 |  |  | | | $ | 4,510,489 |  |  | | | $ | (830,279) |  |  | | | $ | (42) |  |  | | | $ | 3,681,578 |  |  | | | $ | 286,421 |  |  | | | $ | 3,967,999 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 48,271 | |  |  | | | — | |  |  | | | 48,271 | |  |  | | | 7,455 | |  |  | | | 55,726 | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Cumulative effect of adoption of ASU 2014-09 | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | (424,859) | |  |  | | | — | |  |  | | | (424,859) | |  |  | | | — | |  |  | | | (424,859) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest rate cap | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 184 | |  |  | | | 184 | |  |  | | | — | |  |  | | | 184 | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Amortization of share and unit-based plans | | | 121,924 | |  |  | | | 1 | |  |  | | | 28,218 | |  |  | | | — | |  |  | | | — | |  |  | | | 28,219 | |  |  | | | — | |  |  | | | 28,219 | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Employee stock purchases | | | 17,240 | |  |  | | | — | |  |  | | | 806 | |  |  | | | — | |  |  | | | — | |  |  | | | 806 | |  |  | | | — | |  |  | | | 806 | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Distributions declared ($2.22 per share) | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | (313,342) | |  |  | | | — | |  |  | | | (313,342) | |  |  | | | — | |  |  | | | (313,342) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Distributions to noncontrolling interests | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | (26,101) | |  |  | | | (26,101) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Contributions from noncontrolling interests | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 16 | |  |  | | | 16 | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Conversion of noncontrolling interests to common shares | | | 66,711 | |  |  | | | 1 | |  |  | | | 74 | |  |  | | | — | |  |  | | | — | |  |  | | | 75 | |  |  | | | (75) | |  |  | | | — | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Redemption of noncontrolling interests | | | — | |  |  | | | — | |  |  | | | (486) | |  |  | | | — | |  |  | | | — | |  |  | | | (486) | |  |  | | | (233) | |  |  | | | (719) | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Adjustment of noncontrolling interests in Operating Partnership | | | — | |  |  | | | — | |  |  | | | 24,002 | |  |  | | | — | |  |  | | | — | |  |  | | | 24,002 | |  |  | | | (24,002) | |  |  | | | — | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance at September 30, 2018 | | | 141,199,860 | |  |  | | | $ | 1,412 |  |  | | | $ | 4,563,103 |  |  | | | $ | (1,520,209) |  |  | | | $ | 142 |  |  | | | $ | 3,044,448 |  |  | | | $ | 243,481 |  |  | | | $ | 3,287,929 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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

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**THE MACERICH COMPANY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Dollars in thousands)**

**(Unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **For the Nine Months Ended September 30,** | | | | | | | | |  | | |  | | |
|  | | | **2019** | | |  | | | **2018** | | |  |  |  |  |  |  |
| Cash flows from operating activities: | | |  | | |  | | |  | | |  |  |  |  |  |  |
| Net income | | | $ | 72,815 |  |  | | | $ | 55,726 |  |  |  |  |  |  |  |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |  | | |  | | |  | | |  |  |  |  |  |  |
| Loss on extinguishment of debt, net | | | 351 | |  |  | | | — | |  |  |  |  |  |  |  |
| Loss on sale or write down of assets, net | | | 15,506 | |  |  | | | 514 | |  |  |  |  |  |  |  |
| Depreciation and amortization | | | 251,946 | |  |  | | | 246,038 | |  |  |  |  |  |  |  |
| Amortization of premium on mortgage notes payable | | | (696) | |  |  | | | (696) | |  |  |  |  |  |  |  |
| Amortization of share and unit-based plans | | | 9,755 | |  |  | | | 22,644 | |  |  |  |  |  |  |  |
| Straight-line rent and amortization of above and below market leases | | | (12,447) | |  |  | | | (11,424) | |  |  |  |  |  |  |  |
| Provision for doubtful accounts | | | 6,767 | |  |  | | | 3,787 | |  |  |  |  |  |  |  |
| Income tax expense (benefit) | | | 1,703 | |  |  | | | (1,799) | |  |  |  |  |  |  |  |
| Equity in income of unconsolidated joint ventures | | | (34,082) | |  |  | | | (51,330) | |  |  |  |  |  |  |  |
| Distributions of income from unconsolidated joint ventures | | | 844 | |  |  | | | 1,664 | |  |  |  |  |  |  |  |
| Change in fair value of financing arrangement obligation | | | (70,977) | |  |  | | | (9,279) | |  |  |  |  |  |  |  |
| Changes in assets and liabilities, net of dispositions: | | |  | | |  | | |  | | |  |  |  |  |  |  |
| Tenant and other receivables | | | 4,683 | |  |  | | | 2,579 | |  |  |  |  |  |  |  |
| Other assets | | | 3,942 | |  |  | | | 7,143 | |  |  |  |  |  |  |  |
| Due from affiliates | | | 10,424 | |  |  | | | (5,508) | |  |  |  |  |  |  |  |
| Accounts payable and accrued expenses | | | 13,105 | |  |  | | | 6,692 | |  |  |  |  |  |  |  |
| Other accrued liabilities | | | (1,662) | |  |  | | | (19,590) | |  |  |  |  |  |  |  |
| Net cash provided by operating activities | | | 271,977 | |  |  | | | 247,161 | |  |  |  |  |  |  |  |
| Cash flows from investing activities: | | |  | | |  | | |  | | |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  |  |  |  |  |  |
| Development, redevelopment, expansion and renovation of properties | | | (104,905) | |  |  | | | (133,325) | |  |  |  |  |  |  |  |
| Property improvements | | | (21,114) | |  |  | | | (32,858) | |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  |  |  |  |  |  |
| Proceeds from repayment of notes receivable | | | 65,791 | |  |  | | | 829 | |  |  |  |  |  |  |  |
| Deferred leasing costs | | | (10,885) | |  |  | | | (23,792) | |  |  |  |  |  |  |  |
| Distributions from unconsolidated joint ventures | | | 235,811 | |  |  | | | 541,336 | |  |  |  |  |  |  |  |
| Contributions to unconsolidated joint ventures | | | (149,368) | |  |  | | | (179,060) | |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  |  |  |  |  |  |
| Proceeds from sale of assets | | | 1,245 | |  |  | | | 83,029 | |  |  |  |  |  |  |  |
| Net cash provided by investing activities | | | 16,575 | |  |  | | | 256,159 | |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  |  |  |  |  |  |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **THE MACERICH COMPANY**  **CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**  **(Dollars in thousands)**  **(Unaudited)** | | | | | | | | | | | |  | | |  | | |  | | |
|  | | | **For the Nine Months Ended September 30,** | | | | | | | | |  | | |  | | |  |  |  |
|  | | | **2019** | | |  | | | **2018** | | |  |  |  |  |  |  |  |  |  |
| Cash flows from financing activities: | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |
| Proceeds from mortgages, bank and other notes payable | | | 1,076,000 | |  |  | | | 295,000 | |  |  |  |  |  |  |  |  |  |  |
| Payments on mortgages, bank and other notes payable | | | (1,016,099) | |  |  | | | (457,710) | |  |  |  |  |  |  |  |  |  |  |
| Payment on finance arrangement obligation | | | (27,945) | |  |  | | | — | |  |  |  |  |  |  |  |  |  |  |
| Deferred financing costs | | | (2,921) | |  |  | | | (275) | |  |  |  |  |  |  |  |  |  |  |
| Payments on finance leases | | | (1,472) | |  |  | | | — | |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |
| Proceeds from share and unit-based plans | | | 819 | |  |  | | | 806 | |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |
| Redemption of noncontrolling interests | | | (51) | |  |  | | | (719) | |  |  |  |  |  |  |  |  |  |  |
| Contribution from noncontrolling interests | | | 460 | |  |  | | | 16 | |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |
| Dividends and distributions | | | (359,376) | |  |  | | | (339,443) | |  |  |  |  |  |  |  |  |  |  |
| Net cash used in financing activities | | | (330,585) | |  |  | | | (502,325) | |  |  |  |  |  |  |  |  |  |  |
| Net (decrease) increase in cash, cash equivalents and restricted cash | | | (42,033) | |  |  | | | 995 | |  |  |  |  |  |  |  |  |  |  |
| Cash, cash equivalents and restricted cash, beginning of period | | | 149,301 | |  |  | | | 143,105 | |  |  |  |  |  |  |  |  |  |  |
| Cash, cash equivalents and restricted cash, end of period | | | $ | 107,268 |  |  | | | $ | 144,100 |  |  |  |  |  |  |  |  |  |  |
| Supplemental cash flow information: | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |
| Cash payments for interest, net of amounts capitalized | | | $ | 156,700 |  |  | | | $ | 142,680 |  |  |  |  |  |  |  |  |  |  |
| Non-cash investing and financing transactions: | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |
| Accrued development costs included in accounts payable and accrued expenses and other accrued liabilities | | | $ | 43,348 |  |  | | | $ | 48,827 |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |
| Mortgage notes payable assumed in exchange for investments in unconsolidated joint ventures | | | $ | — |  |  | | | $ | 139,249 |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |
| Disposition of property in exchange for investments in unconsolidated joint ventures | | | $ | — |  |  | | | $ | 36,305 |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |
| Conversion of Operating Partnership Units to common stock | | | $ | 1,005 |  |  | | | $ | 75 |  |  |  |  |  |  |  |  |  |  |

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

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**THE MACERICH COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Dollars in thousands, except per share and square foot amounts)**

**(Unaudited)**

**1. Organization:**

The Macerich Company (the "Company") is involved in the acquisition, ownership, development, redevelopment, management and leasing of regional and community/power shopping centers (the "Centers") located throughout the United States.

The Company commenced operations effective with the completion of its initial public offering on March 16, 1994. As of September 30, 2019, the Company was the sole general partner of and held a 93% ownership interest in The Macerich Partnership, L.P. (the "Operating Partnership"). The Company was organized to qualify as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code").

The property management, leasing and redevelopment of the Company's portfolio is provided by the Company's management companies, Macerich Property Management Company, LLC, a single member Delaware limited liability company, Macerich Management Company, a California corporation, Macerich Arizona Partners LLC, a single member Arizona limited liability company, Macerich Arizona Management LLC, a single member Delaware limited liability company, Macerich Partners of Colorado LLC, a single member Colorado limited liability company, MACW Mall Management, Inc., a New York corporation, and MACW Property Management, LLC, a single member New York limited liability company. All seven of the management companies are collectively referred to herein as the "Management Companies."

All references to the Company in this Quarterly Report on Form 10-Q include the Company, those entities owned or controlled by the Company and predecessors of the Company, unless the context indicates otherwise.

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**THE MACERICH COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except per share and square foot amounts)**

**(Unaudited)**

**2. Summary of Significant Accounting Policies:**

*Basis of Presentation:*

The accompanying consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. They do not include all of the information and footnotes required by GAAP for complete financial statements and have not been audited by an independent registered public accounting firm.

The Company's sole significant asset is its investment in the Operating Partnership and as a result, substantially all of the Company's assets and liabilities represent the assets and liabilities of the Operating Partnership. In addition, the Operating Partnership has investments in a number of consolidated variable interest entities ("VIEs").

The Operating Partnership's consolidated VIEs included the following assets and liabilities:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **September 30, 2019** | | |  | | | **December 31, 2018** | | |
| Assets: | | |  | | |  | | |  | | |
| Property, net | | | $ | 254,866 |  |  | | | $ | 263,511 |  |
| Other assets | | | 23,274 | |  |  | | | 23,001 | |  |
| Total assets | | | $ | 278,140 |  |  | | | $ | 286,512 |  |
| Liabilities: | | |  | | |  | | |  | | |
| Mortgage notes payable | | | $ | 222,085 |  |  | | | $ | 125,273 |  |
| Other liabilities | | | 36,779 | |  |  | | | 32,503 | |  |
| Total liabilities | | | $ | 258,864 |  |  | | | $ | 157,776 |  |

All intercompany accounts and transactions have been eliminated in the consolidated financial statements.

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**THE MACERICH COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except per share and square foot amounts)**

**(Unaudited)**

**2. Summary of Significant Accounting Policies: (Continued)**

The unaudited interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the consolidated financial statements for the interim periods have been made. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The accompanying consolidated balance sheet as of December 31, 2018 has been derived from the audited financial statements but does not include all disclosures required by GAAP. The following table presents a reconciliation of the beginning of period and end of period cash, cash equivalents and restricted cash reported on the Company's consolidated balance sheets to the totals shown on its consolidated statements of cash flows:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **For the Nine Months Ended September 30,** | | | | | | | | |  | | |  | | |
|  | | | **2019** | | |  | | | **2018** | | |  |  |  |  |  |  |
| **Beginning of period** | | |  | | |  | | |  | | |  |  |  |  |  |  |
| Cash and cash equivalents | | | $ | 102,711 |  |  | | | $ | 91,038 |  |  |  |  |  |  |  |
| Restricted cash | | | 46,590 | |  |  | | | 52,067 | |  |  |  |  |  |  |  |
| Cash, cash equivalents and restricted cash | | | $ | 149,301 |  |  | | | $ | 143,105 |  |  |  |  |  |  |  |
| **End of period** | | |  | | |  | | |  | | |  |  |  |  |  |  |
| Cash and cash equivalents | | | $ | 98,309 |  |  | | | $ | 93,479 |  |  |  |  |  |  |  |
| Restricted cash | | | 8,959 | |  |  | | | 50,621 | |  |  |  |  |  |  |  |
| Cash, cash equivalents and restricted cash | | | $ | 107,268 |  |  | | | $ | 144,100 |  |  |  |  |  |  |  |

*Shareholder Activism Costs:*

During the nine months ended September 30, 2018, the Company incurred $19,369 in costs associated with activities related to shareholder activism. These costs were primarily for legal and advisory services.

*Adoption of New Lease Standard:*

On January 1, 2019, the Company adopted Accounting Standards Codification ("ASC") 842 "Leases", under the modified retrospective method. The new standard amended the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). In connection with the adoption of the new lease standard, the Company elected to use the transition packages of practical expedients for implementation provided by the Financial Accounting Standards Board ("FASB"), which included (i) relief from re-assessing whether an expired or existing contract meets the definition of a lease, (ii) relief from re-assessing the classification of expired or existing leases at the adoption date, (iii) allowing previously capitalized initial direct leasing costs to continue to be amortized, and (iv) application of the standard as of the adoption date rather than to all periods presented.

The standard requires that lessors expense, on an as-incurred basis, certain initial direct costs that are not incremental in negotiating a lease. Initial direct costs include the salaries and related costs for employees directly working on leasing activities. Prior to January 1, 2019, these costs were capitalizable and therefore the new lease standard resulted in certain of these costs being expensed as incurred. For comparison purposes, the Company has reclassified leasing expenses that were included in management companies' operating expenses to leasing expenses for the three and nine months ended September 30, 2018, to conform to the presentation for the three and nine months ended September 30, 2019. Upon the adoption of the new standard, the Company elected the practical expedient to not separate non-lease components, most significantly certain common area maintenance recoveries, from the associated lease components, resulting in the Company presenting all revenues associated with leases as leasing revenue on its consolidated statement of operations. For comparison purposes, the Company has

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**THE MACERICH COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except per share and square foot amounts)**

**(Unaudited)**

**2. Summary of Significant Accounting Policies: (Continued)**

reclassified minimum rents, percentage rents, tenant recoveries and other leasing income to leasing revenue for the three and nine months ended September 30, 2018, to conform to the presentation for the three and nine months ended September 30, 2019. The new standard also requires the Company to reduce leasing revenue for credit losses associated with lease receivables. In addition, straight-line rent receivables are written off when the Company believes there is uncertainty regarding a tenant's ability to complete the term of the lease. As a result, the Company recognized a cumulative effect adjustment of $2,203 upon adoption for the write off of straight-line rent receivables of tenants that were in litigation or bankruptcy. The standard also requires that the provision for bad debts relating to leases be presented as a reduction of leasing revenue. For the three and nine months ended September 30, 2018, the provision for bad debts is included in shopping center and operating expenses.

The standard requires lessees to classify its leases as either finance or operating leases. The lessee records a right-of-use ("ROU") asset and a lease liability for all leases with a term of greater than twelve months, regardless of their lease classification. Upon adoption, the Company recognized initial ROU assets and corresponding lease liabilities of $109,299, representing the discounted value of future lease payments required for leases classified as operating leases. In addition, the Company reclassified $59,736 from deferred charges and other assets, net, $5,978 from accounts payable and accrued expenses and $4,342 from other accrued liabilities, relating to existing intangible assets and straight-line rent liabilities. The Company's lease liabilities were increased at adoption by $15,268 for lease liabilities associated with finance leases that were previously included in other accrued liabilities. See Note 8—Leases, for further disclosure on the Company's adoption of the new standard.

*Other Recent Accounting Pronouncements:*

In August 2017, the FASB issued ASU 2017-12, “Targeted Improvements to Accounting for Hedging Activities,” which aims to (i) improve the transparency and understandability of information conveyed to financial statement users about an entity’s risk management activities by better aligning the entity’s financial reporting for hedging relationships with those risk management activities and (ii) reduce the complexity of and simplify the application of hedge accounting by preparers. The Company's adoption of the standard on January 1, 2019 did not have an impact on its consolidated financial statements.

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**THE MACERICH COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except per share and square foot amounts)**

**(Unaudited)**

**3. Earnings Per Share ("EPS"):**

The following table reconciles the numerator and denominator used in the computation of EPS for the three and nine months ended September 30, 2019 and 2018 (shares in thousands):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **For the Three Months Ended September 30,** | | | | | | | | |  | | |  | | |  | | | **For the Nine Months Ended September 30,** | | | | | | | | |  | | |  | | |
|  | | | **2019** | | |  | | | **2018** | | |  | | | **2019** | | |  | | | **2018** | | |  |  |  |  |  |  |  |  |  |  |  |  |
| **Numerator** | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income | | | $ | 50,025 |  |  | | | $ | 81,241 |  |  | | | $ | 72,815 |  |  | | | $ | 55,726 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Less net income attributable to noncontrolling interests | | | 3,654 | |  |  | | | 7,213 | |  |  | | | 2,886 | |  |  | | | 7,455 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income attributable to the Company | | | 46,371 | |  |  | | | 74,028 | |  |  | | | 69,929 | |  |  | | | 48,271 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Allocation of earnings to participating securities | | | (297) | |  |  | | | (278) | |  |  | | | (869) | |  |  | | | (824) | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Numerator for basic and diluted EPS—net income attributable to common stockholders | | | $ | 46,074 |  |  | | | $ | 73,750 |  |  | | | $ | 69,060 |  |  | | | $ | 47,447 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Denominator** | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |
| Denominator for basic EPS—weighted average number of common shares outstanding | | | 141,368 | |  |  | | | 141,196 | |  |  | | | 141,325 | |  |  | | | 141,120 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Effect of dilutive securities(1): | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |
| Share and unit-based compensation plans | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 5 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Denominator for diluted EPS—weighted average number of common shares outstanding | | | 141,368 | |  |  | | | 141,196 | |  |  | | | 141,325 | |  |  | | | 141,125 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **EPS—net income attributable to common stockholders:** | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |
| Basic | | | $ | 0.33 |  |  | | | $ | 0.52 |  |  | | | $ | 0.49 |  |  | | | $ | 0.34 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Diluted | | | $ | 0.33 |  |  | | | $ | 0.52 |  |  | | | $ | 0.49 |  |  | | | $ | 0.34 |  |  |  |  |  |  |  |  |  |  |  |  |  |

(1)Diluted EPS excludes 90,619 convertible preferred partnership units for the three and nine months ended September 30, 2019 and 2018, as their impact was antidilutive. Diluted EPS also excludes 10,415,238 and 10,377,936 Operating Partnership units ("OP Units") for the three months ended September 30, 2019 and 2018, respectively, and 10,415,234 and 10,355,946 OP Units for the nine months ended September 30, 2019 and 2018, respectively, as their impact was antidilutive.

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**THE MACERICH COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except per share and square foot amounts)**

**(Unaudited)**

**4. Investments in Unconsolidated Joint Ventures:**

The Company has made the following recent investments and dispositions in its unconsolidated joint ventures:

On February 16, 2018, the Company's joint venture in Fashion District Philadelphia sold its ownership interest in an office building for $41,800, resulting in a gain on sale of assets of $5,545. The Company's pro rata share of the gain on the sale of assets of $2,773 was included in equity in income from unconsolidated joint ventures. The Company used its share of the proceeds to pay down its line of credit and for general corporate purposes.

On March 1, 2018, the Company formed a 25/75 joint venture with Hudson Pacific Properties, whereby the Company agreed to contribute Westside Pavilion (referred to hereafter as "One Westside"), a 680,000 square foot regional shopping center in Los Angeles, California in exchange for $142,500. From March 1, 2018 to August 31, 2018, the Company accounted for its interest in the property as a collaborative arrangement (See Note 15—Collaborative Arrangement). On August 31, 2018, the Company completed the sale of the 75% ownership interest in the property to Hudson Pacific Properties, resulting in a gain on sale of assets of $46,242. The sales price was funded by a cash payment of $36,903 and the assumption of a pro rata share of the mortgage note payable on the property of $105,597. Concurrent with the sale of the ownership interest, the joint venture defeased the loan on the property by providing a $149,175 portfolio of marketable securities as replacement collateral in lieu of the property. The Company funded its $37,294 share of the purchase price of the marketable securities portfolio with the proceeds from the sale of the ownership interest in the property. Upon completion of the sale of the ownership interest in the property, the Company has accounted for its remaining ownership interest in the property under the equity method of accounting.

On July 6, 2018, the Company’s joint venture in The Market at Estrella Falls, a 298,000 square foot community center in Goodyear, Arizona, sold the property for $49,100, resulting in a gain on sale of assets of $12,598. The Company's share of the gain of $2,996 was included in equity in income from unconsolidated joint ventures. The proceeds were used to pay off the $24,118 mortgage loan payable on the property, settle development obligations and for distributions to the partners. The Company used its share of the net proceeds for general corporate purposes.

On September 6, 2018, the Company formed a 50/50 joint venture with Simon Property Group to develop Los Angeles Premium Outlets, a premium outlet center in Carson, California that is planned to open with approximately 400,000 square feet, followed by an additional 165,000 square feet in the second phase. The joint venture expects to complete the first phase of the development in fall 2021.

On July 25, 2019, the Company's joint venture in Fashion District Philadelphia amended the existing loan on the joint venture to allow for additional borrowings up to $100,000 at LIBOR plus 2%. Concurrent with the amendment, the joint venture borrowed an additional $26,000. On August 16, 2019, the joint venture borrowed an additional $25,000. The Company used its share of the additional proceeds to pay down its line of credit and for general corporate purposes.

On September 12, 2019, the Company’s joint venture in Tysons Tower placed a new $190,000 loan on the property that bears interest at an effective rate of 3.38% and matures on October 11, 2029. The Company used its share of the proceeds to pay down its line of credit and for general corporate purposes.

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**THE MACERICH COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except per share and square foot amounts)**

**(Unaudited)**

**4. Investments in Unconsolidated Joint Ventures: (Continued)**

Combined and condensed balance sheets and statements of operations are presented below for all unconsolidated joint ventures.

**Combined and Condensed Balance Sheets of Unconsolidated Joint Ventures:**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **September 30, 2019** | | |  | | | **December 31, 2018** | | |
| Assets(1): | | |  | | |  | | |  | | |
| Property, net | | | $ | 9,359,938 |  |  | | | $ | 9,241,003 |  |
| Other assets | | | 807,237 | |  |  | | | 703,861 | |  |
| Total assets | | | $ | 10,167,175 |  |  | | | $ | 9,944,864 |  |
| Liabilities and partners' capital(1): | | |  | | |  | | |  | | |
| Mortgage and other notes payable | | | $ | 6,261,409 |  |  | | | $ | 6,050,930 |  |
| Other liabilities | | | 538,155 | |  |  | | | 388,509 | |  |
| Company's capital | | | 1,828,638 | |  |  | | | 1,913,475 | |  |
| Outside partners' capital | | | 1,538,973 | |  |  | | | 1,591,950 | |  |
| Total liabilities and partners' capital | | | $ | 10,167,175 |  |  | | | $ | 9,944,864 |  |
| Investments in unconsolidated joint ventures: | | |  | | |  | | |  | | |
| Company's capital | | | $ | 1,828,638 |  |  | | | $ | 1,913,475 |  |
| Basis adjustment(2) | | | (504,176) | |  |  | | | (535,808) | |  |
|  | | | $ | 1,324,462 |  |  | | | $ | 1,377,667 |  |
|  | | |  | | |  | | |  | | |
| Assets—Investments in unconsolidated joint ventures | | | $ | 1,436,788 |  |  | | | $ | 1,492,655 |  |
| Liabilities—Distributions in excess of investments in unconsolidated joint ventures | | | (112,326) | |  |  | | | (114,988) | |  |
|  | | | $ | 1,324,462 |  |  | | | $ | 1,377,667 |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |

(1)    These amounts include assets of $2,981,866 and $3,047,851 of Pacific Premier Retail LLC (the "PPR Portfolio") as of September 30, 2019 and December 31, 2018, respectively, and liabilities of $1,836,948 and $1,859,637 of the PPR Portfolio as of September 30, 2019 and December 31, 2018, respectively.

(2)    The Company amortizes the difference between the cost of its investments in unconsolidated joint ventures and the book value of the underlying equity into income on a straight-line basis consistent with the lives of the underlying assets. The amortization of this difference was $5,354 and $1,160 for the three months ended September 30, 2019 and 2018, respectively, and $15,164 and $8,787 for the nine months ended September 30, 2019 and 2018, respectively.

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**THE MACERICH COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except per share and square foot amounts)**

**(Unaudited)**

**4. Investments in Unconsolidated Joint Ventures: (Continued)**

**Combined and Condensed Statements of Operations of Unconsolidated Joint Ventures:**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **PPR Portfolio** | | |  | | | **Other Joint Ventures** | | |  | | | **Total** | | |
| *Three Months Ended September 30, 2019* | | |  | | |  | | |  | | |  | | |  | | |
| Revenues: | | |  | | |  | | |  | | |  | | |  | | |
| Leasing revenue | | | $ | 46,308 |  |  | | | $ | 169,132 |  |  | | | $ | 215,440 |  |
| Other | | | 668 | |  |  | | | 15,648 | |  |  | | | 16,316 | |  |
| Total revenues | | | 46,976 | |  |  | | | 184,780 | |  |  | | | 231,756 | |  |
| Expenses: | | |  | | |  | | |  | | |  | | |  | | |
| Shopping center and operating expenses | | | 9,289 | |  |  | | | 58,658 | |  |  | | | 67,947 | |  |
| Leasing expenses | | | 407 | |  |  | | | 1,750 | |  |  | | | 2,157 | |  |
| Interest expense | | | 16,926 | |  |  | | | 36,021 | |  |  | | | 52,947 | |  |
| Depreciation and amortization | | | 25,260 | |  |  | | | 63,683 | |  |  | | | 88,943 | |  |
| Total operating expenses | | | 51,882 | |  |  | | | 160,112 | |  |  | | | 211,994 | |  |
| Gain on sale or write down of assets, net | | | 5 | |  |  | | | — | |  |  | | | 5 | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |
| Net (loss) income | | | $ | (4,901) |  |  | | | $ | 24,668 |  |  | | | $ | 19,767 |  |
| Company's equity in net (loss) income | | | $ | (409) |  |  | | | $ | 14,991 |  |  | | | $ | 14,582 |  |
| *Three Months Ended September 30, 2018* | | |  | | |  | | |  | | |  | | |  | | |
| Revenues: | | |  | | |  | | |  | | |  | | |  | | |
| Leasing revenue | | | $ | 46,859 |  |  | | | $ | 176,990 |  |  | | | $ | 223,849 |  |
| Other | | | 27 | |  |  | | | 11,767 | |  |  | | | 11,794 | |  |
| Total revenues | | | 46,886 | |  |  | | | 188,757 | |  |  | | | 235,643 | |  |
| Expenses: | | |  | | |  | | |  | | |  | | |  | | |
| Shopping center and operating expenses | | | 9,893 | |  |  | | | 61,528 | |  |  | | | 71,421 | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |
| Interest expense(1) | | | 16,680 | |  |  | | | 37,968 | |  |  | | | 54,648 | |  |
| Depreciation and amortization | | | 24,582 | |  |  | | | 61,323 | |  |  | | | 85,905 | |  |
| Total operating expenses | | | 51,155 | |  |  | | | 160,819 | |  |  | | | 211,974 | |  |
| (Loss) gain on sale or write down of assets, net | | | (47) | |  |  | | | 12,622 | |  |  | | | 12,575 | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |
| Net (loss) income | | | $ | (4,316) |  |  | | | $ | 40,560 |  |  | | | $ | 36,244 |  |
| Company's equity in net (loss) income | | | $ | (148) |  |  | | | $ | 18,937 |  |  | | | $ | 18,789 |  |

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**THE MACERICH COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except per share and square foot amounts)**

**(Unaudited)**

**4. Investments in Unconsolidated Joint Ventures: (Continued)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **PPR Portfolio** | | |  | | | **Other Joint Ventures** | | |  | | | **Total** | | |
| *Nine Months Ended September 30, 2019* | | |  | | |  | | |  | | |  | | |  | | |
| Revenues: | | |  | | |  | | |  | | |  | | |  | | |
| Leasing revenue | | | $ | 137,674 |  |  | | | $ | 514,929 |  |  | | | $ | 652,603 |  |
| Other | | | 1,285 | |  |  | | | 40,809 | |  |  | | | 42,094 | |  |
| Total revenues | | | 138,959 | |  |  | | | 555,738 | |  |  | | | 694,697 | |  |
| Expenses: | | |  | | |  | | |  | | |  | | |  | | |
| Shopping center and operating expenses | | | 27,431 | |  |  | | | 177,373 | |  |  | | | 204,804 | |  |
| Leasing expenses | | | 1,247 | |  |  | | | 5,112 | |  |  | | | 6,359 | |  |
| Interest expense | | | 50,920 | |  |  | | | 110,614 | |  |  | | | 161,534 | |  |
| Depreciation and amortization | | | 75,506 | |  |  | | | 205,016 | |  |  | | | 280,522 | |  |
| Total operating expenses | | | 155,104 | |  |  | | | 498,115 | |  |  | | | 653,219 | |  |
| Loss on sale or write down of assets, net | | | (400) | |  |  | | | (280) | |  |  | | | (680) | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |
| Net (loss) income | | | $ | (16,545) |  |  | | | $ | 57,343 |  |  | | | $ | 40,798 |  |
| Company's equity in net (loss) income | | | $ | (2,139) |  |  | | | $ | 36,221 |  |  | | | $ | 34,082 |  |
| *Nine Months Ended September 30, 2018* | | |  | | |  | | |  | | |  | | |  | | |
| Revenues: | | |  | | |  | | |  | | |  | | |  | | |
| Leasing revenue | | | $ | 137,641 |  |  | | | $ | 533,041 |  |  | | | $ | 670,682 |  |
| Other | | | 627 | |  |  | | | 31,917 | |  |  | | | 32,544 | |  |
| Total revenues | | | 138,268 | |  |  | | | 564,958 | |  |  | | | 703,226 | |  |
| Expenses: | | |  | | |  | | |  | | |  | | |  | | |
| Shopping center and operating expenses | | | 29,091 | |  |  | | | 183,174 | |  |  | | | 212,265 | |  |
| Interest expense(1) | | | 50,176 | |  |  | | | 108,356 | |  |  | | | 158,532 | |  |
| Depreciation and amortization | | | 73,137 | |  |  | | | 184,708 | |  |  | | | 257,845 | |  |
| Total operating expenses | | | 152,404 | |  |  | | | 476,238 | |  |  | | | 628,642 | |  |
| (Loss) gain on sale or write down of assets, net | | | (47) | |  |  | | | 14,151 | |  |  | | | 14,104 | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |
| Net (loss) income | | | $ | (14,183) |  |  | | | $ | 102,871 |  |  | | | $ | 88,688 |  |
| Company's equity in net (loss) income | | | $ | (1,021) |  |  | | | $ | 52,351 |  |  | | | $ | 51,330 |  |

(1)    Interest expense includes $7,148 and $19,264 for the three and nine months ended September 30, 2018, respectively, related to mortgage notes payable to an affiliate of Northwestern Mutual Life ("NML") (See Note 18—Related Party Transactions).

Significant accounting policies used by the unconsolidated joint ventures are similar to those used by the Company.

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**THE MACERICH COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except per share and square foot amounts)**

**(Unaudited)**

**5. Derivative Instruments and Hedging Activities:**

The Company uses interest rate cap and interest rate swap agreements to manage the interest rate risk of its floating rate debt. The Company recorded other comprehensive (loss) income related to the marking-to-market of derivative instruments of $(154) and $175 for the three months ended September 30, 2019 and 2018, respectively, and $(6,480) and $184 for the nine months ended September 30, 2019 and 2018, respectively.

The following derivatives were outstanding at September 30, 2019:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | | **Fair Value** | | | | | | | | |  | | |  | | |
| **Property** | | |  | | | **Notional Amount** | | |  | | | **Product** | | |  | | | **LIBOR Rate** | | |  | | | **Maturity** | | |  | | | **September 30, 2019** | | |  | | | **December 31, 2018** | | |  |  |  |  |  |  |
| Santa Monica Place | | |  | | | $ | 300,000 |  |  | | | Cap | | |  | | | 4.00 | | % |  | | | 12/9/2020 | | |  | | | $ | — |  |  | | | $ | (53) |  |  |  |  |  |  |  |
| The Macerich Partnership, L.P. | | |  | | | $ | 400,000 |  |  | | | Swaps | | |  | | | 2.85 | | % |  | | | 9/30/2021 | | |  | | | $ | (10,946) |  |  | | | $ | (4,413) |  |  |  |  |  |  |  |

The above derivative instruments were designated as hedging instruments with an aggregate fair value (Level 2 measurement) and were included in other accrued liabilities. The fair value of the Company's interest rate derivatives was determined using discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by the Company and its counterparties. The Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its interest rate swap. As a result, the Company determined that its interest rate cap and swap valuations in their entirety are classified in Level 2 of the fair value hierarchy.

**6. Property, net:**

Property, net consists of the following:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **September 30, 2019** | | |  | | | **December 31, 2018** | | |
| Land | | | $ | 1,508,445 |  |  | | | $ | 1,506,678 |  |
| Buildings and improvements | | | 6,315,465 | |  |  | | | 6,288,308 | |  |
| Tenant improvements | | | 708,230 | |  |  | | | 678,110 | |  |
| Equipment and furnishings(1) | | | 214,065 | |  |  | | | 206,398 | |  |
| Construction in progress | | | 204,172 | |  |  | | | 199,326 | |  |
|  | | | 8,950,377 | |  |  | | | 8,878,820 | |  |
| Less accumulated depreciation(1) | | | (2,286,271) | |  |  | | | (2,093,044) | |  |
|  | | | $ | 6,664,106 |  |  | | | $ | 6,785,776 |  |

(1)      Equipment and furnishings and accumulated depreciation include the cost and accumulated amortization of ROU assets in connection with finance leases at September 30, 2019 (See Note 8—Leases).

Depreciation expense was $72,519 and $69,237 for the three months ended September 30, 2019 and 2018, respectively, and $214,689 and $204,031 for the nine months ended September 30, 2019 and 2018, respectively.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except per share and square foot amounts)**

**(Unaudited)**

**6. Property, net: (Continued)**

The (loss) gain on sale or write down of assets, net for the three and nine months ended September 30, 2019 and 2018 consist of the following:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | | **For the Three Months Ended September 30,** | | | | | | | | |  | | |  | | |  | | | **For the Nine Months Ended September 30,** | | | | | | | | |  | | |  | | |
|  | | |  | | | **2019** | | |  | | | **2018** | | |  | | | **2019** | | |  | | | **2018** | | |  |  |  |  |  |  |  |  |  |  |  |  |
| Property sales(1) | | |  | | | $ | — |  |  | |  | $ | 46,242 |  |  | |  | $ | — |  |  | |  | $ | 45,931 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Write-down of assets(2) | | |  | | | (212) | |  |  | | | (1,786) | |  |  | | | (16,121) | |  |  | | | (50,578) | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Land sales | | |  | | | 81 | |  |  | | | 2,060 | |  |  | | | 615 | |  |  | | | 4,133 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | | $ | (131) |  |  | | | $ | 46,516 |  |  | | | $ | (15,506) |  |  | | | $ | (514) |  |  |  |  |  |  |  |  |  |  |  |  |  |

(1)     Gain on sale of properties during the three and nine months ended September 30, 2018 includes a gain of $46,242 on the sale of a 75% ownership interest in One Westside (See Note 4—Investments in Unconsolidated Joint Ventures). Gain on sale of properties during the nine months ended September 30, 2018 also includes the loss of $311 on the sale of Promenade at Casa Grande (See Note 16—Dispositions).

(2)     Includes impairment losses of $36,338 on SouthPark Mall, $7,494 on two freestanding stores, $1,695 on Southridge Center and $1,043 on Promenade at Casa Grande during the nine months ended September 30, 2018. The impairment losses were due to the reduction of the estimated holding periods of the properties. The remaining balances represent the write off of development costs.

The following table summarizes certain of the Company's assets that were measured on a nonrecurring basis as a result of the impairment losses recorded for the nine months ended September 30, 2018, as described above:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | | **Total Fair Value Measurement** | | |  | | | **Quoted Prices in Active Markets for Identical Assets** | | |  | | | **Significant Other Unobservable Inputs** | | |  | | | **Significant Unobservable Inputs** | | |
|  | | |  | | |  | | |  | | | **(Level 1)** | | |  | | | **(Level 2)** | | |  | | | **(Level 3)** | | |
| September 30, 2018 | | |  | | | $ | 72,700 |  |  | | | $ | — |  |  | | | $ | 72,700 |  |  | | | $ | — |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |

The fair values relating to the impairments were based on sales contracts.

**7. Tenant and Other Receivables, net:**

Included in tenant and other receivables, net is an allowance for doubtful accounts of $4,634 and $2,919 at September 30, 2019 and December 31, 2018, respectively. Also included in tenant and other receivables, net are accrued percentage rents of $1,948 and $8,949 at September 30, 2019 and December 31, 2018, respectively, and a deferred rent receivable due to straight-line rent adjustments of $78,783 and $72,456 at September 30, 2019 and December 31, 2018, respectively.

**8. Leases:**

*Lessor Leases:*

The Company leases its Centers under agreements that are classified as operating leases. These leases generally include minimum rents, percentage rents and recoveries of real estate taxes, insurance and other shopping center operating expenses. Minimum rental revenues are recognized on a straight-line basis over the terms of the related leases. Percentage rents are recognized and accrued when tenants' specified sales targets have been met. Estimated recoveries from certain tenants for their pro rata share of real estate taxes, insurance and other shopping center operating expenses are recognized as revenues in the period the applicable expenses are incurred. Other tenants pay a fixed rate and these tenant recoveries are recognized as revenues on a straight-line basis over the term of the related leases.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except per share and square foot amounts)**

**(Unaudited)**

**8. Leases: (Continued)**

The following table summarizes the components of leasing revenue for the three and nine months ended September 30, 2019 and 2018:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **For the Three Months Ended September 30,** | | | | | | | | |  | | |  | | |  | | | **For the Nine Months Ended September 30,** | | | | | | | | |  | | |  | | |
|  | | | **2019** | | |  | | | **2018** | | |  | | | **2019** | | |  | | | **2018** | | |  |  |  |  |  |  |  |  |  |  |  |  |
| Leasing revenue - fixed payments | | | $ | 159,356 |  |  | | | $ | 164,351 |  |  | | | $ | 482,194 |  |  | | | $ | 494,096 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Leasing revenue - variable payments | | | 54,904 | |  |  | | | 59,900 | |  |  | | | 154,096 | |  |  | | | 165,281 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | $ | 214,260 |  |  | | | $ | 224,251 |  |  | | | $ | 636,290 |  |  | | | $ | 659,377 |  |  |  |  |  |  |  |  |  |  |  |  |  |

The following table summarizes the future minimum rental payments to the Company:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
| Twelve months ending September 30, | | |  | | |  | | |
| 2020 | | |  | | | $ | 490,897 |  |
| 2021 | | |  | | | 414,722 | |  |
| 2022 | | |  | | | 363,264 | |  |
| 2023 | | |  | | | 313,166 | |  |
| 2024 | | |  | | | 255,316 | |  |
| Thereafter | | |  | | | 753,888 | |  |
|  | | |  | | | $ | 2,591,253 |  |

*Lessee Leases:*

The Company has certain properties that are subject to non-cancelable operating leases. The leases expire at various times through 2098, subject in some cases to options to extend the terms of the lease. Certain leases provide for contingent rent payments based on a percentage of base rental income, as defined in the lease. In addition, the Company has four finance leases that expire at various times through 2022.

The following table summarizes the lease costs for the three and nine months ended September 30, 2019:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **Three Months Ended September 30, 2019** | | |  | | | **Nine Months Ended September 30, 2019** | | |
| Operating lease costs | | | $ | 3,466 |  |  | | | $ | 12,675 |  |
| Finance lease costs: | | |  | | |  | | |  | | |
| Amortization of ROU assets | | | 475 | |  |  | | | 1,407 | |  |
| Interest on lease liabilities | | | 145 | |  |  | | | 453 | |  |
|  | | | $ | 4,086 |  |  | | | $ | 14,535 |  |

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**THE MACERICH COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except per share and square foot amounts)**

**(Unaudited)**

**8. Leases: (Continued)**

The following table summarizes the future minimum rental payments required under the leases:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | | **September 30, 2019** | | | | | | | | |  | | |  | | |  | | | **December 31, 2018** | | | | | | | | |  | | |  | | |
| **Year ending** | | |  | | | **Operating  Leases** | |  |  | | | **Finance Leases** | |  |  | | | **Operating Leases** | |  |  | | | **Finance Leases** | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2019 | | |  | | | $ | 4,521 |  |  | | | $ | 505 |  |  | | | $ | 16,627 |  |  | | | $ | 2,106 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2020 | | |  | | | 17,149 | |  |  | | | 2,106 | |  |  | | | 17,183 | |  |  | | | 2,106 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2021 | | |  | | | 17,004 | |  |  | | | 10,440 | |  |  | | | 17,124 | |  |  | | | 10,440 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2022 | | |  | | | 16,867 | |  |  | | | 2,418 | |  |  | | | 17,450 | |  |  | | | 2,418 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| 2023 | | |  | | | 11,055 | |  |  | | | — | |  |  | | | 11,390 | |  |  | | | — | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Thereafter | | |  | | | 140,415 | |  |  | | | — | |  |  | | | 140,562 | |  |  | | | — | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total undiscounted rental payments | | |  | | | 207,011 | |  |  | | | 15,469 | |  |  | | | $ | 220,336 |  |  | | | $ | 17,070 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Less imputed interest | | |  | | | (104,124) | |  |  | | | (1,673) | |  |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |
| Total lease liabilities | | |  | | | $ | 102,887 |  |  | | | $ | 13,796 |  |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |

The Company's weighted average remaining lease term of its operating and finance leases at September 30, 2019 was 31.0 years and 1.9 years, respectively. The Company's weighted average incremental borrowing rate of its operating and finance leases at September 30, 2019 was 7.7% and 4.2%, respectively.

**9. Deferred Charges and Other Assets, net:**

Deferred charges and other assets, net consist of the following:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **September 30, 2019** | | |  | | | **December 31, 2018** | | |
| Leasing | | | $ | 203,843 |  |  | | | $ | 226,885 |  |
| Intangible assets: | | |  | | |  | | |  | | |
| In-place lease values | | | 82,777 | |  |  | | | 94,966 | |  |
| Leasing commissions and legal costs | | | 21,019 | |  |  | | | 23,508 | |  |
| Above-market leases | | | 62,679 | |  |  | | | 140,889 | |  |
| Deferred tax assets | | | 30,643 | |  |  | | | 32,197 | |  |
| Deferred compensation plan assets | | | 52,006 | |  |  | | | 45,857 | |  |
| Other assets | | | 51,655 | |  |  | | | 75,497 | |  |
|  | | | 504,622 | |  |  | | | 639,799 | |  |
| Less accumulated amortization(1) | | | (226,823) | |  |  | | | (249,396) | |  |
|  | | | $ | 277,799 |  |  | | | $ | 390,403 |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |

(1)   Accumulated amortization includes $67,599 and $72,286 relating to in-place lease values, leasing commissions and legal costs at September 30, 2019 and December 31, 2018, respectively. Amortization expense of in-place lease values, leasing commissions and legal costs was $3,467 and $3,114 for the three months ended September 30, 2019 and 2018, respectively, and $9,991 and $10,504 for the nine months ended September 30, 2019 and 2018, respectively.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except per share and square foot amounts)**

**(Unaudited)**

**9. Deferred Charges and Other Assets, net: (Continued)**

The allocated values of above-market leases and below-market leases consist of the following:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **September 30, 2019** | | |  | | | **December 31, 2018** | | |
| *Above-Market Leases* | | |  | | |  | | |  | | |
| Original allocated value | | | $ | 62,679 |  |  | | | $ | 140,889 |  |
| Less accumulated amortization | | | (36,199) | |  |  | | | (49,847) | |  |
|  | | | $ | 26,480 |  |  | | | $ | 91,042 |  |
| *Below-Market Leases(1)* | | |  | | |  | | |  | | |
| Original allocated value | | | $ | 92,420 |  |  | | | $ | 108,330 |  |
| Less accumulated amortization | | | (54,837) | |  |  | | | (56,345) | |  |
|  | | | $ | 37,583 |  |  | | | $ | 51,985 |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |

(1)   Below-market leases are included in other accrued liabilities.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except per share and square foot amounts)**

**(Unaudited)**

**10. Mortgage Notes Payable:**

Mortgage notes payable at September 30, 2019 and December 31, 2018 consist of the following:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | | **Carrying Amount of Mortgage Notes(1)** | | | | | | | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Property Pledged as Collateral** | | |  | | | **September 30, 2019** | | |  | | | **December 31, 2018** | | |  | | | **Effective Interest Rate(2)** | | |  | | | **Monthly Debt Service(3)** | | |  | | | **Maturity Date(4)** | | |  |  |  |  |  |  |
| Chandler Fashion Center(5)(6) | | |  | | | $ | 255,086 |  |  | | | $ | 199,972 |  |  | | | 4.18 | | % |  | | | $ | 875 |  |  | | | 2024 | | |  |  |  |  |  |  |
| Danbury Fair Mall | | |  | | | 196,616 | |  |  | | | 202,158 | |  |  | | | 5.53 | | % |  | | | 1,538 | |  |  | | | 2020 | | |  |  |  |  |  |  |
| Fashion Outlets of Chicago(7) | | |  | | | 299,092 | |  |  | | | 199,622 | |  |  | | | 4.61 | | % |  | | | 1,145 | |  |  | | | 2031 | | |  |  |  |  |  |  |
| Fashion Outlets of Niagara Falls USA(8) | | |  | | | 107,229 | |  |  | | | 109,651 | |  |  | | | 4.89 | | % |  | | | 727 | |  |  | | | 2020 | | |  |  |  |  |  |  |
| Freehold Raceway Mall(5) | | |  | | | 398,337 | |  |  | | | 398,212 | |  |  | | | 3.94 | | % |  | | | 1,300 | |  |  | | | 2029 | | |  |  |  |  |  |  |
| Fresno Fashion Fair | | |  | | | 323,609 | |  |  | | | 323,460 | |  |  | | | 3.67 | | % |  | | | 971 | |  |  | | | 2026 | | |  |  |  |  |  |  |
| Green Acres Commons(9) | | |  | | | 128,696 | |  |  | | | 128,006 | |  |  | | | 4.81 | | % |  | | | 460 | |  |  | | | 2021 | | |  |  |  |  |  |  |
| Green Acres Mall | | |  | | | 279,513 | |  |  | | | 284,686 | |  |  | | | 3.61 | | % |  | | | 1,447 | |  |  | | | 2021 | | |  |  |  |  |  |  |
| Kings Plaza Shopping Center(10) | | |  | | | 429,285 | |  |  | | | 437,120 | |  |  | | | 3.67 | | % |  | | | 2,229 | |  |  | | | 2019 | | |  |  |  |  |  |  |
| Oaks, The | | |  | | | 188,385 | |  |  | | | 192,037 | |  |  | | | 4.14 | | % |  | | | 1,064 | |  |  | | | 2022 | | |  |  |  |  |  |  |
| Pacific View | | |  | | | 119,003 | |  |  | | | 121,362 | |  |  | | | 4.08 | | % |  | | | 668 | |  |  | | | 2022 | | |  |  |  |  |  |  |
| Queens Center | | |  | | | 600,000 | |  |  | | | 600,000 | |  |  | | | 3.49 | | % |  | | | 1,744 | |  |  | | | 2025 | | |  |  |  |  |  |  |
| Santa Monica Place(11) | | |  | | | 297,630 | |  |  | | | 297,069 | |  |  | | | 3.63 | | % |  | | | 845 | |  |  | | | 2022 | | |  |  |  |  |  |  |
| SanTan Village Regional Center(12) | | |  | | | 219,057 | |  |  | | | 121,585 | |  |  | | | 4.34 | | % |  | | | 788 | |  |  | | | 2029 | | |  |  |  |  |  |  |
| Towne Mall | | |  | | | 20,399 | |  |  | | | 20,733 | |  |  | | | 4.48 | | % |  | | | 117 | |  |  | | | 2022 | | |  |  |  |  |  |  |
| Tucson La Encantada | | |  | | | 64,108 | |  |  | | | 65,361 | |  |  | | | 4.23 | | % |  | | | 368 | |  |  | | | 2022 | | |  |  |  |  |  |  |
| Victor Valley, Mall of | | |  | | | 114,719 | |  |  | | | 114,675 | |  |  | | | 4.00 | | % |  | | | 380 | |  |  | | | 2024 | | |  |  |  |  |  |  |
| Vintage Faire Mall | | |  | | | 253,869 | |  |  | | | 258,207 | |  |  | | | 3.55 | | % |  | | | 1,256 | |  |  | | | 2026 | | |  |  |  |  |  |  |
|  | | |  | | | $ | 4,294,633 |  |  | | | $ | 4,073,916 |  |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |

(1)The mortgage notes payable also include unamortized deferred finance costs that are amortized into interest expense over the remaining term of the related debt in a manner that approximates the effective interest method. Unamortized deferred finance costs were $12,202 and $13,053 at September 30, 2019 and December 31, 2018, respectively.

(2)The interest rate disclosed represents the effective interest rate, including the impact of debt premium and deferred finance costs.

(3)The monthly debt service represents the payment of principal and interest.

(4)The maturity date assumes that all extension options are fully exercised and that the Company does not opt to refinance the debt prior to these dates. These extension options are at the Company's discretion, subject to certain conditions, which the Company believes will be met.

(5)A 49.9% interest in the loan has been assumed by a third party in connection with the Company's joint venture in Chandler Freehold (See Note 12—Financing Arrangement).

(6)On June 27, 2019, the Company replaced the existing loan on the property with a new $256,000 loan that bears interest at an effective rate of 4.18% and matures on July 5, 2024.

(7)On January 10, 2019, the Company replaced the existing loan on the property with a new $300,000 loan that bears interest at an effective rate of 4.61% and matures on February 1, 2031.

(8)The loan includes unamortized debt premium of $1,004 and $1,701 at September 30, 2019 and December 31, 2018, respectively. The debt premium represents the excess of the fair value of debt over the principal value of debt assumed at acquisition and is amortized into interest expense over the remaining term of the loan in a manner that approximates the effective interest method.

(9)The loan bears interest at LIBOR plus 2.15%. At September 30, 2019 and December 31, 2018, the total interest rate was 4.81% and 5.06%, respectively.

(10)On October 24, 2019, the Company agreed to terms with a group of lenders to replace the existing loan on the property with a new $555,000 ten-year loan that will bear interest at 3.67%. The loan is expected to close during the three months ended December 31, 2019.

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**THE MACERICH COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except per share and square foot amounts)**

**(Unaudited)**

**10. Mortgage Notes Payable: (Continued)**

(11)The loan bears interest at LIBOR plus 1.35%. The loan is covered by an interest rate cap agreement that effectively prevents LIBOR from exceeding 4% during the period ending December 9, 2020 (See Note 5—Derivative Instruments and Hedging Activities). At September 30, 2019 and December 31, 2018, the total interest rate was 3.63% and 4.01%, respectively.

(12)On June 3, 2019, the Company’s joint venture in SanTan Village Regional Center replaced the existing loan on the property with a new $220,000 loan that bears interest at an effective rate of 4.34% and matures on July 1, 2029.

Most of the mortgage loan agreements contain a prepayment penalty provision for the early extinguishment of the debt.

The Company's mortgage notes payable are secured by the properties on which they are placed, and with the exception of $65,000 of the loan on Green Acres Commons, are non-recourse to the Company.

The Company expects that all loan maturities during the next twelve months will be refinanced, restructured, extended and/or paid off from the Company's line of credit or with cash on hand.

Total interest expense capitalized was $2,704 and $3,751 for the three months ended September 30, 2019 and 2018, respectively, and $7,557 and $12,752 for the nine months ended September 30, 2019 and 2018, respectively.

The estimated fair value (Level 2 measurement) of mortgage notes payable at September 30, 2019 and December 31, 2018 was $4,357,015 and $4,082,448, respectively, based on current interest rates for comparable loans. Fair value was determined using a present value model and an interest rate that included a credit value adjustment based on the estimated value of the property that serves as collateral for the underlying debt.

**11. Bank and Other Notes Payable:**

Bank and other notes payable consist of the following:

*Line of Credit:*

The Company has a $1,500,000 revolving line of credit that bears interest at LIBOR plus a spread of 1.30% to 1.90%, depending on the Company's overall leverage level, and matures on July 6, 2020 with a one-year extension option. The line of credit can be expanded, depending on certain conditions, up to a total facility of $2,000,000.

Based on the Company's leverage level as of September 30, 2019, the borrowing rate on the facility was LIBOR plus 1.45%. The Company has four interest rate swap agreements that effectively convert a total of $400,000 of the outstanding balance from floating rate debt of LIBOR plus 1.45% to fixed rate debt of 4.30% until September 30, 2021 (See Note 5—Derivative Instruments and Hedging Activities). As of September 30, 2019 and December 31, 2018, borrowings under the line of credit were $750,000 and $910,000, respectively, less unamortized deferred finance costs of $3,259 and $5,145, respectively, at a total interest rate of 4.03% and 4.20%, respectively. As of September 30, 2019 and December 31, 2018, the Company's availability under the line of credit for additional borrowings was $749,719 and $589,719, respectively, The estimated fair value (Level 2 measurement) of the line of credit at September 30, 2019 and December 31, 2018 was $759,168 and $912,163, respectively, based on a present value model using a credit interest rate spread offered to the Company for comparable debt.

*Prasada Note:*

On March 29, 2013, the Company issued a $13,330 note payable that bore interest at 5.25% and was to mature on May 30, 2021. The note payable is collateralized by a portion of a development reimbursement agreement with the City of Surprise, Arizona. At September 30, 2019 and December 31, 2018, the note had a balance of $3,028 and $3,689, respectively. On October 7, 2019, the loan was paid off. The estimated fair value (Level 2 measurement) of the note at September 30, 2019 and December 31, 2018 was $3,058 and $3,690, respectively, based on current interest rates for comparable notes. Fair value was determined using a present value model and an interest rate that included a credit value adjustment based on the estimated value of the collateral for the underlying debt.

As of September 30, 2019 and December 31, 2018, the Company was in compliance with all applicable financial loan covenants.

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**THE MACERICH COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except per share and square foot amounts)**

**(Unaudited)**

**12. Financing Arrangement:**

On September 30, 2009, the Company formed a joint venture whereby a third party acquired a 49.9% interest in Chandler Fashion Center, a 1,318,000 square foot regional shopping center in Chandler, Arizona, and Freehold Raceway Mall, a 1,673,000 square foot regional shopping center in Freehold, New Jersey (collectively referred to herein as "Chandler Freehold"). As a result of the Company having certain rights under the agreement to repurchase the assets after the seventh year of the formation of Chandler Freehold, the transaction did not qualify for sale treatment. The Company, however, is not obligated to repurchase the assets. The Company accounts for its investment in Chandler Freehold as a financing arrangement. The fair value (Level 3 measurement) of the financing arrangement obligation at September 30, 2019 and December 31, 2018 was based upon a terminal capitalization rate of 5.0% and 4.8%, respectively, a discount rate of 6.0% and 5.8%, respectively, and market rents per square foot of $35 to $115. The fair value of the financing arrangement obligation is sensitive to these significant unobservable inputs and a change in these inputs may result in a significantly higher or lower fair value measurement. Distributions to the partner, excluding distributions of excess loan proceeds, and changes in fair value of the financing arrangement obligation are recognized as interest (income) expense in the Company's consolidated statements of operations.

During the three and nine months ended September 30, 2019 and 2018, the Company incurred interest (income) expense in connection with the financing arrangement as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **For the Three Months Ended September 30,** | | | | | | | | |  | | |  | | |  | | | **For the Nine Months Ended September 30,** | | | | | | | | |  | | |  | | |
|  | | | **2019** | | |  | | | **2018** | | |  | | | **2019** | | |  | | | **2018** | | |  |  |  |  |  |  |  |  |  |  |  |  |
| Distributions of the partner's share of net income | | | $ | 1,278 |  |  | | | $ | 2,111 |  |  | | | $ | 5,157 |  |  | | | $ | 6,577 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Distributions in excess of the partner's share of net income | | | 2,118 | |  |  | | | 1,754 | |  |  | | | 6,071 | |  |  | | | 4,803 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Adjustment to fair value of financing arrangement obligation | | | (39,455) | |  |  | | | (4,893) | |  |  | | | (70,977) | |  |  | | | (9,279) | |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | $ | (36,059) |  |  | | | $ | (1,028) |  |  | | | $ | (59,749) |  |  | | | $ | 2,101 |  |  |  |  |  |  |  |  |  |  |  |  |  |

On June 27, 2019, the Company replaced the existing mortgage note payable on Chandler Fashion Center with a new $256,000 loan (See Note 10—Mortgage Notes Payable). In connection with the refinancing transaction, the Company distributed $27,945 of the excess loan proceeds to its joint venture partner, which was recorded as a reduction to the financing arrangement obligation.

**13. Noncontrolling Interests:**

The Company allocates net income of the Operating Partnership based on the weighted average ownership interest during the period. The net income of the Operating Partnership that is not attributable to the Company is reflected in the consolidated statements of operations as noncontrolling interests. The Company adjusts the noncontrolling interests in the Operating Partnership at the end of each period to reflect its ownership interest in the Company. The Company had a 93% ownership interest in the Operating Partnership as of September 30, 2019 and December 31, 2018. The remaining 7% limited partnership interest as of September 30, 2019 and December 31, 2018 was owned by certain of the Company's executive officers and directors, certain of their affiliates and other third party investors in the form of OP Units. The OP Units may be redeemed for shares of stock or cash, at the Company's option. The redemption value for each OP Unit as of any balance sheet date is the amount equal to the average of the closing price per share of the Company's common stock, par value $0.01 per share, as reported on the New York Stock Exchange for the 10 trading days ending on the respective balance sheet date. Accordingly, as of September 30, 2019 and December 31, 2018, the aggregate redemption value of the then-outstanding OP Units not owned by the Company was $334,845 and $448,116, respectively.

The Company issued common and preferred units of MACWH, LP in April 2005 in connection with the acquisition of the Wilmorite portfolio. The common and preferred units of MACWH, LP are redeemable at the election of the holder. The Company may redeem them for cash or shares of the Company's stock at the Company's option and they are classified as permanent equity.

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**THE MACERICH COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except per share amounts)**

**(Unaudited)**

**13. Noncontrolling Interests: (Continued)**

Included in permanent equity are outside ownership interests in various consolidated joint ventures. The joint ventures do not have rights that require the Company to redeem the ownership interests in either cash or stock.

**14. Stockholders' Equity:**

On February 12, 2017, the Company's Board of Directors authorized the repurchase of up to $500,000 of its outstanding common shares as market conditions and the Company’s liquidity warrant. Repurchases may be made through open market purchases, privately negotiated transactions, structured or derivative transactions, including ASR transactions, or other methods of acquiring shares, from time to time as permitted by securities laws and other legal requirements. The program is referred to herein as the "2017 Stock Buyback Program".

There were no repurchases under the 2017 Stock Buyback Program during the nine months ended September 30, 2019 or 2018. At September 30, 2019, there was $278,707 available under the 2017 Stock Buyback Program.

**15. Collaborative Arrangement:**

On March 1, 2018, the Company formed a 25/75 joint venture with a third party, whereby the Company agreed to contribute One Westside, a 680,000 square foot regional shopping center in Los Angeles, California, in exchange for $142,500. The Company completed the transfer on August 31, 2018.

During the period from March 1, 2018 to August 31, 2018, the Company accounted for the operations of One Westside as a collaborative arrangement. Both partners shared operating control of the property and the Company was reimbursed by the outside partner for 75% of the carrying cost of the property, which were defined in the agreement as operating expenses in excess of revenues, debt service and capital expenditures. Accordingly, the Company reduced leasing revenue, other revenue, shopping center and operating expenses and interest expense by its partner's 75% share and recorded a receivable due from its partner, which was settled upon completion of the transfer of the property. In addition, the Company was reimbursed by its partner for its 75% share of mortgage loan principal payments and capital expenditures during the period. Since completion of the transfer, the Company has accounted for its investment in One Westside under the equity method of accounting (See Note 4—Investments in Unconsolidated Joint Ventures).

**16. Dispositions:**

On May 17, 2018, the Company sold Promenade at Casa Grande, a 761,000 square foot community center in Casa Grande, Arizona, for $26,000, resulting in a loss on sale of assets of $311. The Company used the proceeds from the sale to pay down its line of credit and for other general corporate purposes.

**17. Commitments and Contingencies:**

As of September 30, 2019, the Company was contingently liable for $100,814 in letters of credit guaranteeing performance by the Company of certain obligations relating to the Centers. The Company does not believe that these letters of credit will result in a liability to the Company.

The Company has entered into a number of construction agreements related to its redevelopment and development activities. Obligations under these agreements are contingent upon the completion of the services within the guidelines specified in the agreements. At September 30, 2019, the Company had $12,277 in outstanding obligations, which it believes will be settled in the next twelve months.

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**THE MACERICH COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except per share and square foot amounts)**

**(Unaudited)**

**18. Related Party Transactions:**

Certain unconsolidated joint ventures have engaged the Management Companies to manage the operations of the Centers. Under these arrangements, the Management Companies are reimbursed for compensation paid to on-site employees, leasing agents and project managers at the Centers, as well as insurance costs and other administrative expenses.

The following are fees charged to unconsolidated joint ventures:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **For the Three Months Ended September 30,** | | | | | | | | |  | | |  | | |  | | | **For the Nine Months Ended September 30,** | | | | | | | | |  | | |  | | |
|  | | | **2019** | | |  | | | **2018** | | |  | | | **2019** | | |  | | | **2018** | | |  |  |  |  |  |  |  |  |  |  |  |  |
| Management fees | | | $ | 4,746 |  |  | | | $ | 4,971 |  |  | | | $ | 13,897 |  |  | | | $ | 14,366 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Development and leasing fees | | | 4,288 | |  |  | | | 3,970 | |  |  | | | 11,094 | |  |  | | | 10,895 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | $ | 9,034 |  |  | | | $ | 8,941 |  |  | | | $ | 24,991 |  |  | | | $ | 25,261 |  |  |  |  |  |  |  |  |  |  |  |  |  |

Certain mortgage notes on the properties are held by NML. NML was considered a related party due to its ownership interest in Broadway Plaza until it sold its ownership interest in the property to a third party on October 12, 2018. Interest expense in connection with these notes, during the period that NML was a related party, was $2,102 and $6,380 for the three and nine months ended September 30, 2018, respectively.

Interest (income) expense from related party transactions also includes $(36,059) and $(1,028) for the three months ended September 30, 2019 and 2018, respectively, and $(59,749) and $2,101 for the nine months ended September 30, 2019 and 2018, respectively, in connection with the Financing Arrangement (See Note 12—Financing Arrangement).

Due from affiliates includes unreimbursed costs and fees from unconsolidated joint ventures due to the Management Companies. As of September 30, 2019 and December 31, 2018, the amounts due from the unconsolidated joint ventures was $6,599 and $6,385, respectively.

In addition, due from affiliates at September 30, 2019 and December 31, 2018 included a note receivable from RED/303 LLC ("RED") that bore interest at 5.25% and was to mature on May 30, 2021. Interest income earned on this note was $44 and $55 for the three months ended September 30, 2019 and 2018, respectively, and $138 and $172 for the nine months ended September 30, 2019 and 2018, respectively. The balance on this note was $3,028 and $3,689 at September 30, 2019 and December 31, 2018, respectively. On October 7, 2019, the note receivable was paid off. RED is considered a related party because it is a partner in a joint venture development project. The note was collateralized by RED's membership interest in the development project.

Also included in due from affiliates at December 31, 2018 was a note receivable from Lennar Corporation that bore interest at LIBOR plus 2% and was to mature upon the completion of certain milestones in connection with the development of Fashion Outlets of San Francisco. As a result of those milestones not being completed, the Company elected to terminate the development agreement and the note was paid off on February 13, 2019. Interest income earned on this note was $808 for the three months ended September 30, 2018, and $1,112 and $2,330 for the nine months ended September 30, 2019 and 2018, respectively. The balance on this note, including interest, was $75,107 at December 31, 2018. Lennar Corporation was considered a related party because it was a joint venture partner in the project.

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**THE MACERICH COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except per share and square foot amounts)**

**(Unaudited)**

**19. Share and Unit-Based Plans:**

Under the Long-Term Incentive Plan ("LTIP"), each award recipient is issued a form of units ("LTIP Units") in the Operating Partnership. Upon the occurrence of specified events and subject to the satisfaction of applicable vesting conditions, LTIP Units (after conversion into OP Units) are ultimately redeemable for common stock of the Company, or cash at the Company's option, on a one-unit for one-share basis. LTIP Units receive cash dividends based on the dividend amount paid on the common stock of the Company. The LTIP may include both market-indexed awards and service-based awards.

The market-indexed LTIP Units vest over the service period of the award based on the percentile ranking of the Company in terms of total return to stockholders (the "Total Return") per share of common stock relative to the Total Return of a group of peer REITs, as measured at the end of the measurement period.

During the nine months ended September 30, 2019, the Company granted the following LTIP Units:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Grant Date** | | |  | | | **Units** | | |  | | | **Type** | | |  | | | **Fair Value per LTIP Unit** | | |  | | | **Vest Date** | | |
| 1/1/2019 | | |  | | | 81,732 | |  |  | | | Service-based | | |  | | | $ | 43.28 |  |  | | | 12/31/2021 | | |
| 1/1/2019 | | |  | | | 250,852 | |  |  | | | Market-indexed | | |  | | | $ | 29.25 |  |  | | | 12/31/2021 | | |
| 9/1/2019 | | |  | | | 4,393 | |  |  | | | Service-based | | |  | | | $ | 28.53 |  |  | | | 8/31/2022 | | |
| 9/1/2019 | | |  | | | 6,454 | |  |  | | | Market-indexed | | |  | | | $ | 19.42 |  |  | | | 8/31/2022 | | |
|  | | |  | | | 343,431 | |  |  | | |  | | |  | | |  | | |  | | |  | | |

The fair value of the market-indexed LTIP Units (Level 3) granted on January 1, 2019 was estimated on the date of grant using a Monte Carlo Simulation model that assumed a risk free interest rate of 2.46% and an expected volatility of 23.52%. The fair value of the market-indexed LTIP Units (Level 3) granted on September 1, 2019 was estimated on the date of grant using a Monte Carlo Simulation model that assumed a risk free interest rate of 1.42% and an expected volatility of 24.91%.

The following table summarizes the activity of the non-vested LTIP Units, phantom stock units and stock units:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **LTIP Units** | | | | | | | | |  | | |  |  |  |  |  | | |  | | | **Phantom Stock Units** | | | | | | | | |  | | |  | | |  | | | **Stock Units** | | | | | | | | |  | |  |
|  | | | **Units** | | |  | | | **Value(1)** | | |  | | |  |  |  |  | **Units** | | |  | | | **Value(1)** | | |  | | | **Units** | | |  | | | **Value(1)** | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance at January 1, 2019 | | | 661,578 | |  |  | | | $ | 48.38 |  |  | | |  |  |  |  | — | |  |  | | | $ | — |  |  | | | 129,457 | |  |  | | | $ | 64.21 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Granted | | | 343,431 | |  |  | | | 32.40 | |  |  | | |  |  |  |  | 21,580 | |  |  | | | 41.61 | |  |  | | | 159,116 | |  |  | | | 37.57 | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Vested | | | (7,654) | |  |  | | | 59.85 | |  |  | | |  |  |  |  | (12,756) | |  |  | | | 42.87 | |  |  | | | (83,341) | |  |  | | | 63.63 | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Forfeited | | | (14,635) | |  |  | | | 34.26 | |  |  | | |  |  |  |  | — | |  |  | | | — | |  |  | | | (5,245) | |  |  | | | 51.48 | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance at September 30, 2019 | | | 982,720 | |  |  | | | $ | 42.91 |  |  | | |  |  |  |  | 8,824 | |  |  | | | $ | 39.79 |  |  | | | 199,987 | |  |  | | | $ | 43.59 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  | | |  |  |  |  |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  | | |  |  |  |  |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| (1) Value represents the weighted average grant date fair value. | | | | | | | | | | | | | | | | | | | | | | | | | | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |

The following table summarizes the activity of the stock options outstanding:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  |  |  |  | | | **Stock Options** | | | | | | | | |  | | |  | | |
|  | | |  |  |  |  | | | **Units** | | |  | | | **Value(1)** | | |  |  |  |  |  |  |
| Balance at January 1, 2019 | | |  |  |  |  | | | 35,565 | |  |  | | | $ | 57.32 |  |  |  |  |  |  |  |
| Granted | | |  |  |  |  | | | — | |  |  | | | — | |  |  |  |  |  |  |  |
| Exercised | | |  |  |  |  | | | — | |  |  | | | — | |  |  |  |  |  |  |  |
| Balance at September 30, 2019 | | |  |  |  |  | | | 35,565 | |  |  | | | $ | 57.32 |  |  |  |  |  |  |  |
|  | | |  |  |  |  | | |  | | |  | | |  | | |  |  |  |  |  |  |
|  | | |  |  |  |  | | |  | | |  | | |  | | |  |  |  |  |  |  |
| (1) Value represents the weighted average exercise price. | | | | | | | | |  | | |  | | |  | | |  | | |  | | |  |  |

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**THE MACERICH COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except per share and square foot amounts)**

**(Unaudited)**

**19. Share and Unit-Based Plans: (Continued)**

The following summarizes the compensation cost under the share and unit-based plans:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **For the Three Months Ended September 30,** | | | | | | | | |  | | |  | | |  | | | **For the Nine Months Ended September 30,** | | | | | | | | |  | | |  | | |
|  | | | **2019** | | |  | | | **2018** | | |  | | | **2019** | | |  | | | **2018** | | |  |  |  |  |  |  |  |  |  |  |  |  |
| LTIP Units | | | $ | 2,498 |  |  | | | $ | 3,440 |  |  | | | $ | 8,859 |  |  | | | $ | 21,823 |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |
| Stock units | | | 632 | |  |  | | | 972 | |  |  | | | 3,836 | |  |  | | | 5,717 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Stock options | | | — | |  |  | | | 32 | |  |  | | | 51 | |  |  | | | 94 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |
| Phantom stock units | | | 185 | |  |  | | | 172 | |  |  | | | 607 | |  |  | | | 585 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | $ | 3,315 |  |  | | | $ | 4,616 |  |  | | | $ | 13,353 |  |  | | | $ | 28,219 |  |  |  |  |  |  |  |  |  |  |  |  |  |

The Company capitalized share and unit-based compensation costs of $993 and $1,062 for the three months ended September 30, 2019 and 2018, respectively, and $3,598 and $5,575 for the nine months ended September 30, 2019 and 2018, respectively. Unrecognized compensation costs of share and unit-based plans at September 30, 2019 consisted of $4,159 from LTIP Units, $3,657 from stock units and $351 from phantom stock units.

**20. Income Taxes:**

The Company has made taxable REIT subsidiary elections for all of its corporate subsidiaries other than its qualified REIT subsidiaries. The elections, effective for the year beginning January 1, 2001 and future years, were made pursuant to Section 856(l) of the Code. The Company's taxable REIT subsidiaries ("TRSs") are subject to corporate level income taxes which are provided for in the Company's consolidated financial statements. The Company's primary TRSs include Macerich Management Company and Macerich Arizona Partners LLC.

The income tax provision of the TRSs are as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **For the Three Months Ended September 30,** | | | | | | | | |  | | |  | | |  | | | **For the Nine Months Ended September 30,** | | | | | | | | |  | | |  | | |
|  | | | **2019** | | |  | | | **2018** | | |  | | | **2019** | | |  | | | **2018** | | |  |  |  |  |  |  |  |  |  |  |  |  |
| Current | | | $ | (89) |  |  | | | $ | — |  |  | | | $ | 83 |  |  | | | $ | 439 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Deferred | | | (589) | |  |  | | | (466) | |  |  | | | (1,786) | |  |  | | | 1,360 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total income tax (expense) benefit | | | $ | (678) |  |  | | | $ | (466) |  |  | | | $ | (1,703) |  |  | | | $ | 1,799 |  |  |  |  |  |  |  |  |  |  |  |  |  |

The net operating loss ("NOL") carryforwards generated through the 2017 tax year are scheduled to expire through 2037, beginning in 2025. Pursuant to the Tax Cuts and Jobs Act of 2017, NOLs generated in 2018 and subsequent tax years carryforward indefinitely subject to the 80% of taxable income limitation. Net deferred tax assets of $30,643 and $32,197 were included in deferred charges and other assets, net at September 30, 2019 and December 31, 2018, respectively.

The tax years 2015 through 2018 remain open to examination by the taxing jurisdictions to which the Company is subject. The Company does not expect that the total amount of unrecognized tax benefit will materially change within the next twelve months.

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**THE MACERICH COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Dollars in thousands, except per share and square foot amounts)**

**(Unaudited)**

**21. Subsequent Events:**

On October 24, 2019, the Company announced a dividend/distribution of $0.75 per share for common stockholders and OP Unit holders of record on November 8, 2019. All dividends/distributions will be paid 100% in cash on December 3, 2019.

On October 24, 2019, the Company agreed to terms with a group of lenders to replace the existing loan on Kings Plaza Shopping Center with a new $555,000 ten-year loan that will bear interest at 3.67%. The loan is expected to close during the three months ended December 31, 2019.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**IMPORTANT INFORMATION RELATED TO FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q of The Macerich Company (the "Company") contains or incorporates statements that constitute forward-looking statements within the meaning of the federal securities laws. Any statements that do not relate to historical or current facts or matters are forward-looking statements. You can identify some of the forward-looking statements by the use of forward-looking words, such as "may," "will," "could," "should," "expects," "anticipates," "intends," "projects," "predicts," "plans," "believes," "seeks," "estimates," "scheduled" and variations of these words and similar expressions. Statements concerning current conditions may also be forward-looking if they imply a continuation of current conditions. Forward-looking statements appear in a number of places in this Form 10-Q and include statements regarding, among other matters:

•expectations regarding the Company's growth;

•the Company's beliefs regarding its acquisition, redevelopment, development, leasing and operational activities and opportunities, including the performance and financial stability of its retailers;

•the Company's acquisition, disposition and other strategies;

•regulatory matters pertaining to compliance with governmental regulations;

•the Company's capital expenditure plans and expectations for obtaining capital for expenditures;

•the Company's expectations regarding income tax benefits;

•the Company's expectations regarding its financial condition or results of operations; and

•the Company's expectations for refinancing its indebtedness, entering into and servicing debt obligations and entering into joint venture arrangements.

Stockholders are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks, uncertainties and other factors that may cause actual results, performance or achievements of the Company or the industry to differ materially from the Company's future results, performance or achievements, or those of the industry, expressed or implied in such forward-looking statements. Such factors include, among others, general industry, as well as national, regional and local economic and business conditions, which will, among other things, affect demand for retail space or retail goods, availability and creditworthiness of current and prospective tenants, anchor or tenant bankruptcies, closures, mergers or consolidations, lease rates, terms and payments, interest rate fluctuations, availability, terms and cost of financing and operating expenses; adverse changes in the real estate markets including, among other things, competition from other companies, retail formats and technology, risks of real estate development and redevelopment, acquisitions and dispositions; the liquidity of real estate investments, governmental actions and initiatives (including legislative and regulatory changes); environmental and safety requirements; and terrorist activities or other acts of violence which could adversely affect all of the above factors. You are urged to carefully review the disclosures we make concerning these risks and other factors that may affect our business and operating results, under "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018, as well as our other reports filed with the Securities and Exchange Commission (the "SEC"), which disclosures are incorporated herein by reference. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document. The Company does not intend, and undertakes no obligation, to update any forward-looking information to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events, unless required by law to do so.

**Management's Overview and Summary**

The Company is involved in the acquisition, ownership, development, redevelopment, management and leasing of regional and community/power shopping centers located throughout the United States. The Company is the sole general partner of, and owns a majority of the ownership interests in, The Macerich Partnership, L.P. (the "Operating Partnership"). As of September 30, 2019, the Operating Partnership owned or had an ownership interest in 47 regional shopping centers and five community/power shopping centers aggregating approximately 51 million square feet of gross leasable area. These 52 regional and community/power shopping centers are referred to hereinafter as the "Centers," unless the context otherwise requires. The property management, leasing and redevelopment of the Company's portfolio is provided by the Company's seven management companies (collectively referred to herein as the "Management Companies"). The Company is a self-administered and self-managed real estate investment trust ("REIT") and conducts all of its operations through the Operating Partnership and the Management Companies.

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The following discussion is based primarily on the consolidated financial statements of the Company for the three and nine months ended September 30, 2019 and 2018. It compares the results of operations for the three months ended September 30, 2019 to the results of operations for the three months ended September 30, 2018. It also compares the results of operations and cash flows for the nine months ended September 30, 2019 to the results of operations and cash flows for the nine months ended September 30, 2018.

This information should be read in conjunction with the accompanying consolidated financial statements and notes thereto.

*Acquisitions and Dispositions:*

The financial statements reflect the following acquisitions, dispositions and changes in ownership subsequent to the occurrence of each transaction.

On February 16, 2018, the Company's joint venture in Fashion District Philadelphia sold its share of an office building for $41.8 million, resulting in a gain on sale of assets of $5.5 million. The Company's pro rata share of the gain on the sale of assets of $2.8 million was included in equity in income from unconsolidated joint ventures. The Company used its portion of the proceeds to pay down its line of credit and for general corporate purposes.

On March 1, 2018, the Company formed a 25/75 joint venture with Hudson Pacific Properties, whereby the Company agreed to contribute Westside Pavilion (referred to hereafter as "One Westside"), a 680,000 square foot regional shopping center in Los Angeles, California, in exchange for $142.5 million. The Company completed the sale of the 75% ownership interest in the property to Hudson Pacific Properties on August 31, 2018, resulting in a gain on sale of assets of $46.2 million. The sales price was funded by a cash payment of $36.9 million and the assumption of a pro rata share of the mortgage note payable on the property of $105.6 million. The Company used the proceeds to fund its share of the cost to defease the mortgage note payable on the property (See "Financing Activities"). From March 1, 2018 to the completion of the sale, the Company accounted for its interest in the property as a collaborative arrangement (See Note 15—Collaborative Arrangement in the Company's Notes to the Consolidated Financial Statements). Upon completion of the sale, the Company has accounted for its ownership interest in the property under the equity method of accounting.

On May 17, 2018, the Company sold Promenade at Casa Grande, a 761,000 square foot community center in Casa Grande, Arizona, for $26.0 million, resulting in a loss on sale of assets of $0.3 million. The Company used the proceeds from the sale to pay down its line of credit and for other general corporate purposes.

On July 6, 2018, the Company’s joint venture in The Market at Estrella Falls, a 298,000 square foot community center in Goodyear, Arizona, sold the property for $49.1 million, resulting in a gain on sale of assets of $12.6 million. The Company's share of the gain of $3.0 million was included in equity in income from unconsolidated joint ventures. The proceeds were used to pay off the $24.1 million mortgage loan payable on the property, settle development obligations and for distributions to the partners. The Company used its share of the net proceeds for general corporate purposes.

*Financing Activities:*

On January 22, 2018, the Company's joint venture in Fashion District Philadelphia obtained a $250.0 million term loan that bears interest at LIBOR plus 2.0% and matures on January 22, 2023. Concurrent with the loan closing, the joint venture borrowed $150.0 million on the term loan and borrowed the remaining $100.0 million on March 26, 2018. The Company used its share of the proceeds to pay down its line of credit and for general corporate purposes.

On March 29, 2018, the Company's joint venture in Broadway Plaza placed a $450.0 million loan on the property that bears interest at an effective rate of 4.19% and matures on April 1, 2030. The Company used its share of the proceeds to pay down its line of credit and for general corporate purposes.

On August 31, 2018, concurrent with the sale of the ownership interest in One Westside (See "Acquisitions and Dispositions"), the Company's joint venture defeased the $140.8 million mortgage note payable on the property by providing a $149.2 million portfolio of marketable securities as replacement collateral in lieu of the property. The Company funded its $37.3 million share of the purchase price of the marketable securities portfolio with the proceeds from the sale of the ownership interest in the property.

On September 14, 2018, the Company entered into four interest rate swap agreements that effectively convert a total of $400.0 million of the outstanding balance of the Company’s line of credit from floating rate debt of LIBOR plus 1.45% to fixed rate debt of 4.30% until September 30, 2021.

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On November 7, 2018, the Company's joint venture in Boulevard Shops replaced the existing loan on the property with a new $18.8 million loan that bears interest at LIBOR plus 1.85% and matures on December 5, 2023. The loan can be expanded, depending on certain conditions, up to $23.0 million. The Company used its share of the proceeds to pay down its line of credit and for general corporate purposes.

On January 10, 2019, the Company replaced the existing loan on Fashion Outlets of Chicago with a new $300.0 million loan that bears interest at an effective rate of 4.61% and matures on February 1, 2031. The Company used the net proceeds to pay down its line of credit and for general corporate purposes.

On February 22, 2019, the Company’s joint venture in The Shops at Atlas Park entered into an agreement to increase the total borrowing capacity of the existing loan on the property from $57.8 million to $80.0 million, and to extend the maturity date to October 28, 2021, including extension options. Concurrent with the loan modification, the joint venture borrowed an additional $18.4 million. The Company used its $9.2 million share of the additional proceeds to pay down its line of credit and for general corporate purposes.

On June 3, 2019, the Company’s joint venture in SanTan Village Regional Center replaced the existing loan on the property with a new $220.0 million loan that bears interest at an effective rate of 4.34% and matures on July 1, 2029. The Company used its share of the additional proceeds to pay down its line of credit and for general corporate purposes.

On June 27, 2019, the Company replaced the existing loan on Chandler Fashion Center with a new $256.0 million loan that bears interest at an effective rate of 4.18% and matures on July 5, 2024. The Company used its share of the additional proceeds to pay down its line of credit and for general corporate purposes.

On July 25, 2019, the Company's joint venture in Fashion District Philadelphia amended the existing loan on the joint venture to allow for additional borrowings up to $100.0 million at LIBOR plus 2.00%. Concurrent with the amendment, the joint venture borrowed an additional $26.0 million. On August 16, 2019, the joint venture borrowed an additional $25.0 million. The Company used its share of the additional proceeds to pay down its line of credit and for general corporate purposes.

On September 12, 2019, the Company’s joint venture in Tysons Tower placed a new $190.0 million loan on the property that bears interest at an effective rate of 3.38% and matures on October 11, 2029. The Company used its share of the proceeds to pay down its line of credit and for general corporate purposes.

On October 24, 2019, the Company agreed to terms with a group of lenders to replace the existing loan on Kings Plaza Shopping Center with a new $555.0 million ten-year loan that will bear interest at 3.67%. The loan is expected to close during the three months ended December 31, 2019.

*Redevelopment and Development Activities:*

On September 19, 2019, the Company's joint venture with Pennsylvania REIT completed the redevelopment of Fashion District Philadelphia, an 850,000 square foot regional shopping center in Philadelphia, Pennsylvania. The project is expected to be 70% occupied by holiday 2019. The total cost of the project is estimated to be between $400.0 million and $420.0 million, with $200.0 million to $210.0 million estimated to be the Company's pro rata share. The Company has funded $175.4 million of the total $350.8 million incurred by the joint venture as of September 30, 2019.

The Company's joint venture in Scottsdale Fashion Square is redeveloping a former Barney's store and an 80,000 square foot exterior expansion. The project is expected to be completed in 2019. The total cost of the project is estimated to be between $140.0 million and $160.0 million, with $70.0 million to $80.0 million estimated to be the Company's pro rata share. The Company has funded $36.0 million of the total $72.0 million incurred by the joint venture as of September 30, 2019.

The Company's joint venture with Hudson Pacific Properties is redeveloping One Westside into 584,000 square feet of creative office space and 96,000 square feet of dining and entertainment space. The entire creative office space has been leased to Google and is expected to be completed in 2022. The total cost of the project is estimated to be between $500.0 million and $550.0 million, with $125.0 million to $137.5 million estimated to be the Company's pro rata share. The Company has funded $45.7 million of the total $182.9 million incurred by the joint venture as of September 30, 2019.

On September 6, 2018, the Company formed a 50/50 joint venture with Simon Property Group to develop Los Angeles Premium Outlets, a premium outlet center in Carson, California that is planned to open with approximately 400,000 square feet, followed by an additional 165,000 square feet in the second phase. The first phase of the project is expected to be completed in fall 2021. The Company has funded $28.8 million of the total $57.7 million incurred by the joint venture as of September 30, 2019.

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In connection with the closures and lease rejections of several Sears stores owned or partially owned by the Company, the Company anticipates spending between $130.0 million to $160.0 million at the Company’s pro rata share to redevelop the Sears stores. The anticipated openings of such redevelopments are expected to occur over several years. The estimated range of redevelopment costs could increase if the Company or its joint venture decide to expand the scope of the redevelopments.

*Other Transactions and Events:*

On February 1 and 2, 2018, the Company reduced its workforce by approximately 10 percent. The Company incurred a one-time charge of $12.7 million in connection with the workforce reduction during the three months ended March 31, 2018.

During the three months ended June 30, 2018, the Company incurred $19.4 million in costs associated with activities related to shareholder activism. These costs were primarily for legal and advisory services.

On January 1, 2019, the Company adopted Accounting Standards Codification ("ASC") 842, "Leases", under the modified retrospective method. The new standard amended the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). In connection with the adoption of the new lease standard, the Company elected to use the transition packages of practical expedients for implementation provided by the Financial Accounting Standards Board ("FASB"), which included (i) relief from re-assessing whether an expired or existing contract meets the definition of a lease, (ii) relief from re-assessing the classification of expired or existing leases at the adoption date, (iii) allowing previously capitalized initial direct leasing costs to continue to be amortized, and (iv) application of the standard as of the adoption date rather than to all periods presented.

The new standard requires that lessors expense, on an as-incurred basis, certain initial direct costs that are not incremental in negotiating a lease. Initial direct costs include the salaries and related costs for employees directly working on leasing activities. Prior to January 1, 2019, these costs were capitalizable and therefore the new lease standard resulted in certain of these costs being expensed as incurred. For comparison purposes, the Company has reclassified leasing costs that were included in management companies' operating expenses to leasing expenses for the three and nine months ended September 30, 2018, to conform to the presentation for the three and nine months ended September 30, 2019. Upon adoption of the new standard, the Company has presented all revenues associated with leases as leasing revenue on its consolidated statement of operations. For comparison purposes, the Company has reclassified minimum rents, percentage rents, tenant recoveries and other leasing income to leasing revenue for the three and nine months ended September 30, 2018, to conform to the presentation for the three and nine months ended September 30, 2019. The new standard also requires the Company to reduce leasing revenue for credit losses associated with lease receivables. In addition, straight-line rent receivables are written off when the Company believes there is uncertainty regarding a tenant's ability to complete the term of the lease. As a result, the Company recognized a cumulative effect adjustment of $2.2 million upon adoption for the write off of straight-line rent receivables of tenants that were in litigation or bankruptcy. The standard also requires that the provision for bad debts relating to leases be presented as a reduction of leasing revenue. For the three and nine months ended September 30, 2018, the provision for bad debts is included in shopping center and operating expenses.

*Inflation:*

In the last five years, inflation has not had a significant impact on the Company because of a relatively low inflation rate. Most of the leases at the Centers have rent adjustments periodically throughout the lease term. These rent increases are either in fixed increments or based on using an annual multiple of increases in the Consumer Price Index ("CPI"). In addition, approximately 5% to 15% of the leases for spaces 10,000 square feet and under expire each year, which enables the Company to replace existing leases with new leases at higher base rents if the rents of the existing leases are below the then existing market rate. The Company has generally entered into leases that require tenants to pay a stated amount for operating expenses, generally excluding property taxes, regardless of the expenses actually incurred at any Center, which places the burden of cost control on the Company. Additionally, certain leases require the tenants to pay their pro rata share of operating expenses.

*Seasonality:*

The shopping center industry is seasonal in nature, particularly in the fourth quarter during the holiday season when retailer occupancy and retail sales are typically at their highest levels. In addition, shopping malls achieve a substantial portion of their specialty (temporary retailer) rents during the holiday season and the majority of percentage rent is recognized in the fourth quarter. As a result of the above, earnings are generally higher in the fourth quarter.

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**Critical Accounting Policies**

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Some of these estimates and assumptions include judgments on revenue recognition, estimates for common area maintenance and real estate tax accruals, provisions for uncollectible accounts, impairment of long-lived assets, the allocation of purchase price between tangible and intangible assets, capitalization of costs and fair value measurements. The Company's significant accounting policies are described in more detail in Note 2—Summary of Significant Accounting Policies in the Company's Notes to the Consolidated Financial Statements. However, the following policies are deemed to be critical.

*Acquisitions:*

The Company allocates the estimated fair value of acquisitions to land, building, tenant improvements and identified intangible assets and liabilities, based on their estimated fair values. In addition, any assumed mortgage notes payable are recorded at their estimated fair values. The estimated fair value of the land and buildings is determined utilizing an “as if vacant” methodology. Tenant improvements represent the tangible assets associated with the existing leases valued on a fair value basis at the acquisition date prorated over the remaining lease terms. The tenant improvements are classified as an asset under property and are depreciated over the remaining lease terms. Identifiable intangible assets and liabilities relate to the value of in-place operating leases which come in three forms: (i) leasing commissions and legal costs, which represent the value associated with “cost avoidance” of acquiring in-place leases, such as lease commissions paid under terms generally experienced in the Company's markets; (ii) value of in-place leases, which represents the estimated loss of revenue and of costs incurred for the period required to lease the “assumed vacant” property to the occupancy level when purchased; and (iii) above or below-market value of in-place leases, which represents the difference between the contractual rents and market rents at the time of the acquisition, discounted for tenant credit risks. Leasing commissions and legal costs are recorded in deferred charges and other assets and are amortized over the remaining lease terms. The value of in-place leases are recorded in deferred charges and other assets and amortized over the remaining lease terms plus any below-market fixed rate renewal options. Above or below-market leases are classified in deferred charges and other assets or in other accrued liabilities, depending on whether the contractual terms are above or below-market, and the asset or liability is amortized to minimum rents over the remaining terms of the leases. The remaining lease terms of below-market leases may include certain below-market fixed-rate renewal periods. In considering whether or not a lessee will execute a below-market fixed-rate lease renewal option, the Company evaluates economic factors and certain qualitative factors at the time of acquisition such as tenant mix in the Center, the Company's relationship with the tenant and the availability of competing tenant space. The initial allocation of purchase price is based on management's preliminary assessment, which may change when final information becomes available. Subsequent adjustments made to the initial purchase price allocation are made within the allocation period, which does not exceed one year. The purchase price allocation is described as preliminary if it is not yet final. The use of different assumptions in the allocation of the purchase price of the acquired assets and liabilities assumed could affect the timing of recognition of the related revenues and expenses.

The Company immediately expenses costs associated with business combinations as period costs and capitalizes costs associated with asset acquisitions.

Remeasurement gains are recognized when the Company obtains control of an existing equity method investment to the extent that the fair value of the existing equity investment exceeds the carrying value of the investment.

*Asset Impairment:*

The Company assesses whether an indicator of impairment in the value of its properties exists by considering expected future operating income, trends and prospects, as well as the effects of demand, competition and other economic factors. Such factors include projected rental revenue, operating costs and capital expenditures as well as estimated holding periods and capitalization rates. If an impairment indicator exists, the determination of recoverability is made based upon the estimated undiscounted future net cash flows, excluding interest expense. The amount of impairment loss, if any, is determined by comparing the fair value, as determined by a discounted cash flows analysis or a contracted sales price, with the carrying value of the related assets. The Company generally holds and operates its properties long-term, which decreases the likelihood of their carrying values not being recoverable. Properties classified as held for sale are measured at the lower of the carrying amount or fair value less cost to sell.

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The Company reviews its investments in unconsolidated joint ventures for a series of operating losses and other factors that may indicate that a decrease in the value of its investments has occurred which is other-than-temporary. The investment in each unconsolidated joint venture is evaluated periodically, and as deemed necessary, for recoverability and valuation declines that are other-than-temporary.

*Fair Value of Financial Instruments:*

The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market participant assumptions. Level 1 inputs utilize quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The Company calculates the fair value of financial instruments and includes this additional information in the Notes to the Consolidated Financial Statements when the fair value is different than the carrying value of those financial instruments. When the fair value reasonably approximates the carrying value, no additional disclosure is made.

The Company records its Financing Arrangement (See Note 12—Financing Arrangement in the Company's Notes to the Consolidated Financial Statements) obligation at fair value on a recurring basis with changes in fair value being recorded as interest expense in the Company’s consolidated statements of operations. The fair value is determined based on a discounted cash flow model, with the significant unobservable inputs including the multiple of net operating income, discount rate, and market rents. The fair value of the Financing Arrangement obligation is sensitive to these significant unobservable inputs and a change in these inputs may result in a significantly higher or lower fair value measurement.

**Results of Operations**

Many of the variations in the results of operations, discussed below, occurred because of the transactions affecting the Company's properties described in Management's Overview and Summary above, including the Redevelopment Properties and the JV Transition Center and the Disposition Property (as defined below).

For purposes of the discussion below, the Company defines "Same Centers" as those Centers that are substantially complete and in operation for the entirety of both periods of the comparison. Non-Same Centers for comparison purposes include those Centers or properties that are going through a substantial redevelopment often resulting in the closing of a portion of the Center (“Redevelopment Properties”), those properties that have recently transitioned to or from equity method joint ventures to or from consolidated assets ("JV Transition Center") and properties that have been disposed of ("Disposition Property"). The Company moves a Center in and out of Same Centers based on whether the Center is substantially complete and in operation for the entirety of both periods of the comparison. Accordingly, the Same Centers consist of all consolidated Centers, excluding the Redevelopment Properties, the JV Transition Center and the Disposition Property, for the periods of comparison.

For the comparison of the three and nine months ended September 30, 2019 to the three and nine months ended September 30, 2018, the Redevelopment Properties are Paradise Valley Mall and certain ground up developments. For the comparison of the three and nine months ended September 30, 2019 to the three and nine months ended September 30, 2018, the JV Transition Center is One Westside. For the comparison of the three and nine months ended September 30, 2019 to the three and nine months ended September 30, 2018, the Disposition Property is Promenade at Casa Grande.

Unconsolidated joint ventures are reflected using the equity method of accounting. The Company's pro rata share of the results from these Centers is reflected in the Consolidated Statements of Operations as equity in income of unconsolidated joint ventures.

The Company considers tenant annual sales per square foot (for tenants in place for a minimum of twelve months or longer and 10,000 square feet and under), occupancy rates (excluding large retail stores or "Anchors") and releasing spreads (i.e. a comparison of initial average base rent per square foot on leases executed during the trailing twelve months to average base rent per square foot at expiration for the leases expiring during the trailing twelve months based on the spaces 10,000 square feet and under) to be key performance indicators of the Company's internal growth.

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Tenant sales per square foot increased from $707 for the twelve months ended September 30, 2018 to $800 for the twelve months ended September 30, 2019. Occupancy rate decreased from 95.1% at September 30, 2018 to 93.8% at September 30, 2019. Releasing spreads remained positive as the Company was able to lease available space at higher average rents than the expiring rental rates, resulting in a releasing spread of $4.59 per square foot ($60.04 on new and renewal leases executed compared to $55.45 on leases expiring), representing an 8.3% increase for the trailing twelve months ended September 30, 2019. The Company expects that releasing spreads will continue to be positive for the remainder of 2019 as it renews or relets leases that are scheduled to expire. These leases that are scheduled to expire in the next twelve months represent 0.9 million square feet of the Centers, accounting for 12.5% of the gross leasable area ("GLA") of mall stores and freestanding stores, for spaces 10,000 square feet and under, as of September 30, 2019. These calculations exclude Centers under development or redevelopment and property dispositions (See "Acquisitions and Dispositions" and "Redevelopment and Development Activities" in Management's Overview and Summary).

During the trailing twelve months ended September 30, 2019, the Company signed 271 new leases and 411 renewal leases comprising approximately 1.0 million square feet of GLA, of which 0.7 million square feet related to the consolidated Centers. The annual initial average base rent for new and renewal leases was $60.04 per square foot for the trailing twelve months ended September 30, 2019 with an average tenant allowance of $32.76 per square foot.

**Outlook**

The Company has a long-term four-pronged business strategy that focuses on the acquisition, leasing and management, redevelopment and development of Regional Shopping Centers. Although the Company believes that overall regional shopping center fundamentals in its markets appear reasonably strong, the Company expects that its results for 2019 will be negatively impacted by rising interest rates and anticipated Anchor closures and tenant bankruptcies, among other factors.

Rising interest rates increase the cost of the Company’s borrowings due to its outstanding floating-rate debt and lead to higher interest rates on new fixed-rate debt. In certain cases, the Company may limit its exposure to interest rate fluctuations related to a portion of its floating-rate debt by using interest rate cap and swap agreements. Such agreements, subject to current market conditions, allow the Company to replace floating-rate debt with fixed-rate debt in order to achieve its desired ratio of floating-rate to fixed-rate debt. However, in an increasing interest rate environment the fixed rates the Company can obtain with such replacement fixed-rate cap and swap agreements or the fixed-rate on new debt will also continue to increase.

In recent years, a number of companies in the retail industry, including some of the Company’s Anchors, have declared bankruptcy, gone out of business or significantly reduced the number of their retail stores. Store closures by an Anchor may impact the Company’s Centers more holistically by causing other tenants, including Anchors, to terminate their leases, receive reduced rent or cease operating their stores at the Center.

On October 15, 2018, Sears filed for bankruptcy and announced additional store closings. At the time of the bankruptcy filing, the Company had twenty-one Sears stores in its portfolio totaling approximately 3.1 million square feet and accounting for less than 1% of the Company’s total leasing revenue. The twenty-one stores included seven owned by the Company, nine owned by the Company’s joint venture with Seritage Growth Properties (“Seritage”), one store that was owned by Sears and four stores that were owned by Seritage. Although, in the short-term, the bankruptcy of an Anchor such as Sears may lead to lost base rent and the triggering of co-tenancy clauses, there is also the potential to create additional future value through the recapturing of space and releasing that space to new tenants at higher rent per square foot, which the Company has demonstrated through its joint venture with Seritage and the completed redevelopment of a former Sears store at Kings Plaza Shopping Center in July 2018.

As of September 30, 2019, the Company recaptured ten Sears locations, including seven through its joint venture with Seritage, through formal lease rejections and lease terminations. The Company currently anticipates aggregate redevelopment investments at these locations of $130.0 million to $160.0 million (at the Company's pro rata share) over the next several years. New tenants are expected to open at several projects in late 2020.

On September 29, 2019, Forever 21, Inc. filed for Chapter 11 bankruptcy. At the time of the bankruptcy filing, the Company had 29 Forever 21 stores in its portfolio totaling approximately 1.2 million square feet. As of December 31, 2018, Forever 21 stores represented 2.5% of total minimum and percentage rental revenues of the Company. The Company is in ongoing discussion with Forever 21 regarding the status of those stores. Based on a court filing dated October 28, 2019, the Company expects that four of the Forever 21 stores will close, three of which are owned by the Company (Danbury Fair Mall, Arrowhead Towne Center and Pacific View), and one of which is not owned by the Company (Vintage Faire Mall). The Company anticipates that it may provide certain rent concessions in connection with a number of the remaining stores.

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**Comparison of Three Months Ended September 30, 2019 and 2018**

*Revenues:*

Leasing revenue decreased by $10.0 million, or 4.5%, from 2018 to 2019. The decrease in leasing revenue is attributed to decreases of $9.1 million from the Same Centers, $0.6 million from the JV Transition Center and $0.3 million from the Redevelopment Properties. Leasing revenue includes the amortization of above and below-market leases, the amortization of straight-line rents and lease termination income. The amortization of above and below-market leases increased from $0.7 million in 2018 to $2.4 million in 2019. The amortization of straight-line rents decreased from $3.5 million in 2018 to $3.2 million in 2019. Lease termination income decreased from $3.7 million in 2018 to $0.7 million in 2019. Leasing revenue also includes a provision for bad debts of $2.9 million in 2019 (See "Other Transactions and Events" in Management's Overview and Summary). The decrease in leasing revenue at the Same Centers is primarily due to the inclusion of the provision for bad debts in 2019 and decreases in lease termination income and property tax recoveries.

Management Companies' revenue decreased from $11.1 million in 2018 to $10.0 million in 2019. The decrease in Management Companies' revenue is primarily due to a decrease in development fees from unconsolidated joint ventures.

*Shopping Center and Operating Expenses:*

Shopping center and operating expenses decreased $2.8 million, or 3.8%, from 2018 to 2019. The decrease in shopping center and operating expenses is attributed to decreases of $2.6 million from the Same Centers and $0.2 million from the Redevelopment Properties. The decrease in shopping center and operating expenses at the Same Centers is primarily due to the exclusion of bad debt expense in 2019 (See "Other Transactions and Events" in Management's Overview and Summary).

*Leasing Expenses:*

Leasing expenses increased from $2.6 million in 2018 to $7.2 million in 2019. The increase in leasing expenses is due to the Company's adoption of ASC 842 in 2019 (See "Other Transactions and Events" in Management's Overview and Summary).

*Management Companies' Operating Expenses:*

Management Companies' operating expenses decreased $3.4 million from 2018 to 2019 primarily due to a decrease in payroll and share and unit-based compensation expense.

*REIT General and Administrative Expenses:*

REIT general and administrative expenses decreased $0.2 million from 2018 to 2019.

*Depreciation and Amortization:*

Depreciation and amortization increased $1.0 million from 2018 to 2019. The increase in depreciation and amortization is attributed to an increase of $1.0 million from the Same Centers and $0.1 million from the Redevelopment Properties offset in part by a decrease of $0.1 million from the JV Transition Center.

*Interest (Income) Expense:*

Interest expense decreased $30.1 million from 2018 to 2019. The decrease in interest expense is attributed to a decrease of $35.0 million from the Financing Arrangement (See "Other Transactions and Events" in Management's Overview and Summary) and $0.1 million from the JV Transition Center offset in part by increases of $4.0 million from the Same Centers and $1.0 million from the borrowings under the Company's line of credit. The decrease in interest expense from the Financing Arrangement is primarily due to the change in fair value of the underlying properties and the mortgage notes payable on the underlying properties.

*Equity in Income of Unconsolidated Joint Ventures:*

Equity in income of unconsolidated joint ventures decreased $4.2 million from 2018 to 2019. The decrease in equity in income of unconsolidated joint ventures is primarily due to the gain on the sale of The Market at Estrella Falls in 2018 (See "Acquisitions and Dispositions" in Management's Overview and Summary).

*(Loss) Gain on Sale or Write Down of Assets, net:*

The (loss) gain on sale or write down of assets, net changed to a loss of $0.1 million in 2019 from a gain of $46.5 million in 2018. The change in (loss) gain on sale or write down of assets, net is primarily due to the gain of $46.2 million on the sale of a 75% ownership interest in One Westside in 2018 (See "Acquisitions and Dispositions" in Management's Overview and Summary).

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*Net Income:*

Net income decreased $31.2 million from 2018 to 2019. The decrease in net income is primarily due the change in (loss) gain on sale or write down of assets, net, as discussed above.

*Funds From Operations ("FFO"):*

Primarily as a result of the factors mentioned above, FFO attributable to common stockholders and unit holders—diluted, excluding financing expense in connection with Chandler Freehold decreased 10.9% from $149.6 million in 2018 to $133.2 million in 2019. For a reconciliation of net income attributable to the Company, the most directly comparable GAAP financial measure, to FFO attributable to common stockholders and unit holders, excluding financing expense in connection with Chandler Freehold and FFO attributable to common stockholders and unit holders—diluted, excluding financing expense in connection with Chandler Freehold, see "Funds From Operations ("FFO")" below.

**Comparison of Nine Months Ended September 30, 2019 and 2018**

*Revenues:*

Leasing revenue decreased by $23.1 million, or 3.5%, from 2018 to 2019. The decrease in leasing revenue is attributed to decreases of $16.3 million from the Same Centers, $3.5 million from the JV Transition Center, $2.3 million from the Disposition Property and $1.0 million from the Redevelopment Properties. The amortization of above and below-market leases increased from $2.5 million in 2018 to $7.0 million in 2019. Straight-line rents decreased from $8.9 million in 2018 to $7.1 million in 2019. Lease termination income decreased from $7.2 million in 2018 to $3.9 million in 2019. Leasing revenue also includes a provision for bad debts of $6.8 million in 2019 (See "Other Transactions and Events" in Management's Overview and Summary). The decrease in leasing revenue at the Same Centers is primarily due to the inclusion of the provision for bad debts in 2019 and a decrease in lease termination income.

Management Companies' revenue decreased from $32.1 million in 2018 to $29.3 million in 2019.

*Shopping Center and Operating Expenses:*

Shopping center and operating expenses decreased $11.7 million, or 5.4%, from 2018 to 2019. The decrease in shopping center and operating expenses is attributed to decreases of $8.3 million from the Same Centers, $1.5 million from the JV Transition Center, $1.2 million from the Disposition Property and $0.7 million from the Redevelopment Properties. The decrease in shopping center and operating expenses at the Same Centers is primarily due to the exclusion of bad debt expense in 2019 (See "Other Transactions and Events" in Management's Overview and Summary).

*Leasing Expenses:*

Leasing expenses increased from $8.6 million in 2018 to $22.3 million in 2019. The increase in leasing expenses is due to the Company's adoption of ASC 842 in 2019 (See "Other Transactions and Events" in Management's Overview and Summary).

*Management Companies' Operating Expenses:*

Management Companies' operating expenses decreased $22.0 million from 2018 to 2019. The decrease is attributed to a one-time charge of $12.7 million in connection with the Company's reduction in work force in 2018 (See "Other Transactions and Events" in Management's Overview and Summary) and the subsequent reduction in payroll and share and unit-based compensation costs.

*REIT General and Administrative Expenses:*

REIT general and administrative expenses decreased $1.6 million from 2018 to 2019 due to a reduction in compensation costs.

*Costs Related to Shareholder Activism:*

The Company incurred $19.4 million in costs related to shareholder activism in 2018 (See "Other Transactions and Events" in Management's Overview and Summary).

*Depreciation and Amortization:*

Depreciation and amortization increased $6.0 million from 2018 to 2019. The increase in depreciation and amortization is attributed to an increase of $8.1 million from the Same Centers offset in part by decreases of $1.3 million from the JV Transition Center, $0.7 million from the Disposition Property and $0.1 million from the Redevelopment Properties.

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*Interest (Income) Expense:*

Interest expense decreased $46.2 million from 2018 to 2019. The decrease in interest expense was attributed to decreases of $61.9 million from the Financing Arrangement (See "Other Transactions and Events" in Management's Overview and Summary) and $1.0 million from the JV Transition Center offset in part by increases of $10.7 million from the Same Centers, $5.1 million from borrowings under the Company's line of credit and $0.9 million from the Redevelopment Properties. The decrease in interest expense from the Financing Arrangement is primarily due to the change in fair value of the underlying properties and the mortgage notes payable on the underlying properties. The increase in interest expense at the Same Centers is primarily due to the new loans on Fashion Outlets of Chicago, Chandler Fashion Center and SanTan Village Regional Center in 2019 (See "Financing Activities" in Management's Overview and Summary).

*Equity in Income of Unconsolidated Joint Ventures:*

Equity in income of unconsolidated joint ventures decreased $17.2 million from 2018 to 2019. The decrease in equity in income of unconsolidated joint ventures is primarily due to the write-down of intangible assets as a result of lease terminations at the Company's joint venture with Seritage in 2019, the gain on the sale of The Market at Estrella Falls in 2018 (See "Acquisitions and Dispositions" in Management's Overview and Summary), the gain on the sale of an ownership interest in an office building at Fashion District Philadelphia in 2018 (See "Acquisitions and Dispositions" in Management's Overview and Summary) and interest expense from the loan placed on Broadway Plaza in 2018 (See "Financing Activities" in Management's Overview and Summary).

*Loss on Sale or Write Down of Assets, net:*

Loss on sale or write down of assets, net increased $15.0 million from 2018 to 2019. The increase in loss on sale or write down of assets, net is primarily due to the gain of $46.2 million on the sale of a 75% ownership interest in One Westside in 2018 (See "Acquisitions and Dispositions" in Management's Overview and Summary), an increase in $12.1 million in the write down of development costs in 2019 and the decrease in gain on land sales in 2019, offset in part by the $46.6 million in impairment losses on SouthPark Mall, Promenade at Casa Grande, Southridge Center and two freestanding stores in 2018. The impairment losses were due to the reduction in the estimated holding periods of the properties.

*Net Income:*

Net income increased $17.1 million from 2018 to 2019. The increase in net income is primarily due to the $19.4 million in costs related to shareholder activism in 2018, as discussed above.

*Funds From Operations ("FFO"):*

Primarily as a result of the factors mentioned above, FFO attributable to common stockholders and unit holders—diluted, excluding financing expense in connection with Chandler Freehold decreased 2.5% from $398.8 million in 2018 to $388.8 million in 2019. For a reconciliation of net income (loss) attributable to the Company, the most directly comparable GAAP financial measure, to FFO attributable to common stockholders and unit holders, excluding financing expense in connection with Chandler Freehold and FFO attributable to common stockholders and unit holders—diluted, excluding financing expense in connection with Chandler Freehold, see "Funds From Operations ("FFO")" below.

*Operating Activities:*

Cash provided by operating activities increased $24.8 million from 2018 to 2019. The increase is primarily due to the changes in assets and liabilities and the results, as discussed above.

*Investing Activities:*

Cash provided by investing activities decreased $239.6 million from 2018 to 2019. The decrease in cash provided by investing activities is primarily attributed to decreases in distributions from unconsolidated joint ventures of $305.5 million and proceeds from the sale of assets of $81.8 million, offset in part by an increase in proceeds from notes receivable of $65.0 million, a decrease in contributions to unconsolidated joint ventures of $29.7 million, a decrease in development, redevelopment, expansion and renovations of properties of $28.4 million and a decrease in property improvements of $11.7 million.

The decrease in distributions from unconsolidated joint ventures is primarily due to the distribution of the Company's share of proceeds from the loans placed on Broadway Plaza and Fashion District Philadelphia (See "Financing Activities" in Management's Overview and Summary) and the sale of an ownership interest in an office building at Fashion District Philadelphia (See "Acquisitions and Dispositions" in Management's Overview and Summary) in 2018, offset in part by the Company's share of loan proceeds from the new loan on Tysons Tower in 2019. The increase in proceeds from notes receivable

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is due to the repayment of the note receivable from the Lennar Corporation in 2019 (See Note 18—Related Party Transactions in the Company's Notes to the Consolidated Financial Statements).

*Financing Activities:*

Cash used in financing activities decreased $171.7 million from 2018 to 2019. The decrease in cash used in financing activities is primarily due to an increase in proceeds from mortgages, bank and other notes payable of $781.0 million, offset in part by an increase in payments on mortgages, bank and other notes payable of $558.4 million, the payment on the Financing Arrangement of $27.9 million in 2019 and an increase in dividends and distributions of $19.9 million.

**Liquidity and Capital Resources**

The Company anticipates meeting its liquidity needs for its operating expenses, debt service and dividend requirements for the next twelve months through cash generated from operations, distributions from unconsolidated joint ventures, working capital reserves and/or borrowings under its unsecured line of credit. The following tables summarize capital expenditures incurred at the Centers (at the Company's pro rata share):

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **For the Nine Months Ended September 30,** | | | | | | | | |  | | |  | | |
| **(Dollars in thousands)** | | | **2019** | | |  | | | **2018** | | |  |  |  |  |  |  |
| ***Consolidated Centers:*** | | |  | | |  | | |  | | |  |  |  |  |  |  |
| Acquisitions of property, building improvement and equipment | | | $ | 19,330 |  |  | | | $ | 31,055 |  |  |  |  |  |  |  |
| Development, redevelopment, expansions and renovations of Centers | | | 83,142 | |  |  | | | 128,654 | |  |  |  |  |  |  |  |
| Tenant allowances | | | 14,763 | |  |  | | | 9,059 | |  |  |  |  |  |  |  |
| Deferred leasing charges | | | 1,977 | |  |  | | | 13,836 | |  |  |  |  |  |  |  |
|  | | | $ | 119,212 |  |  | | | $ | 182,604 |  |  |  |  |  |  |  |
| ***Joint Venture Centers:*** | | |  | | |  | | |  | | |  |  |  |  |  |  |
| Acquisitions of property, building improvement and equipment | | | $ | 7,793 |  |  | | | $ | 8,801 |  |  |  |  |  |  |  |
| Development, redevelopment, expansions and renovations of Centers | | | 152,881 | |  |  | | | 103,581 | |  |  |  |  |  |  |  |
| Tenant allowances | | | 6,922 | |  |  | | | 4,596 | |  |  |  |  |  |  |  |
| Deferred leasing charges | | | 2,725 | |  |  | | | 6,841 | |  |  |  |  |  |  |  |
|  | | | $ | 170,321 |  |  | | | $ | 123,819 |  |  |  |  |  |  |  |

The Company expects amounts to be incurred during the next twelve months for tenant allowances and deferred leasing charges to be comparable or less than 2018 and that capital for those expenditures will be available from working capital, cash flow from operations, borrowings on property specific debt or unsecured corporate borrowings. Although the amounts incurred for deferred leasing charges during the next twelve months are expected to be comparable or less than 2018, the Company began expensing a significant portion of its leasing costs in 2019 in accordance with its adoption of ASC 842 (See "Other Transactions and Events" in Management's Overview and Summary). The Company expects to incur between $200 million and $300 million during the next twelve months for development, redevelopment, expansion and renovations. Capital for these major expenditures, developments and/or redevelopments has been, and is expected to continue to be, obtained from a combination of debt or equity financings, which are expected to include borrowings under the Company's line of credit and construction loans.

The Company has also generated liquidity in the past, and may continue to do so in the future, through equity offerings and issuances, property refinancings, joint venture transactions and the sale of non-core assets. For example, the Company's sales of ownership interests in One Westside and an office building at Fashion District Philadelphia (See "Acquisitions and Dispositions" in Management's Overview and Summary), the sales of The Market at Estrella Falls and Promenade at Casa Grande, and the financing of Fashion Outlets of Chicago, Fashion District Philadelphia, Broadway Plaza, SanTan Village Regional Center, Chandler Fashion Center and Tysons Tower (See "Financing Activities" in Management's Overview and Summary). The Company used the proceeds from these transactions to pay down its line of credit and for other general corporate purposes. Furthermore, the Company has filed a shelf registration statement, which registered an unspecified amount of common stock, preferred stock, depositary shares, debt securities, warrants, rights, stock purchase contracts and units that may be sold from time to time by the Company. The Company expects any additional repurchases of the Company's common stock under the 2017 Stock Buyback Program to be funded by future sales of non-core assets, borrowings under its line of credit and/or refinancing transactions.

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The capital and credit markets can fluctuate and, at times, limit access to debt and equity financing for companies. As demonstrated by the Company's recent activity as discussed below, the Company has been able to access capital; however, there is no assurance the Company will be able to do so in future periods or on similar terms and conditions. Many factors impact the Company's ability to access capital, such as its overall debt level, interest rates, interest coverage ratios and prevailing market conditions. In the event that the Company has significant tenant defaults as a result of the overall economy and general market conditions, the Company could have a decrease in cash flow from operations, which could result in increased borrowings under its line of credit. These events could result in an increase in the Company's proportion of floating rate debt, which would cause it to be subject to interest rate fluctuations in the future.

The Company's total outstanding loan indebtedness, which includes mortgages and other notes payable, at September 30, 2019 was $8.0 billion (consisting of $5.0 billion of consolidated debt, less $360.6 million of noncontrolling interests, plus $3.3 billion of its pro rata share of unconsolidated joint venture debt). The majority of the Company's debt consists of fixed-rate conventional mortgage notes collateralized by individual properties. The Company expects that all of the maturities during the next twelve months will be refinanced, restructured, extended and/or paid off from the Company's line of credit or cash on hand.

The Company believes that the pro rata debt provides useful information to investors regarding its financial condition because it includes the Company’s share of debt from unconsolidated joint ventures and, for consolidated debt, excludes the Company’s partners’ share from consolidated joint ventures, in each case presented on the same basis. The Company has several significant joint ventures and presenting its pro rata share of debt in this manner can help investors better understand the Company’s financial condition after taking into account the Company's economic interest in these joint ventures. The Company’s pro rata share of debt should not be considered as a substitute for the Company’s total consolidated debt determined in accordance with GAAP or any other GAAP financial measures and should only be considered together with and as a supplement to the Company’s financial information prepared in accordance with GAAP.

The Company has a $1.5 billion revolving line of credit facility that bears interest at LIBOR plus a spread of 1.30% to 1.90%, depending on the Company's overall leverage level, and matures on July 6, 2020 with a one-year extension option. The line of credit can be expanded, depending on certain conditions, up to a total facility of $2.0 billion. All obligations under the facility are unconditionally guaranteed only by the Company. Based on the Company's leverage level as of September 30, 2019, the borrowing rate on the facility was LIBOR plus 1.45%. The Company has four interest rate swap agreements that effectively convert a total of $400.0 million of the outstanding balance from floating rate debt of LIBOR plus 1.45% to fixed rate debt of 4.30% until September 30, 2021. At September 30, 2019, total borrowings under the line of credit were $750.0 million less unamortized deferred finance costs of $3.3 million with a total interest rate of 4.03%. The Company's availability under the line of credit was $749.7 million at September 30, 2019.

Cash dividends and distributions for the nine months ended September 30, 2019 were $359.4 million. A total of $272.0 million was funded by operations. The remaining $87.4 million was funded from distributions from unconsolidated joint ventures, which were included in the cash flows from investing activities section of the Company's Consolidated Statement of Cash Flows.

At September 30, 2019, the Company was in compliance with all applicable loan covenants under its agreements.

At September 30, 2019, the Company had cash and cash equivalents of $98.3 million.

*Off-Balance Sheet Arrangements:*

The Company accounts for its investments in joint ventures that it does not have a controlling interest or is not the primary beneficiary using the equity method of accounting and those investments are reflected on the consolidated balance sheets of the Company as investments in unconsolidated joint ventures.

As of September 30, 2019, one of the Company's joint ventures has $150.5 million of debt that could become recourse to the Company, should the joint venture be unable to discharge the obligation of the related debt.

Additionally, as of September 30, 2019, the Company was contingently liable for $100.8 million in letters of credit guaranteeing performance by the Company of certain obligations relating to the Centers. The Company does not believe that these letters of credit will result in a liability to the Company.

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*Contractual Obligations:*

The following is a schedule of contractual obligations as of September 30, 2019 for the consolidated Centers over the periods in which they are expected to be paid (in thousands):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **Payment Due by Period** | | | | | | | | | | | | | | | | | | | | | | | | | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Contractual Obligations** | | | **Total** | | |  | | | **Less than 1 year** | | |  | | | **1 - 3 years** | | |  | | | **3 - 5 years** | | |  | | | **More than five years** | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Long-term debt obligations (includes expected interest payments)(1) | | | $ | 5,941,557 |  |  | | | $ | 622,742 |  |  | | | $ | 2,098,558 |  |  | | | $ | 895,174 |  |  | | | $ | 2,325,083 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Lease liabilities(2) | | | 222,480 | |  |  | | | 5,026 | |  |  | | | 46,699 | |  |  | | | 30,340 | |  |  | | | 140,415 | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Purchase obligations(3) | | | 12,277 | |  |  | | | 12,277 | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Other long-term liabilities | | | 266,855 | |  |  | | | 207,982 | |  |  | | | 14,131 | |  |  | | | 11,458 | |  |  | | | 33,284 | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | $ | 6,443,169 |  |  | | | $ | 848,027 |  |  | | | $ | 2,159,388 |  |  | | | $ | 936,972 |  |  | | | $ | 2,498,782 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

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(1)Interest payments on floating rate debt were based on rates in effect at September 30, 2019.

(2)See Note 8—Leases in the Company's Notes to the Consolidated Financial Statements.

(3)See Note 17—Commitments and Contingencies in the Company's Notes to the Consolidated Financial Statements.

**Funds From Operations ("FFO")**

The Company uses FFO in addition to net income to report its operating and financial results and considers FFO and FFO -diluted as supplemental measures for the real estate industry and a supplement to GAAP measures. The National Association of Real Estate Investment Trusts ("Nareit") defines FFO as net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from sales of properties, plus real estate related depreciation and amortization, impairment write-downs of real estate and write-downs of investments in an affiliate where the write-downs have been driven by a decrease in the value of real estate held by the affiliate and after adjustments for unconsolidated joint ventures. Adjustments for unconsolidated joint ventures are calculated to reflect FFO on the same basis.

Beginning during the first quarter 2018, the Company revised its definition of FFO so that FFO excluded the impact of the financing expense in connection with Chandler Freehold. Beginning in the third quarter of 2019, the Company now presents a separate non-GAAP measure - FFO excluding financing expense in connection with Chandler Freehold. The Company has revised the FFO presentation for the three and nine months ended September 30, 2018 to conform to the current presentation.

The Company accounts for its joint venture in Chandler Freehold as a financing arrangement. In connection with this treatment, the Company recognizes financing expense on (i) the changes in fair value of the financing arrangement obligation, (ii) any payments to the joint venture partner equal to their pro rata share of net income and (iii) any payments to the joint venture partner less than or in excess of their pro rata share of net income. The Company excludes from its definition of FFO the noted expenses related to the changes in fair value and for the payments to the joint venture partner less than or in excess of their pro rata share of net income.

The Company also presents FFO excluding financing expense in connection with Chandler Freehold, loss on extinguishment of debt, net and costs related to shareholder activism.

FFO and FFO on a diluted basis are useful to investors in comparing operating and financial results between periods. This is especially true since FFO excludes real estate depreciation and amortization, as the Company believes real estate values fluctuate based on market conditions rather than depreciating in value ratably on a straight-line basis over time. The Company believes that such a presentation also provides investors with a meaningful measure of its operating results in comparison to the operating results of other REITs. In addition, the Company believes that FFO excluding financing expense in connection with Chandler Freehold, non-routine costs associated with extinguishment of debt and costs related to shareholder activism provide useful supplemental information regarding the Company’s performance as they show a more meaningful and consistent comparison of the Company’s operating performance and allows investors to more easily compare the Company’s results. The Company further believes that FFO on a diluted basis is a measure investors find most useful in measuring the dilutive impact of outstanding convertible securities.

The Company believes that FFO does not represent cash flow from operations as defined by GAAP, should not be considered as an alternative to net income as defined by GAAP, and is not indicative of cash available to fund all cash flow needs. The Company also cautions that FFO, as presented, may not be comparable to similarly titled measures reported by other real estate investment trusts.

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**Funds From Operations ("FFO") (Continued)**

Management compensates for the limitations of FFO by providing investors with financial statements prepared according to GAAP, along with this detailed discussion of FFO and a reconciliation of net income to FFO and FFO-diluted. Management believes that to further understand the Company's performance, FFO should be compared with the Company's reported net income and considered in addition to cash flows in accordance with GAAP, as presented in the Company's consolidated financial statements.

The following reconciles net income attributable to the Company to FFO and FFO-diluted attributable to common stockholders and unit holders-basic and diluted, excluding financing expense in connection with Chandler Freehold, loss on extinguishment of debt, net and costs related to shareholder activism, for the three and nine months ended September 30, 2019 and 2018 (dollars and shares in thousands):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | | **For the Three Months Ended September 30,** | | | | | | | | |  | | |  | | |  | | | **For the Nine Months Ended September 30,** | | | | | | | | |  | | |  | | |
|  | | |  | | | **2019** | | |  | | | **2018** | | |  | | | **2019** | | |  | | | **2018** | | |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income attributable to the Company | | |  | | | $ | 46,371 |  |  | | | $ | 74,028 |  |  | | | $ | 69,929 |  |  | | | $ | 48,271 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Adjustments to reconcile net income attributable to the Company to FFO attributable to common stockholders and unit holders—basic and diluted: | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |
| Noncontrolling interests in the Operating Partnership | | |  | | | 3,427 | |  |  | | | 5,432 | |  |  | | | 5,151 | |  |  | | | 3,544 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Loss (gain) on sale or write down of assets, net—consolidated assets | | |  | | | 131 | |  |  | | | (46,516) | |  |  | | | 15,506 | |  |  | | | 514 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |
| Add: noncontrolling interests share of (loss) gain on sale or write down of assets—consolidated assets | | |  | | | — | |  |  | | | — | |  |  | | | (3,369) | |  |  | | | 580 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Add: gain on sale of undepreciated assets—consolidated assets | | |  | | | 81 | |  |  | | | 2,060 | |  |  | | | 615 | |  |  | | | 3,415 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |
| (Gain) loss on sale or write down of assets—unconsolidated joint ventures, net(1) | | |  | | | (3) | |  |  | | | (2,968) | |  |  | | | 381 | |  |  | | | (3,014) | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Add: gain on sale of undepreciated assets—unconsolidated joint ventures(1) | | |  | | | — | |  |  | | | 2,151 | |  |  | | | — | |  |  | | | 373 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Depreciation and amortization—consolidated assets | | |  | | | 82,787 | |  |  | | | 81,803 | |  |  | | | 246,640 | |  |  | | | 240,608 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Less: noncontrolling interests in depreciation and amortization—consolidated assets | | |  | | | (3,746) | |  |  | | | (3,670) | |  |  | | | (11,067) | |  |  | | | (10,946) | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Depreciation and amortization—unconsolidated joint ventures(1) | | |  | | | 45,465 | |  |  | | | 43,850 | |  |  | | | 141,670 | |  |  | | | 130,030 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Less: depreciation on personal property | | |  | | | (3,934) | |  |  | | | (3,453) | |  |  | | | (11,733) | |  |  | | | (10,120) | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| FFO attributable to common stockholders and unit holders—basic and diluted | | |  | | | 170,579 | |  |  | | | 152,717 | |  |  | | | 453,723 | |  |  | | | 403,255 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Financing expense in connection with Chandler Freehold | | |  | | | (37,337) | |  |  | | | (3,139) | |  |  | | | (64,906) | |  |  | | | (4,476) | |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |
| FFO attributable to common stockholders and unit holders, excluding financing expense in connection with Chandler Freehold—basic and diluted | | |  | | | 133,242 | |  |  | | | 149,578 | |  |  | | | 388,817 | |  |  | | | 398,779 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Loss on extinguishment of debt, net—consolidated assets | | |  | | | — | |  |  | | | — | |  |  | | | 351 | |  |  | | | — | |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |
| Costs related to shareholder activism | | |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 19,369 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| FFO attributable to common stockholders and unit holders, excluding financing expense in connection with Chandler Freehold, loss on extinguishment of debt, net and costs related to shareholder activism—basic and diluted | | |  | | | $ | 133,242 |  |  | | | $ | 149,578 |  |  | | | $ | 389,168 |  |  | | | $ | 418,148 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Weighted average number of FFO shares outstanding for: | | |  | | |  | |  |  | | |  | |  |  | | |  | |  |  | | |  | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| FFO attributable to common stockholders and unit holders—basic(2) | | |  | | | 151,784 | |  |  | | | 151,574 | |  |  | | | 151,740 | |  |  | | | 151,476 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Adjustments for impact of dilutive securities in computing FFO—diluted: | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |
| Share and unit based compensation plans | | |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 5 | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| FFO attributable to common stockholders and unit holders—diluted(3) | | |  | | | 151,784 | |  |  | | | 151,574 | |  |  | | | 151,740 | |  |  | | | 151,481 | |  |  |  |  |  |  |  |  |  |  |  |  |  |

(1)     Unconsolidated joint ventures are presented at the Company's pro rata share.

(2)     Calculated based upon basic net income as adjusted to reach basic FFO. Includes 10.4 million OP Units for the three and nine months ended September 30, 2019 and 2018, respectively.

(3)     The computation of FFO—diluted shares outstanding includes the effect of share and unit-based compensation plans using the treasury stock method. It also assumes the conversion of MACWH, LP common and preferred units to the extent that they are dilutive to the FFO—diluted computation.

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**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company's primary market risk exposure is interest rate risk. The Company has managed and will continue to manage interest rate risk by (1) maintaining a ratio of fixed rate, long-term debt to total debt such that floating rate exposure is kept at an acceptable level, (2) reducing interest rate exposure on certain long-term floating rate debt through the use of interest rate caps and/or swaps with matching maturities where appropriate, (3) using treasury rate locks where appropriate to fix rates on anticipated debt transactions, and (4) taking advantage of favorable market conditions for long-term debt and/or equity.

The following table sets forth information as of September 30, 2019 concerning the Company's long-term debt obligations, including principal cash flows by scheduled maturity, weighted average interest rates and estimated fair value (dollars in thousands):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **Expected Maturity Date** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |
|  | | | **For the twelve months ended September 30,** | | | | | | | | | | | | | | | | | | | | | | | | | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |
|  | | | **2020** | | |  | | | **2021** | | |  | | | **2022** | | |  | | | **2023** | | |  | | | **2024** | | |  | | | **Thereafter** | | |  | | | **Total** | | |  | | | **Fair Value** | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **CONSOLIDATED CENTERS:** | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Long-term debt: | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Fixed rate | | | $ | 465,056 |  |  | | | $ | 584,819 |  |  | | | $ | 358,203 |  |  | | | $ | 25,768 |  |  | | | $ | 378,058 |  |  | | | $ | 2,066,955 |  |  | | | $ | 3,878,859 |  |  | | | $ | 3,929,788 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Average interest rate | | | 3.51 | | % |  | | | 4.56 | | % |  | | | 4.08 | | % |  | | | 4.15 | | % |  | | | 4.05 | | % |  | | | 3.83 | | % |  | | | 3.95 | | % |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Floating rate | | | — | |  |  | | | 880,000 | |  |  | | | — | |  |  | | | 300,000 | |  |  | | | — | |  |  | | | — | |  |  | | | 1,180,000 | |  |  | | | 1,189,453 | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Average interest rate | | | — | | % |  | | | 4.07 | | % |  | | | — | | % |  | | | 3.38 | | % |  | | | — | | % |  | | | — | | % |  | | | 3.89 | | % |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total debt—Consolidated Centers | | | $ | 465,056 |  |  | | | $ | 1,464,819 |  |  | | | $ | 358,203 |  |  | | | $ | 325,768 |  |  | | | $ | 378,058 |  |  | | | $ | 2,066,955 |  |  | | | $ | 5,058,859 |  |  | | | $ | 5,119,241 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **UNCONSOLIDATED JOINT VENTURE CENTERS:** | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Long-term debt (at Company's pro rata share): | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Fixed rate | | | $ | 38,463 |  |  | | | $ | 149,986 |  |  | | | $ | 51,402 |  |  | | | $ | 643,397 |  |  | | | $ | 400,516 |  |  | | | $ | 1,765,091 |  |  | | | $ | 3,048,855 |  |  | | | $ | 3,070,943 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Average interest rate | | | 3.69 | | % |  | | | 3.81 | | % |  | | | 3.75 | | % |  | | | 3.47 | | % |  | | | 4.11 | | % |  | | | 3.88 | | % |  | | | 3.81 | | % |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Floating rate | | | — | |  |  | | | 15,000 | |  |  | | | 51,183 | |  |  | | | 180,500 | |  |  | | | 9,400 | |  |  | | | — | |  |  | | | 256,083 | |  |  | | | 258,718 | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Average interest rate | | | — | | % |  | | | 3.29 | | % |  | | | 3.86 | | % |  | | | 3.97 | | % |  | | | 3.89 | | % |  | | | — | | % |  | | | 3.90 | | % |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total debt—Unconsolidated Joint Venture Centers | | | $ | 38,463 |  |  | | | $ | 164,986 |  |  | | | $ | 102,585 |  |  | | | $ | 823,897 |  |  | | | $ | 409,916 |  |  | | | $ | 1,765,091 |  |  | | | $ | 3,304,938 |  |  | | | $ | 3,329,661 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |

The consolidated Centers' total fixed rate debt at September 30, 2019 and December 31, 2018 was $3.9 billion and $3.5 billion, respectively. The average interest rate on such fixed rate debt at September 30, 2019 and December 31, 2018 was 3.95% and 3.82%, respectively. The consolidated Centers' total floating rate debt at September 30, 2019 and December 31, 2018 was $1.2 billion and $1.5 billion, respectively. The average interest rate on such floating rate debt at September 30, 2019 and December 31, 2018 was 3.89% and 4.00%, respectively.

The Company's pro rata share of the unconsolidated joint venture Centers' fixed rate debt at September 30, 2019 and December 31, 2018 was $3.0 billion. The average interest rate on such fixed rate debt at September 30, 2019 and December 31, 2018 was 3.81% and 3.83%, respectively. The Company's pro rata share of the unconsolidated joint venture Centers' floating rate debt at September 30, 2019 and December 31, 2018 was $256.1 million and $221.4 million, respectively. The average interest rate on such floating rate debt at September 30, 2019 and December 31, 2018 was 3.90% and 4.13%, respectively.

The Company uses derivative financial instruments in the normal course of business to manage or hedge interest rate risk and records all derivatives on the balance sheet at fair value. Interest rate cap agreements offer protection against floating rates on the notional amount from exceeding the rates noted in the above schedule, and interest rate swap agreements effectively replace a floating rate on the notional amount with a fixed rate as noted above. As of September 30, 2019, the Company has one interest rate cap agreement and four interest rate swap agreements in place (See Note 5—Derivative Instruments and Hedging Activities in the Company's Notes to the Consolidated Financial Statements).

In addition, the Company has assessed the market risk for its floating rate debt and believes that a 1% increase in interest rates would decrease future earnings and cash flows by approximately $14.4 million per year based on $1.4 billion of floating rate debt outstanding at September 30, 2019.

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The fair value of the Company's long-term debt is estimated based on a present value model utilizing interest rates that reflect the risks associated with long-term debt of similar risk and duration. In addition, the method of computing fair value for mortgage notes payable included a credit value adjustment based on the estimated value of the property that serves as collateral for the underlying debt (See Note 10—Mortgage Notes Payable and Note 11—Bank and Other Notes Payable in the Company's Notes to the Consolidated Financial Statements).

In the event that LIBOR is discontinued, the interest rate for the variable rate debt of the Company and its joint ventures and the swap rate for the Company’s interest rate swaps following such event will be based on an alternative variable rate as specified in the applicable documentation governing such debt or swaps or as otherwise agreed upon. Such an event would not affect the Company’s ability to borrow or maintain already outstanding borrowings or swaps, but the alternative variable rate could be higher and more volatile than LIBOR prior to its discontinuance. The Company understands that LIBOR is expected to remain available through the end of 2021, but may be discontinued or otherwise become unavailable thereafter.

**Item 4. Controls and Procedures**

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, management carried out an evaluation, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on their evaluation as of September 30, 2019, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is (a) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and (b) accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

In addition, there has been no change in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15(d)-15(f) under the Securities Exchange Act of 1934) that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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**PART II OTHER INFORMATION**

**Item 1.   Legal Proceedings**

None of the Company, the Operating Partnership, the Management Companies or their respective affiliates are currently involved in any material legal proceedings, although from time-to-time they are involved in various legal proceedings that arise in the ordinary course of business.

**Item 1A.  Risk Factors**

There have been no material changes to the risk factors relating to the Company set forth under the caption "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

**Item 2.  Unregistered Sales of Equity Securities and Use of Proceeds**

None

**Issuer Purchases of Equity Securities**

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| **Period** | | |  | | | **Total Number of Shares Purchased** | | |  | | |  | | | **Average Price Paid per Share** | | |  | | | **Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs** | | |  | | |  | | | **Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (1)** | | |  | | |
| July 1, 2019 to July 31, 2019 | | |  | | | — | |  |  | | |  | | | $ | — |  |  | | | — | |  |  | | |  | | | $ | 278,707,048 |  |  | | |
| August 1, 2019 to August 31, 2019 | | |  | | | — | |  |  | | |  | | | — | |  |  | | | — | |  |  | | |  | | | $ | 278,707,048 |  |  | | |
| September 1, 2019 to September 30, 2019 | | |  | | | — | |  |  | | |  | | | — | |  |  | | | — | |  |  | | |  | | | $ | 278,707,048 |  |  | | |
|  | | |  | | | — | |  |  | | |  | | | $ | — |  |  | | | — | |  |  | | |  | | |  | | |  | | |

(1)On February 12, 2017, the Company's Board of Directors authorized the repurchase of up to $500.0 million of the Company's outstanding common shares from time to time as market conditions warrant.

**Item 3.  Defaults Upon Senior Securities**

Not Applicable

**Item 4.  Mine Safety Disclosures**

Not Applicable

**Item 5.  Other Information**

Not Applicable

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**Item 6.  Exhibits**

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| **Exhibit Number** | | |  | | | **Description** | | |
| [2.1](http://www.sec.gov/Archives/edgar/data/912242/000110465914081468/a14-24669_1ex2d1.htm) | | |  | | | [Master Agreement, dated November 14, 2014, by and among Pacific Premier Retail LP, MACPT LLC, Macerich PPR GP LLC, Queens JV LP, Macerich Queens JV LP, Queens JV GP LLC, 1700480 Ontario Inc. and the Company (incorporated by reference as an exhibit to the Company’s Current Report on Form 8-K, event date November 14, 2014).](http://www.sec.gov/Archives/edgar/data/912242/000110465914081468/a14-24669_1ex2d1.htm) | | |
| 3.1 | | |  | | | Articles of Amendment and Restatement of the Company (incorporated by reference as an exhibit to the Company's Registration Statement on Form S-11, as amended (No. 33-68964)) (Filed in paper - hyperlink is not required pursuant to Rule 105 of Regulation S-T). | | |
| 3.1.1 | | |  | | | Articles Supplementary of the Company (incorporated by reference as an exhibit to the Company's Current Report on Form 8-K, event date May 30, 1995) (Filed in paper - hyperlink is not required pursuant to Rule 105 of Regulation S-T). | | |
| [3.1.2](http://www.sec.gov/Archives/edgar/data/912242/0001047469-99-012492.txt) | | |  | | | [Articles Supplementary of the Company (with respect to the first paragraph) (incorporated by reference as an exhibit to the Company's 1998 Form 10-K).](http://www.sec.gov/Archives/edgar/data/912242/0001047469-99-012492.txt) | | |
| [3.1.3](http://www.sec.gov/Archives/edgar/data/912242/000091205702030706/a2086079zex-3_1.htm) | | |  | | | [Articles Supplementary of the Company (Series D Preferred Stock) (incorporated by reference as an exhibit to the Company's Current Report on Form 8-K, event date July 26, 2002).](http://www.sec.gov/Archives/edgar/data/912242/000091205702030706/a2086079zex-3_1.htm) | | |
| [3.1.4](http://www.sec.gov/Archives/edgar/data/912242/000091205702021417/a2080342zex-4_6.htm) | | |  | | | [Articles Supplementary of the Company (incorporated by reference as an exhibit to the Company's Registration Statement on Form S-3, as amended (No. 333-88718)).](http://www.sec.gov/Archives/edgar/data/912242/000091205702021417/a2080342zex-4_6.htm) | | |
| [3.1.5](http://www.sec.gov/Archives/edgar/data/912242/000104746909001981/a2189901zex-3_15.htm) | | |  | | | [Articles of Amendment of the Company (declassification of Board) (incorporated by reference as an exhibit to the Company's 2008 Form 10-K).](http://www.sec.gov/Archives/edgar/data/912242/000104746909001981/a2189901zex-3_15.htm) | | |
| [3.1.6](http://www.sec.gov/Archives/edgar/data/912242/000110465909008348/a09-5253_1ex3d1.htm) | | |  | | | [Articles Supplementary of the Company (incorporated by reference as an exhibit to the Company's Current Report on Form 8-K, event date February 5, 2009).](http://www.sec.gov/Archives/edgar/data/912242/000110465909008348/a09-5253_1ex3d1.htm) | | |
| [3.1.7](http://www.sec.gov/Archives/edgar/data/912242/000104746909007391/a2193924zex-3_17.htm) | | |  | | | [Articles of Amendment of the Company (increased authorized shares) (incorporated by reference as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009).](http://www.sec.gov/Archives/edgar/data/912242/000104746909007391/a2193924zex-3_17.htm) | | |
| [3.1.8](http://www.sec.gov/Archives/edgar/data/912242/000110465914043330/a14-14485_1ex3d1.htm) | | |  | | | [Articles of Amendment of the Company (to eliminate the supermajority vote requirement to amend the charter and to clarify a reference in Article NINTH) (incorporated by reference as an exhibit to the Company’s Current Report on Form 8-K, event date May 30, 2014).](http://www.sec.gov/Archives/edgar/data/912242/000110465914043330/a14-14485_1ex3d1.htm) | | |
| [3.1.9](http://www.sec.gov/Archives/edgar/data/912242/000110465915020412/a15-6870_1ex3d1.htm) | | |  | | | [Articles Supplementary of the Company (election to be subject to Section 3-803 of the Maryland General Corporation Law) (incorporated by reference as an exhibit to the Company’s Current Report on Form 8-K, event date March 17, 2015).](http://www.sec.gov/Archives/edgar/data/912242/000110465915020412/a15-6870_1ex3d1.htm) | | |
| [3.1.10](http://www.sec.gov/Archives/edgar/data/912242/000110465915020810/a15-6873_1ex3d1.htm) | | |  | | | [Articles Supplementary of the Company (Series E Preferred Stock) (incorporated by reference as an exhibit to the Company’s Current Report on Form 8-K, event date March 18, 2015).](http://www.sec.gov/Archives/edgar/data/912242/000110465915020810/a15-6873_1ex3d1.htm) | | |
| [3.1.11](http://www.sec.gov/Archives/edgar/data/912242/000110465915037228/a15-11185_1ex3d1.htm) | | |  | | | [Articles Supplementary of the Company (reclassification of Series E Preferred Stock to Preferred Stock) (incorporated by reference as an exhibit to the Company’s Current Report on Form 8-K, event date May 7, 2015).](http://www.sec.gov/Archives/edgar/data/912242/000110465915037228/a15-11185_1ex3d1.htm) | | |
| [3.1.12](http://www.sec.gov/Archives/edgar/data/912242/000110465915042631/a15-13305_1ex3d1.htm) | | |  | | | [Articles Supplementary of the Company (repeal of election to be subject to Section 3-803 of the Maryland General Corporation Law) (incorporated by reference as an exhibit to the Company’s Current Report on Form 8-K, event date May 28, 2015).](http://www.sec.gov/Archives/edgar/data/912242/000110465915042631/a15-13305_1ex3d1.htm) | | |
| [3.1.13](http://www.sec.gov/Archives/edgar/data/912242/000119312519129272/d731295dex31.htm) | | |  | | | [Articles Supplementary of the Company (opting out of provisions of Subtitle 8 of Title 3 of the Maryland General Corporate Law (MUTA provisions)) (incorporated by reference as an exhibit to the Company’s Current Report on Form 8-K, event date April 24, 2019).](http://www.sec.gov/Archives/edgar/data/912242/000119312519129272/d731295dex31.htm) | | |
| [3.2](http://www.sec.gov/Archives/edgar/data/912242/000119312519129272/d731295dex32.htm) | | |  | | | [Amended and Restated Bylaws of the Company (incorporated by reference as an exhibit to the Company's Current Report on Form 8-K, event date April 24, 2019).](http://www.sec.gov/Archives/edgar/data/912242/000119312519129272/d731295dex32.htm) | | |
| [10.1\*](mac-9302019xexhibit101.htm) | | |  | | | [Employment Agreement between the Company and William P. Voegele, effective September 1, 2019.](mac-9302019xexhibit101.htm) | | |
| [10.2\*](mac-9302019xexhibit102.htm) | | |  | | | [Amendment to Employment Agreement between the Company and Thomas E. O’Hern, effective January 1, 2020.](mac-9302019xexhibit102.htm) | | |
| [10.3\*](mac-9302019xexhibit103.htm) | | |  | | | [Amendment to Employment Agreement between the Company and Ann C. Menard, effective January 1, 2020.](mac-9302019xexhibit103.htm) | | |
| [31.1](mac-9302019xexhibit311.htm) | | |  | | | [Section 302 Certification of Thomas O'Hern, Chief Executive Officer](mac-9302019xexhibit311.htm) | | |
| [31.2](mac-9302019xexhibit312.htm) | | |  | | | [Section 302 Certification of Scott Kingsmore, Chief Financial Officer](mac-9302019xexhibit312.htm) | | |
| [32.1\*\*](mac-9302019xexhibit321.htm) | | |  | | | [Section 906 Certifications of Thomas O'Hern and Scott Kingsmore](mac-9302019xexhibit321.htm) | | |
| 101.SCH | | |  | | | Inline XBRL Taxonomy Extension Schema Document | | |
| 101.CAL | | |  | | | Inline XBRL Taxonomy Extension Calculation Linkbase Document | | |
| 101.LAB | | |  | | | Inline XBRL Taxonomy Extension Label Linkbase Document | | |
| 101.PRE | | |  | | | Inline XBRL Taxonomy Extension Presentation Linkbase Document | | |
| 101.DEF | | |  | | | Inline XBRL Taxonomy Extension Definition Linkbase Document | | |

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| **Exhibit Number** | | |  | | | **Description** | | |
| 104 | | |  | | | Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101.\*). | | |
|  | | |  | | |  | | |

\*Represents a management contract, or compensatory plan, contract or arrangement required to be filed pursuant to Regulation S-K

\*\* Furnished herewith.

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**Signature**

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.

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|  | | |  | | |  | | | THE MACERICH COMPANY | | | | | |  | | |
|  | | |  | | |  | | | By: | | | /s/ SCOTT W. KINGSMORE | | |  |  |  |
|  | | |  | | |  | | |  | | | Scott W. Kingsmore | | |  |  |  |
|  | | |  | | |  | | |  | | | *Executive Vice President, Treasurer and Chief Financial Officer* | | |  |  |  |
| Date: | | | November 5, 2019 | | | | | |  | | |  | | | *(Principal Financial Officer)* | | |

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