MACK CALI REALTY CORP
Form 10-Q
May 02, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

or

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

For the transition period from to

Commission File Number: 1-13274 Mack-Cali Realty Corporation

Commission File Number: 333-57103 Mack-Cali Realty, L.P.

Mack-Cali Realty Corporation

Mack-Cali Realty, L.P.

(Exact name of registrant as specified in its charter)

Maryland (Mack-Cali Realty Corporation) **Delaware (Mack-Cali Realty, L.P.)** (State or other jurisdiction of incorporation or organization)	**22-3305147 (Mack-Cali Realty Corporation)** **22-3315804 (Mack-Cali Realty, L.P.)** (I.R.S. Employer Identification No.)
Harborside 3, 210 Hudson St., Ste. 400, Jersey City, New Jersey (Address of principal executive offices)	**07311** (Zip Code)

(732) 590-1010

(Registrant s telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety (90) days.

Mack-Cali Realty Corporation	YES x NO o
Mack-Cali Realty, L.P.	YES x NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Mack-Cali Realty Corporation	YES x NO o
Mack-Cali Realty, L.P.	YES x NO o

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

Mack-Cali Realty Corporation:

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

Mack-Cali Realty, L.P.:

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

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.

Mack-Cali Realty Corporation	o
Mack-Cali Realty, L.P.	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Mack-Cali Realty Corporation	YES o NO x
Mack-Cali Realty, L.P.	YES o NO x

As of April 30, 2018, there were 90,135,896 shares of Mack-Cali Realty Corporation s Common Stock, par value $0.01 per share, outstanding.

Mack-Cali Realty, L.P. does not have any class of common equity that is registered pursuant to Section 12 of the Exchange Act.

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended March 31, 2018 of Mack-Cali Realty Corporation and Mack-Cali Realty, L.P. Unless stated otherwise or the context otherwise requires, references to the Operating Partnership mean Mack-Cali Realty, L.P., a Delaware limited partnership, and references to the General Partner mean Mack-Cali Realty Corporation, a Maryland corporation and real estate investment trust (REIT), and its subsidiaries, including the Operating Partnership. References to the Company, we, us and our mean collecti the General Partner, the Operating Partnership and those entities/subsidiaries consolidated by the General Partner.

The Operating Partnership conducts the business of providing leasing, management, acquisition, development, construction and tenant-related services for its General Partner. The Operating Partnership, through its operating divisions and subsidiaries, including the Mack-Cali property-owning partnerships and limited liability companies is the entity through which all of the General Partner s operations are conducted. The General Partner is the sole general partner of the Operating Partnership and has exclusive control of the Operating Partnership s day-to-day management.

As of March 31, 2018, the General Partner owned an approximate 89.8 percent common unit interest in the Operating Partnership. The remaining approximate 10.2 percent common unit interest is owned by limited partners. The limited partners of the Operating Partnership are (1) persons who contributed their interests in properties to the Operating Partnership in exchange for common units (each, a Common Unit) or preferred units of limited partnership interest in the Operating Partnership or (2) recipients of long term incentive plan units of the Operating Partnership pursuant to the General Partner s executive compensation plans.

A Common Unit of the Operating Partnership and a share of common stock of the General Partner (the Common Stock) have substantially the same economic characteristics in as much as they effectively share equally in the net income or loss of the Company. The General Partner owns a number of common units of the Operating Partnership equal to the number of issued and outstanding shares of the General Partner s common stock. Common unitholders (other than the General Partner) have the right to redeem their Common Units, subject to certain restrictions under the Second Amended and Restated Agreement of Limited Partnership of the Operating Partnership, as amended (the Partnership Agreement) and agreed upon at the time of issuance of the units that may restrict such right for a period of time, generally one year from issuance. The redemption is required to be satisfied in shares of Common Stock of the General Partner, cash, or a combination thereof, calculated as follows: one share of the General Partner s Common Stock, or cash equal to the fair market value of a share of the General Partner s Common Stock at the time of redemption, for each Common Unit. The General Partner, in its sole discretion, determines the form of redemption of Common Units (i.e., whether a common unitholder receives Common Stock of the General Partner, cash, or any combination thereof). If the General Partner elects to satisfy the redemption with shares of Common Stock of the General Partner as opposed to cash, the General Partner is obligated to issue shares of its Common Stock to the redeeming unitholder. Regardless of the rights described above, the common unitholders may not put their units for cash to the Company or the General Partner under any circumstances. With each such redemption, the General Partner s percentage ownership in the Operating Partnership will increase. In addition, whenever the General Partner issues shares of its Common Stock other than to acquire Common Units, the General Partner must contribute any net proceeds it receives to the Operating Partnership and the Operating Partnership must issue to the General Partner an equivalent number of Common Units. This structure is commonly referred to as an umbrella partnership REIT, or UPREIT.

The Company believes that combining the quarterly reports on Form 10-Q of the General Partner and the Operating Partnership into this single report provides the following benefits:

- enhance investors understanding of the General Partner and the Operating Partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business of the Company;

- eliminate duplicative disclosure and provide a more streamlined and readable presentation because a substantial portion of the disclosure applies to both the General Partner and the Operating Partnership; and

- create time and cost efficiencies through the preparation of one combined report instead of two separate reports.

The Company believes it is important to understand the few differences between the General Partner and the Operating Partnership in the context of how they operate as a consolidated company. The financial results of the Operating Partnership are consolidated into the financial statements of the General Partner. The General Partner does not have any other significant assets, liabilities or operations, other than its interests in the Operating Partnership, nor does the Operating Partnership have employees of its own. The Operating Partnership, not the General Partner, generally executes all significant business relationships other than transactions involving the securities of the General Partner. The Operating Partnership holds substantially all of the assets of the General Partner, including ownership interests in joint ventures. The Operating Partnership conducts the operations of the business and is structured as a partnership

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with no publicly traded equity. Except for the net proceeds from equity offerings by the General Partner, which are contributed to the capital of the Operating Partnership in consideration of common or preferred units in the Operating Partnership, as applicable, the Operating Partnership generates all remaining capital required by the Company s business. These sources include working capital, net cash provided by operating activities, borrowings under the Company s unsecured revolving credit facility and unsecured term loan facilities, the issuance of secured and unsecured debt and equity securities and proceeds received from the disposition of properties and joint ventures.

Shareholders equity, partners capital and noncontrolling interests are the main areas of difference between the consolidated financial statements of the General Partner and the Operating Partnership. The limited partners of the Operating Partnership are accounted for as partners capital in the Operating Partnership s financial statements as is the General Partner s interest in the Operating Partnership. The noncontrolling interests in the Operating Partnership s financial statements comprise the interests of unaffiliated partners in various consolidated partnerships and development joint venture partners. The noncontrolling interests in the General Partner s financial statements are the same noncontrolling interests at the Operating Partnership s level and include limited partners of the Operating Partnership. The differences between shareholders equity and partners capital result from differences in the equity issued at the General Partner and Operating Partnership levels.

To help investors better understand the key differences between the General Partner and the Operating Partnership, certain information for the General Partner and the Operating Partnership in this report has been separated, as set forth below:

- Item 1. Financial Statements (unaudited), which includes the following specific disclosures for the General Partner and the Operating Partnership:

- Note 2. Significant Accounting Policies, where applicable;
- Note 14. Redeemable Noncontrolling Interests;
- Note 15. Mack-Cali Realty Corporation s Stockholders Equity and Mack-Cali Realty, L.P. s Partners Capital;
- Note 16. Noncontrolling Interests in Subsidiaries; and
- Note 17. Segment Reporting, where applicable.

- Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations includes information specific to each entity, where applicable.

This report also includes separate Part I, Item 4. Controls and Procedures sections and separate Exhibits 31 and 32 certifications for each of the General Partner and the Operating Partnership in order to establish that the requisite certifications have been made and that the General Partner and Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934 and 18 U.S.C. §1350.

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MACK-CALI REALTY, L.P.

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MACK-CALI REALTY CORPORATION

MACK-CALI REALTY, L.P.

Part I Financial Information

Item 1. Financial Statements

The accompanying unaudited consolidated balance sheets, statements of operations, of comprehensive income, of changes in equity, and of cash flows and related notes thereto, have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. The financial statements reflect all adjustments consisting only of normal, recurring adjustments, which are, in the opinion of management, necessary for a fair statement for the interim periods.

The aforementioned financial statements should be read in conjunction with the notes to the aforementioned financial statements and Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and notes thereto included in Mack-Cali Realty Corporation s and Mack-Cali Realty, L.P. s Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

The results of operations for the three-month periods ended March 31, 2018 are not necessarily indicative of the results to be expected for the entire fiscal year or any other period.

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MACK-CALI REALTY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS *(in thousands, except per share amounts) (unaudited)*

	March 31, 2018	December 31, 2017
ASSETS		
Rental property		
Land and leasehold interests	$ 784,619	$ 786,789
Buildings and improvements	3,982,190	3,955,122
Tenant improvements	311,778	330,686
Furniture, fixtures and equipment	32,059	30,247
	5,110,646	5,102,844
Less accumulated depreciation and amortization	(1,055,562)	(1,087,083)
	4,055,084	4,015,761
Rental property held for sale, net	38,566	171,578
Net investment in rental property	4,093,650	4,187,339
Cash and cash equivalents	25,307	28,180
Restricted cash	34,830	39,792
Investments in unconsolidated joint ventures	249,513	252,626
Unbilled rents receivable, net	98,418	100,842
Deferred charges, goodwill and other assets, net	306,557	342,320
Accounts receivable, net of allowance for doubtful accounts of $763 and $1,138	7,331	6,786
Total assets	$ 4,815,606	$ 4,957,885
LIABILITIES AND EQUITY		
Senior unsecured notes, net	$ 569,438	$ 569,145
Unsecured revolving credit facility and term loans	863,738	822,288
Mortgages, loans payable and other obligations, net	1,182,035	1,418,135
Dividends and distributions payable	21,357	21,158
Accounts payable, accrued expenses and other liabilities	198,005	192,716
Rents received in advance and security deposits	40,610	43,993
Accrued interest payable	14,186	9,519
Total liabilities	2,889,369	3,076,954
Commitments and contingencies		
Redeemable noncontrolling interests	225,326	212,208
Equity:		
Mack-Cali Realty Corporation stockholders equity:		
Common stock, $0.01 par value, 190,000,000 shares authorized, 90,136,278 and 89,914,113 shares outstanding	901	899
Additional paid-in capital	2,567,300	2,565,136
Dividends in excess of net earnings	(1,071,420)	(1,096,429)
Accumulated other comprehensive income (loss)	11,310	6,689
Total Mack-Cali Realty Corporation stockholders equity	1,508,091	1,476,295
Noncontrolling interests in subsidiaries:		
Operating Partnership	171,817	171,395
Consolidated joint ventures	21,003	21,033
Total noncontrolling interests in subsidiaries	192,820	192,428
Total equity	1,700,911	1,668,723

Total liabilities and equity	$	4,815,606	$	4,957,885

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

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MACK-CALI REALTY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS *(in thousands, except per share amounts) (unaudited)*

	Three Months Ended March 31,	
	2018	**2017**
REVENUES		
Base rents	$ 112,902	$ 121,255
Escalations and recoveries from tenants	12,791	15,119
Real estate services	4,661	6,465
Parking income	5,327	4,229
Other income	3,286	2,819
Total revenues	138,967	149,887
EXPENSES		
Real estate taxes	18,361	21,092
Utilities	12,504	11,414
Operating services	25,618	27,091
Real estate services expenses	4,936	6,270
General and administrative	16,085	11,592
Depreciation and amortization	41,297	47,631
Total expenses	118,801	125,090
Operating income	20,166	24,797
OTHER (EXPENSE) INCOME		
Interest expense	(20,075)	(20,321)
Interest and other investment income (loss)	1,128	474
Equity in earnings (loss) of unconsolidated joint ventures	1,572	(51)
Realized gains (losses) and unrealized losses on disposition of rental property, net	58,186	5,506
Gain on sale of investment in unconsolidated joint venture		12,563
Loss from extinguishment of debt, net	(10,289)	(239)
Total other income (expense)	30,522	(2,068)
Net income	50,688	22,729
Noncontrolling interest in consolidated joint ventures	30	237
Noncontrolling interest in Operating Partnership	(4,883)	(2,295)
Redeemable noncontrolling interest	(2,799)	(792)
Net income available to common shareholders	$ 43,036	$ 19,879
Basic earnings per common share:		
Net income available to common shareholders	$ 0.45	$ 0.11
Diluted earnings per common share:		
Net income available to common shareholders	$ 0.45	$ 0.11
Basic weighted average shares outstanding	90,263	89,955
Diluted weighted average shares outstanding	100,604	100,637

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

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MACK-CALI REALTY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) *(in thousands) (unaudited)*

	Three Months Ended March 31,	
	2018	2017
Net income	$ 50,688	$ 22,729
Other comprehensive income:		
Net unrealized gain (loss) on derivative instruments for interest rate swaps	5,145	1,227
Comprehensive income (loss)	$ 55,833	$ 23,956
Comprehensive (income) loss attributable to noncontrolling interest in consolidated joint ventures	30	237
Comprehensive (income) loss attributable to redeemable noncontrolling interest	(2,799)	(792)
Comprehensive (income) loss attributable to noncontrolling interest in Operating Partnership	(5,407)	(2,422)
Comprehensive income (loss) attributable to common shareholders	$ 47,657	$ 20,979

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

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MACK-CALI REALTY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(in thousands) (unaudited)*

	Common Stock		Additional	Dividends in	Accumulated Other	Noncontrolling	Total
	Shares	Par Value	Paid-In Capital	Excess of Net Earnings	Comprehensive Income (Loss)	Interests in Subsidiaries	Equity
Balance at January 1, 2018	89,914	$ 899	$ 2,565,136	$ (1,096,429)	$ 6,689	$ 192,428	$ 1,668,723
Net income				43,036		7,652	50,688
Common stock dividends				(18,027)			(18,027)
Common unit distributions						(2,260)	(2,260)
Redeemable noncontrolling interest			(2,754)			(3,112)	(5,866)
Redemption of common units for common stock	224	2	3,688			(3,690)	
Shares issued under Dividend Reinvestment and Stock Purchase Plan	1		28				28
Directors deferred compensation plan			125				125
Stock compensation			517			2,015	2,532
Cancellation of restricted shares	(3)					(177)	(177)
Other comprehensive income (loss)					4,621	524	5,145
Rebalancing of ownership percentage between parent and subsidiaries			560			(560)	
Balance at March 31, 2018	90,136	$ 901	$ 2,567,300	$ (1,071,420)	$ 11,310	$ 192,820	$ 1,700,911

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

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MACK-CALI REALTY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS *(in thousands) (unaudited)*

	Three Months Ended March 31,			
		2018		2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$	50,688	$	22,729
Adjustments to reconcile net income to net cash provided by				
Operating activities:				
Depreciation and amortization, including related intangible assets		39,489		46,338
Amortization of directors deferred compensation stock units		125		115
Amortization of stock compensation		2,532		1,053
Amortization of deferred financing costs		1,096		1,103
Amortization of debt discount and mark-to-market		(237)		241
Write-off of unamortized deferred finance costs related to early extinguishment		105		
Equity in (earnings) loss of unconsolidated joint ventures		(1,572)		51
Distributions of cumulative earnings from unconsolidated joint ventures		2,119		2,684
Realized (gains) losses and unrealized losses on disposition of rental property, net		(58,186)		(5,506)
Gain on sale of investments in unconsolidated joint ventures				(12,563)
Loss from extinguishment of debt		10,289		239
Changes in operating assets and liabilities:				
Increase in unbilled rents receivable, net		(3,788)		(2,950)
Increase in deferred charges, goodwill and other assets		(1,899)		(2,842)
(Increase) decrease in accounts receivable, net		(545)		13
Increase (decrease) in accounts payable, accrued expenses and other liabilities		14,134		(11,396)
(Decrease) Increase in rents received in advance and security deposits		(2,118)		3,891
Increase in accrued interest payable		4,667		8,113
Net cash provided by operating activities	$	56,899	$	51,313
CASH FLOWS FROM INVESTING ACTIVITIES				
Rental property acquisitions and related intangibles	$	(365)	$	(413,115)
Rental property additions and improvements		(55,935)		(22,471)
Development of rental property and other related costs		(50,038)		(55,511)
Proceeds from the sales of rental property		243,244		48,221
Proceeds from the sale of investments in unconsolidated joint ventures				14,849
Investments in notes receivable				(2,254)
Repayment of notes receivable		3,337		9,062
Investment in unconsolidated joint ventures		(1,266)		(6,625)
Distributions in excess of cumulative earnings from unconsolidated joint ventures		4,571		1,689
Proceeds from investment receivable				3,625
Net cash provided by (used in) investing activities	$	143,548	$	(422,530)
CASH FLOW FROM FINANCING ACTIVITIES				
Borrowings from revolving credit facility	$	322,000	$	275,000
Repayment of revolving credit facility		(281,000)		(471,000)
Borrowings from unsecured term loan				325,000
Proceeds from mortgages and loans payable		41,090		268,642
Repayment of mortgages, loans payable and other obligations		(277,287)		(1,430)
Issuance of redeemable noncontrolling interests, net		10,000		139,002
Payment of financing costs		(255)		(8,627)

(Distribution to) contributions from noncontrolling interests				(15)
Payment of dividends and distributions		(22,830)		(15,006)
Net cash (used in) provided by financing activities	$	(208,282)	$	511,566
Net (decrease) increase in cash and cash equivalents	$	(7,835)	$	140,349
Cash, cash equivalents and restricted cash, beginning of period (1)		67,972		85,563
Cash, cash equivalents and restricted cash, end of period (2)	$	60,137	$	225,912

(1) Includes Restricted Cash of $39,792 and $53,952 as of December 31, 2017 and 2016, respectively, pursuant to the adoption of ASU 2016-15.

(2) Includes Restricted Cash of $34,830 and $57,596 as of March 31, 2018 and 2017, respectively, pursuant to the adoption of ASU 2016-15..

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

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MACK-CALI REALTY, L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS *(in thousands, except per unit amounts) (unaudited)*

	March 31, 2018	December 31, 2017
ASSETS		
Rental property		
Land and leasehold interests	$ 784,619	$ 786,789
Buildings and improvements	3,982,190	3,955,122
Tenant improvements	311,778	330,686
Furniture, fixtures and equipment	32,059	30,247
	5,110,646	5,102,844
Less accumulated depreciation and amortization	(1,055,562)	(1,087,083)
	4,055,084	4,015,761
Rental property held for sale, net	38,566	171,578
Net investment in rental property	4,093,650	4,187,339
Cash and cash equivalents	25,307	28,180
Restricted cash	34,830	39,792
Investments in unconsolidated joint ventures	249,513	252,626
Unbilled rents receivable, net	98,418	100,842
Deferred charges, goodwill and other assets, net	306,557	342,320
Accounts receivable, net of allowance for doubtful accounts of $763 and $1,138	7,331	6,786
Total assets	$ 4,815,606	$ 4,957,885
LIABILITIES AND EQUITY		
Senior unsecured notes, net	$ 569,438	$ 569,145
Unsecured revolving credit facility and term loans	863,738	822,288
Mortgages, loans payable and other obligations, net	1,182,035	1,418,135
Distributions payable	21,357	21,158
Accounts payable, accrued expenses and other liabilities	198,005	192,716
Rents received in advance and security deposits	40,610	43,993
Accrued interest payable	14,186	9,519
Total liabilities	2,889,369	3,076,954
Commitments and contingencies		
Redeemable noncontrolling interests	225,326	212,208
Partners Capital:		
General Partner, 90,136,278 and 89,914,113 common units outstanding	1,433,981	1,407,366
Limited partners, 10,214,140 and 10,438,855 common units outstanding	234,617	233,635
Accumulated other comprehensive income (loss)	11,310	6,689
Total Mack-Cali Realty, L.P. partners capital	1,679,908	1,647,690
Noncontrolling interests in consolidated joint ventures	21,003	21,033
Total equity	1,700,911	1,668,723
Total liabilities and equity	$ 4,815,606	$ 4,957,885

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

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MACK-CALI REALTY, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS *(in thousands, except per unit amounts) (unaudited)*

	Three Months Ended March 31,	
	2018	2017
REVENUES		
Base rents	$ 112,902	$ 121,255
Escalations and recoveries from tenants	12,791	15,119
Real estate services	4,661	6,465
Parking income	5,327	4,229
Other income	3,286	2,819
Total revenues	138,967	149,887
EXPENSES		
Real estate taxes	18,361	21,092
Utilities	12,504	11,414
Operating services	25,618	27,091
Real estate services expenses	4,936	6,270
General and administrative	16,085	11,592
Depreciation and amortization	41,297	47,631
Total expenses	118,801	125,090
Operating income	20,166	24,797
OTHER (EXPENSE) INCOME		
Interest expense	(20,075)	(20,321)
Interest and other investment income (loss)	1,128	474
Equity in earnings (loss) of unconsolidated joint ventures	1,572	(51)
Realized gains (losses) and unrealized losses on disposition of rental property, net	58,186	5,506
Gain on sale of investment in unconsolidated joint venture		12,563
Loss from extinguishment of debt, net	(10,289)	(239)
Total other income (expense)	30,522	(2,068)
Net income	50,688	22,729
Noncontrolling interest in consolidated joint ventures	30	237
Redeemable noncontrolling interest	(2,799)	(792)
Net income available to common unitholders	$ 47,919	$ 22,174
Basic earnings per common unit:		
Net income available to common unitholders	$ 0.45	$ 0.11
Diluted earnings per common unit:		
Net income available to common unitholders	$ 0.45	$ 0.11
Basic weighted average units outstanding	100,505	100,339
Diluted weighted average units outstanding	100,604	100,637

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

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MACK-CALI REALTY, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) *(in thousands) (unaudited)*

	Three Months Ended March 31,	
	2018	**2017**
Net income	$ 50,688	$ 22,729
Other comprehensive income:		
Net unrealized gain (loss) on derivative instruments for interest rate swaps	5,145	1,227
Comprehensive income (loss)	$ 55,833	$ 23,956
Comprehensive (income) loss attributable to noncontrolling interest in consolidated joint ventures	30	237
Comprehensive (income) loss attributable to redeemable noncontrolling interest	(2,799)	(792)
Comprehensive income (loss) attributable to common unitholders	$ 53,064	$ 23,401

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

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MACK-CALI REALTY, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(in thousands) (unaudited)*

	General Partner Common Units	Limited Partner Common Units	General Partner Common Unitholders	Limited Partner Common Unitholders	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest in Consolidated Joint Ventures	Total Equity
Balance at January 1, 2018	89,914	10,438	$ 1,407,366	$ 233,635	$ 6,689	$ 21,033	$ 1,668,723
Net income			43,036	4,883		2,769	50,688
Distributions			(18,027)	(2,260)			(20,287)
Redeemable noncontrolling interest			(2,754)	(313)		(2,799)	(5,866)
Redemption of limited partner common units for shares of general partner common units	224	(224)	3,690	(3,690)			
Shares issued under Dividend Reinvestment and Stock Purchase Plan	1		28				28
Directors deferred compensation plan			125				125
Other comprehensive income				524	4,621		5,145
Stock compensation			517	2,015			2,532
Cancellation of restricted shares	(3)			(177)			(177)
Balance at March 31, 2018	90,136	10,214	$ 1,433,981	$ 234,617	$ 11,310	$ 21,003	$ 1,700,911

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

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MACK-CALI REALTY, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS *(in thousands) (unaudited)*

	Three Months Ended March 31,			
		2018		2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$	50,688	$	22,729
Adjustments to reconcile net income to net cash provided by				
Operating activities:				
Depreciation and amortization, including related intangible assets		39,489		46,338
Amortization of directors deferred compensation stock units		125		115
Amortization of stock compensation		2,532		1,053
Amortization of deferred financing costs		1,096		1,103
Amortization of debt discount and mark-to-market		(237)		241
Write-off of unamortized deferred finance costs related to early extinguishment		105		
Equity in (earnings) loss of unconsolidated joint ventures		(1,572)		51
Distributions of cumulative earnings from unconsolidated joint ventures		2,119		2,684
Realized (gains) losses and unrealized losses on disposition of rental property, net		(58,186)		(5,506)
Gain on sale of investments in unconsolidated joint ventures				(12,563)
Loss from extinguishment of debt		10,289		239
Changes in operating assets and liabilities:				
Increase in unbilled rents receivable, net		(3,788)		(2,950)
Increase in deferred charges, goodwill and other assets		(1,899)		(2,842)
(Increase) decrease in accounts receivable, net		(545)		13
Increase (decrease) in accounts payable, accrued expenses and other liabilities		14,134		(11,396)
(Decrease) Increase in rents received in advance and security deposits		(2,118)		3,891
Increase in accrued interest payable		4,667		8,113
Net cash provided by operating activities	$	56,899	$	51,313
CASH FLOWS FROM INVESTING ACTIVITIES				
Rental property acquisitions and related intangibles	$	(365)	$	(413,115)
Rental property additions and improvements		(55,935)		(22,471)
Development of rental property and other related costs		(50,038)		(55,511)
Proceeds from the sales of rental property		243,244		48,221
Proceeds from the sale of investments in unconsolidated joint ventures				14,849
Investments in notes receivable				(2,254)
Repayment of notes receivable		3,337		9,062
Investment in unconsolidated joint ventures		(1,266)		(6,625)
Distributions in excess of cumulative earnings from unconsolidated joint ventures		4,571		1,689
Proceeds from investment receivable				3,625
Net cash provided by (used in) investing activities	$	143,548	$	(422,530)
CASH FLOW FROM FINANCING ACTIVITIES				
Borrowings from revolving credit facility	$	322,000	$	275,000
Repayment of revolving credit facility		(281,000)		(471,000)
Borrowings from unsecured term loan				325,000
Proceeds from mortgages and loans payable		41,090		268,642
Repayment of mortgages, loans payable and other obligations		(277,287)		(1,430)
Issuance of redeemable noncontrolling interests, net		10,000		139,002
Payment of financing costs		(255)		(8,627)

(Distribution to) contributions from noncontrolling interests				(15)
Payment of distributions		(22,830)		(15,006)
Net cash (used in) provided by financing activities	$	(208,282)	$	511,566
Net (decrease) increase in cash and cash equivalents	$	(7,835)	$	140,349
Cash, cash equivalents and restricted cash, beginning of period (1)		67,972		85,563
Cash, cash equivalents and restricted cash, end of period (2)	$	60,137	$	225,912

(1) Includes Restricted Cash of $39,792 and $53,952 as of December 31, 2017 and 2016, respectively, pursuant to the adoption of ASU 2016-15.

(2) Includes Restricted Cash of $34,830 and $57,596 as of March 31, 2018 and 2017, respectively, pursuant to the adoption of ASU 2016-15.

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

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MACK-CALI REALTY CORPORATION, MACK-CALI REALTY, L.P. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

1. ORGANIZATION AND BASIS OF PRESENTATION

ORGANIZATION

Mack-Cali Realty Corporation, a Maryland corporation, together with its subsidiaries (collectively, the General Partner) is a fully-integrated self-administered, self-managed real estate investment trust (REIT). The General Partner controls Mack-Cali Realty, L.P., a Delaware limited partnership, together with its subsidiaries (collectively, the Operating Partnership), as its sole general partner and owned an 89.8 and 89.6 percent common unit interest in the Operating Partnership as of March 31, 2018 and December 31, 2017, respectively. The General Partner s business is the ownership of interests in and operation of the Operating Partnership and all of the General Partner s expenses are incurred for the benefit of the Operating Partnership. The General Partner is reimbursed by the Operating Partnership for all expenses it incurs relating to the ownership and operation of the Operating Partnership.

The Operating Partnership conducts the business of providing leasing, management, acquisition, development and tenant-related services for its General Partner. The Operating Partnership, through its operating divisions and subsidiaries, including the Mack-Cali property-owning partnerships and limited liability companies, is the entity through which all of the General Partner s operations are conducted. Unless stated otherwise or the context requires, the Company refers to the General Partner and its subsidiaries, including the Operating Partnership and its subsidiaries.

As of March 31, 2018, the Company owned or had interests in 138 properties, consisting of 59 office and 61 flex properties, totaling approximately 16.0 million square feet, leased to approximately 750 commercial tenants, and 18 multi-family rental properties containing 5,826 apartments, plus developable land (collectively, the Properties). The Properties are comprised of 59 office buildings totaling approximately 12.8 million square feet (which include four buildings, aggregating approximately 0.5 million square feet owned by unconsolidated joint ventures in which the Company has investment interests), 47 office/flex buildings totaling approximately 2.7 million square feet, six industrial/warehouse buildings totaling approximately 387,400 square feet, 18 multi-family properties totaling 5,826 apartments (which include eight properties aggregating 3,275 apartments owned by unconsolidated joint ventures in which the Company has investment interests), six parking/retail properties totaling approximately 137,100 square feet (which include two buildings aggregating 81,700 square feet owned by unconsolidated joint ventures in which the Company has investment interests), a hotel (which is owned by an unconsolidated joint venture in which the Company has an investment interest) and a parcel of land leased to others. The Properties are located in six states, primarily in the Northeast, plus the District of Columbia.

BASIS OF PRESENTATION

The accompanying consolidated financial statements include all accounts of the Company, its majority-owned and/or controlled subsidiaries, which consist principally of the Operating Partnership and variable interest entities for which the Company has determined itself to be the primary beneficiary, if any. See Note 2: Significant Accounting Policies Investments in Unconsolidated Joint Ventures, for the Company s treatment of unconsolidated joint venture interests. Intercompany accounts and transactions have been eliminated.

Accounting Standards Codification (ASC) 810, Consolidation, provides guidance on the identification of entities for which control is achieved through means other than voting rights (variable interest entities or VIEs) and the determination of which business enterprise, if any, should consolidate the VIEs. Generally, the consideration of whether an entity is a VIE applies when either: (1) the equity investors (if any) lack (i) the ability to make decisions about the entity s activities through voting or similar rights, (ii) the obligation to absorb the expected losses of the entity, or (iii) the right to receive the expected residual returns of the entity; (2) the equity investment at risk is insufficient to finance that entity s activities without additional subordinated financial support; or (3) the equity investors have voting rights that are not proportionate to their economic interests and substantially all of the activities of the entity involve or are conducted on behalf of an investor with a disproportionately small voting interest. The Company consolidates VIEs in which it is considered to be the primary beneficiary. The primary beneficiary is defined by the entity having both of the following characteristics: (1) the power to direct the activities that, when taken together, most significantly impact the variable interest entity s performance: and (2) the obligation to absorb losses and right to receive the returns from the VIE that would be significant to the VIE.

On January 1, 2016, the Company adopted accounting guidance under ASC 810, Consolidation, modifying the analysis it must perform to determine whether it should consolidate certain types of legal entities. The guidance does not amend the existing disclosure requirements for variable interest entities or voting interest model entities. The guidance, however, modified the requirements to qualify under the voting interest model. Under the revised guidance, the Operating Partnership will be a variable interest entity of the parent company, Mack-Cali Realty Corporation. As the Operating Partnership is already consolidated in the balance sheets of Mack-Cali Realty Corporation, the identification of this entity as a variable interest entity has no impact on the consolidated financial statements of Mack-Cali Realty Corporation. There were no other legal entities qualifying under the scope of the revised guidance that were consolidated as a result of the adoption.

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As of March 31, 2018 and December 31, 2017, the Company s investments in consolidated real estate joint ventures, which are variable interest entities in which the Company is deemed to be the primary beneficiary, other than Roseland Residential, L.P. (See Note 14: Rockpoint Transaction), have total real estate assets of $229.1 million and $215.5 million, respectively, mortgages of $88.4 million and $81.2 million, respectively, and other liabilities of $25.2 million and $19.3 million, respectively.

The financial statements have been prepared in conformity with GAAP. The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on management s historical experience that are believed to be reasonable at the time. However, because future events and their effects cannot be determined with certainty, the determination of estimates requires the exercise of judgment. Actual results could differ from those estimates. Certain reclassifications have been made to prior period amounts in order to conform with current period presentation.

2. SIGNIFICANT ACCOUNTING POLICIES

Rental Property

Rental properties are stated at cost less accumulated depreciation and amortization. Costs directly related to the acquisition, development and construction of rental properties are capitalized. Acquisition related costs were expensed as incurred through December 31, 2016. The Company early adopted the recently issued FASB guidance Accounting Standards Update (ASU) 2017-01 on January 1, 2017 which revises the definition of a business and is expected to result in more transactions to be accounted for as asset acquisitions and significantly limit transactions that would be accounted for as business combinations. Where an acquisition has been determined to be an asset acquisition, acquisition-related costs are capitalized. Capitalized development and construction costs include pre-construction costs essential to the development of the property, development and construction costs, interest, property taxes, insurance, salaries and other project costs incurred during the period of development. Capitalized development and construction salaries and related costs approximated $0.6 million and $0.6 million for the three months ended March 31, 2018 and 2017, respectively. Ordinary repairs and maintenance are expensed as incurred; major replacements and betterments, which improve or extend the life of the asset, are capitalized and depreciated over their estimated useful lives. Fully-depreciated assets are removed from the accounts.

Included in rental property as of March 31, 2018 and December 31, 2017 is real estate and building and tenant improvements not in service; as follows: *(dollars in thousands)*

		March 31, 2018		**December 31, 2017**
Land held for development (including pre-development costs, if any) (a)	$	492,754	$	483,432
Development and construction in progress, including land (b)		573,030		535,971
Total	$	1,065,784	$	1,019,403

(a) Includes predevelopment and infrastructure costs included in buildings and improvements of $197.5 million and $188.1 million as of March 31, 2018 and December 31, 2017, respectively.

(b) Includes land of $72.6 million and $77.0 million as of March 31, 2018 and December 31, 2017, respectively.

The Company considers a construction project as substantially completed and held available for occupancy upon the substantial completion of tenant improvements, but no later than one year from cessation of major construction activity (as distinguished from activities such as routine maintenance and cleanup). If portions of a rental project are substantially completed and occupied by tenants, or held available for occupancy, and other portions have not yet reached that stage, the substantially completed portions are accounted for as a separate project. The Company allocates costs incurred between the portions under construction and the portions substantially completed and held available for occupancy, primarily based on a percentage of the relative square footage of each portion, and capitalizes only those costs associated with the portion under construction.

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Properties are depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

Leasehold interests	**Remaining lease term**
Buildings and improvements	5 to 40 years
Tenant improvements	The shorter of the term of the related lease or useful life
Furniture, fixtures and equipment	5 to 10 years

Upon acquisition of rental property, the Company estimates the fair value of acquired tangible assets, consisting of land, building and improvements, and identified intangible assets and liabilities assumed, generally consisting of the fair value of (i) above and below-market leases, (ii) in-place leases and (iii) tenant relationships. The Company allocates the purchase price to the assets acquired and liabilities assumed based on their fair values. The Company records goodwill or a gain on bargain purchase (if any) if the net assets acquired/liabilities assumed differ from the purchase consideration of a business transaction.

In estimating the fair value of the tangible and intangible assets acquired, the Company considers information obtained about each property as a result of its due diligence and marketing and leasing activities, and utilizes various valuation methods, such as estimated cash flow projections utilizing appropriate discount and capitalization rates, estimates of replacement costs net of depreciation, and available market information. The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant.

Above-market and below-market lease values for acquired properties are initially recorded based on the present value (using a discount rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to each in-place lease and (ii) management s estimate of fair market lease rates for each corresponding in-place lease, measured over a period equal to the remaining term of the lease for above-market leases and the remaining initial term plus the term of any below-market fixed rate renewal options for below-market leases. The capitalized above-market lease values are amortized as a reduction of base rental revenue over the remaining terms of the respective leases, and the capitalized below-market lease values are amortized as an increase to base rental revenue over the remaining initial terms plus the terms of any below-market fixed rate renewal options of the respective leases.

Other intangible assets acquired include amounts for in-place lease values and tenant relationship values, which are based on management s evaluation of the specific characteristics of each tenant s lease and the Company s overall relationship with the respective tenant. Factors to be considered by management in its analysis of in-place lease values include an estimate of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases. In estimating carrying costs, management includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, depending on local market conditions. In estimating costs to execute similar leases, management considers leasing commissions, legal and other related expenses. Characteristics considered by management in valuing tenant relationships include the nature and extent of the Company s existing business relationships with the tenant, growth prospects for developing new business with the tenant, the tenant s credit quality and expectations of lease renewals. The value of in-place leases are amortized to expense over the remaining initial terms of the respective leases. The value of tenant relationship intangibles are amortized to expense over the anticipated life of the relationships.

On a periodic basis, management assesses whether there are any indicators that the value of the Company s rental properties held for use may be impaired. In addition to identifying any specific circumstances which may affect a property or properties, management considers other criteria for determining which properties may require assessment for potential impairment. The criteria considered by management include reviewing low leased percentages, significant near-term lease expirations, current and historical operating and/or cash flow losses, near-term mortgage debt maturities and/or other factors, including those that might impact the Company s intent and ability to hold the property. A property s value is impaired only if management s estimate of the aggregate future cash flows (undiscounted and without interest charges) to be generated by the property is less than the carrying value of the property. To the extent impairment has occurred, the impairment loss shall be measured as the excess of the carrying value of the property over the fair value of the property. The Company s estimates of aggregate future cash flows expected to be generated by each property are based on a number of assumptions. These assumptions are generally based on management s experience in its local real estate markets and the effects of current market conditions. The assumptions are subject to economic and market uncertainties including, among

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others, demand for space, competition for tenants, changes in market rental rates, and costs to operate each property. As these factors are difficult to predict and are subject to future events that may alter management s assumptions, the future cash flows estimated by management in its impairment analyses may not be achieved, and actual losses or impairments may be realized in the future.

Rental Property Held for Sale

When assets are identified by management as held for sale, the Company discontinues depreciating the assets and estimates the sales price, net of selling costs, of such assets. The Company generally considers assets to be held for sale when the transaction has received appropriate corporate authority, and there are no significant contingencies relating to the sale. If, in management s opinion, the estimated net sales price, net of selling costs, of the assets which have been identified as held for sale is less than the carrying value of the assets, a valuation allowance (which is recorded as unrealized losses on disposition of rental property) is established.

If circumstances arise that previously were considered unlikely and, as a result, the Company decides not to sell a property previously classified as held for sale, the property is reclassified as held and used. A property that is reclassified is measured and recorded individually at the lower of (a) its carrying value before the property was classified as held for sale, adjusted for any depreciation (amortization) expense that would have been recognized had the property been continuously classified as held and used, or (b) the fair value at the date of the subsequent decision not to sell.

Investments in Unconsolidated Joint Ventures

The Company accounts for its investments in unconsolidated joint ventures under the equity method of accounting. The Company applies the equity method by initially recording these investments at cost, as Investments in Unconsolidated Joint Ventures, subsequently adjusted for equity in earnings and cash contributions and distributions. The outside basis portion of the Company s joint ventures is amortized over the anticipated useful lives of the underlying ventures tangible and intangible assets acquired and liabilities assumed. Generally, the Company would discontinue applying the equity method when the investment (and any advances) is reduced to zero and would not provide for additional losses unless the Company has guaranteed obligations of the venture or is otherwise committed to providing further financial support for the investee. If the venture subsequently generates income, the Company only recognizes its share of such income to the extent it exceeds its share of previously unrecognized losses.

If the venture subsequently makes distributions and the Company does not have an implied or actual commitment to support the operations of the venture, including a general partner interest in the investee, the Company will not record a basis less than zero, rather such amounts will be recorded as equity in earnings of unconsolidated joint ventures.

On a periodic basis, management assesses whether there are any indicators that the value of the Company s investments in unconsolidated joint ventures may be impaired. An investment is impaired only if management s estimate of the value of the investment is less than the carrying value of the investment, and such decline in value is deemed to be other than temporary. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying value of the investment over the value of the investment. The Company s estimates of value for each investment (particularly in real estate joint ventures) are based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for space, competition for tenants, changes in market rental rates, and operating costs. As these factors are difficult to predict and are subject to future events that may alter management s assumptions, the values estimated by management in its impairment analyses may not be realized, and actual losses or impairment may be realized in the future. See Note 4: Investments in Unconsolidated Joint Ventures.

Cash and Cash Equivalents

All highly liquid investments with an original maturity of three months or less when purchased are considered to be cash equivalents.

Deferred

Costs incurred in obtaining financing are capitalized and amortized over the term of the related indebtedness. Deferred financing costs are presented in the balance sheet as a direct deduction from the carrying value of the debt liability to

Financing Costs which they relate, except deferred financing costs related to the revolving credit facility, which are presented in deferred charges, goodwill and other assets. In all cases, amortization of such costs is included in interest expense and was $1,096,000 and $1,103,000 for the three months ended March 31, 2018 and 2017,

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respectively. If a financing obligation is extinguished early, any unamortized deferred financing costs are written off and included in gains (losses) from extinguishment of debt. Included in loss from extinguishment of debt, net, of $10.3 million and $0.2 million for the three months ended March 31, 2018 and 2017 were unamortized deferred financing costs which were written off amounting to $105,000 and zero, respectively.

Deferred Leasing Costs

Costs incurred in connection with successfully executed commercial leases are capitalized and amortized on a straight-line basis over the terms of the related leases and included in depreciation and amortization. Unamortized deferred leasing costs are charged to amortization expense upon early termination of the lease. Certain employees of the Company are compensated for providing leasing services to the Properties. The portion of such compensation related to commercial leases, which is capitalized and amortized, and included in deferred charges, goodwill and other assets, net, was approximately $693,000 and $1,042,000 for the three months ended March 31, 2018 and 2017, respectively.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net tangible and intangible assets acquired in a business combination. Goodwill is allocated to various reporting units, as applicable. Each of the Company s segments consists of a reporting unit. Goodwill is not amortized. Management performs an annual impairment test for goodwill during the fourth quarter and between annual tests, management evaluates the recoverability of goodwill whenever events or changes in circumstances indicate that the carrying value of goodwill may not be fully recoverable. In its impairment tests of goodwill, management first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If, based on this assessment, management determines that the fair value of the reporting unit is not less than its carrying value, then performing the additional two-step impairment test is unnecessary. If the carrying value of goodwill exceeds its fair value, an impairment charge is recognized.

Derivative Instruments

The Company measures derivative instruments, including certain derivative instruments embedded in other contracts, at fair value and records them as an asset or liability, depending on the Company s rights or obligations under the applicable derivative contract. For derivatives designated and qualifying as fair value hedges, the changes in the fair value of both the derivative instrument and the hedged item are recorded in earnings. For derivatives designated as cash flow hedges, the effective portions of the derivative are reported in other comprehensive income (OCI) and are subsequently reclassified into earnings when the hedged item affects earnings. Changes in fair value of derivative instruments not designated as hedging and ineffective portions of hedges are recognized in earnings in the affected period.

Revenue Recognition

Base rental revenue is recognized on a straight-line basis over the terms of the respective leases. Unbilled rents receivable represents the cumulative amount by which straight-line rental revenue exceeds rents currently billed in accordance with the lease agreements.

Above-market and below-market lease values for acquired properties are initially recorded based on the present value (using a discount rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to each in-place lease and (ii) management s estimate of fair market lease rates for each corresponding in-place lease, measured over a period equal to the remaining term of the lease for above-market leases and the remaining initial term plus the term of any below-market fixed-rate renewal options for below-market leases. The capitalized above-market lease values for acquired properties are amortized as a reduction of base rental revenue over the remaining terms of the respective leases, and the capitalized below-market lease values are amortized as an increase to base rental revenue over the remaining initial terms plus the terms of any below-market fixed-rate renewal options of the respective leases.

Escalations and recoveries from tenants are received from tenants for certain costs as provided in the lease agreements. These costs generally include real estate taxes, utilities, insurance, common area maintenance and other recoverable costs. See Note 13: Tenant Leases.

Real estate services revenue includes property management, development, construction and leasing commission fees and other services, and payroll and related costs reimbursed from clients. Fee income derived from the Company s unconsolidated joint ventures (which are capitalized by such ventures) are recognized to the extent attributable to the unaffiliated ownership interests.

Parking income includes income from parking spaces leased to tenants and others.

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Other income includes income from tenants for additional services arranged for by the Company and income from tenants for early lease terminations.

Allowance for Doubtful Accounts

Management performs a detailed review of amounts due from tenants to determine if an allowance for doubtful accounts is required based on factors affecting the collectability of the accounts receivable balances. The factors considered by management in determining which individual tenant receivable balances, or aggregate receivable balances, require a collectability allowance include the age of the receivable, the tenant s payment history, the nature of the charges, any communications regarding the charges and other related information. Management s estimate of the allowance for doubtful accounts requires management to exercise significant judgment about the timing, frequency and severity of collection losses, which affects the allowance and net income.

Income and Other Taxes

The General Partner has elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the IRS Code). As a REIT, the General Partner generally will not be subject to corporate federal income tax on net income that it currently distributes to its shareholders, provided that the General Partner satisfies certain organizational and operational requirements including the requirement to distribute at least 90 percent of its REIT taxable income (determined by excluding any net capital gains) to its shareholders. If and to the extent the General Partner retains and does not distribute any net capital gains, the General Partner will be required to pay federal, state and local taxes, as applicable, on such net capital gains at the rate applicable to capital gains of a corporation.

The Operating Partnership is a partnership, and, as a result, all income and losses of the partnership are allocated to the partners for inclusion in their respective tax returns. Accordingly, no provision or benefit for income taxes has been made in the accompanying financial statements.

The General Partner has elected to treat certain of its corporate subsidiaries as taxable REIT subsidiaries (each a TRS). In general, a TRS of the General Partner may perform additional services for tenants of the Company and generally may engage in any real estate or non-real estate related business (except for the operation or management of health care facilities or lodging facilities or the providing to any person, under a franchise, license or otherwise, rights to any brand name under which any lodging facility or health care facility is operated). A TRS is subject to corporate federal income tax. The General Partner has conducted business through its TRS entities for certain property management, development, construction and other related services, as well as to hold a joint venture interest in a hotel and other matters.

The deferred tax balance at March 31, 2018 is $9.7 million which has been fully reserved through a valuation allowance. New tax reform legislation enacted in late 2017 reduces the corporate tax rate to 21 percent, effective January 1, 2018. Consequently, the Company s deferred tax assets were re-measured to reflect the reduction in the future U.S. corporate income tax rate as of the enactment date. If the General Partner fails to qualify as a REIT in any taxable year, the Company will be subject to federal income tax on its taxable income at regular corporate tax rates. The Company is subject to certain state and local taxes.

Pursuant to the amended provisions related to uncertain tax provisions of ASC 740, Income Taxes, the Company recognized no material adjustments regarding its tax accounting treatment. The Company expects to recognize interest and penalties related to uncertain tax positions, if any, as income tax expense, which is included in general and administrative expense.

In the normal course of business, the Company or one of its subsidiaries is subject to examination by federal, state and local jurisdictions in which it operates, where applicable. As of March 31, 2018, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are generally from the year 2013 forward.

Earnings Per Share or Unit

The Company presents both basic and diluted earnings per share or unit (EPS or EPU). Basic EPS or EPU excludes dilution and is computed by dividing net income available to common shareholders or unitholders by the weighted average number of shares or units outstanding for the period. Diluted EPS or EPU reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, where such exercise or conversion would result in a lower EPS or EPU from

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continuing operations amount. Shares or Units whose issuance is contingent upon the satisfaction of certain conditions shall be considered outstanding and included in the computation of diluted EPS or EPU as follows (i) if all necessary conditions have been satisfied by the end of the period (the events have occurred), those shares or units shall be included as of the beginning of the period in which the conditions were satisfied (or as of the date of the grant, if later) or (ii) if all necessary conditions have not been satisfied by the end of the period, the number of contingently issuable shares or units included in diluted EPS or EPU shall be based on the number of shares or units, if any, that would be issuable if the end of the reporting period were the end of the contingency period (for example, the number of shares or units that would be issuable based on current period earnings or period-end market price) and if the result would be dilutive. Those contingently issuable shares or units shall be included in the denominator of diluted EPS or EPU as of the beginning of the period (or as of the date of the grant, if later).

Dividends and Distributions Payable

The dividends and distributions payable at March 31, 2018 represents dividends payable to common shareholders (90,135,433 shares) and distributions payable to noncontrolling interest unitholders of the Operating Partnership (10,214,140 common units and 1,200,836 LTIP units), for all such holders of record as of April 3, 2018 with respect to the first quarter 2018. The first quarter 2018 common stock dividends and unit distributions of $0.20 per common share, common unit and LTIP unit were approved by the General Partner s Board of Directors on March 14, 2018 and paid on April 13, 2018.

The dividends and distributions payable at December 31, 2017 represents dividends payable to common shareholders (89,914,658 shares) and distributions payable to noncontrolling interest unitholders of the Operating Partnership (10,438,855 common units and 1,230,877 LTIP units) for all such holders of record as of January 3, 2018 with respect to the fourth quarter 2017. The fourth quarter 2017 common stock dividends and unit distributions of $0.20 per common share, common unit and LTIP unit were approved by the General Partner s Board of Directors on December 12, 2017 and paid on January 12, 2018.

Costs Incurred For Stock Issuances

Costs incurred in connection with the Company s stock issuances are reflected as a reduction of additional paid-in capital.

Stock Compensation

The Company accounts for stock compensation in accordance with the provisions of ASC 718, Compensation-Stock Compensation. These provisions require that the estimated fair value of restricted stock (Restricted Stock Awards), performance share units, long-term incentive plan awards and stock options at the grant date be amortized ratably into expense over the appropriate vesting period. The Company recorded stock compensation expense of $2,532,000 and $1,053,000 for the three months ended March 31, 2018 and 2017, respectively.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) includes items that are recorded in equity, such as effective portions of derivatives designated as cash flow hedges or unrealized holding gains or losses on marketable securities available for sale.

Fair Value Hierarchy

The standard Fair Value Measurements specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs). The following summarizes the fair value hierarchy:

- Level 1: Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities;

- Level 2: Quoted prices for identical assets and liabilities in markets that are inactive, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly, such as interest rates and yield curves that are observable at commonly quoted intervals and

- Level 3: Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

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In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined 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.

Impact Of Recently-Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02, modifying the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for in the same manner as operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The guidance is expected to impact the consolidated financial statements as the Company has certain operating and land lease arrangements for which it is the lessee. The guidance supersedes previously issued guidance under ASC Topic 840 Leases. The guidance is effective on January 1, 2019, with early adoption permitted. The Company is currently in the process of evaluating the impact the adoption of ASU 2016-02 will have on the Company s consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13 (ASU 2016-13), Financial Instruments Credit Losses. The guidance introduces a new model for estimating credit losses for certain types of financial instruments, including trade and lease receivables, loans receivable, held-to-maturity debt securities, and net investments in direct financing leases, amongst other financial instruments. ASU 2016-13 also modifies the impairment model for available-for-sale debt securities and expands the disclosure requirements regarding an entity s assumptions, models, and methods for estimating the allowance for losses. ASU 2016-13 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted. The Company is currently in the process of evaluating the impact the adoption of ASU 2016-13 will have on the Company s consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities (ASU 2017-12). The purpose of ASU 2017-12 is to better align a company s financial reporting for hedging activities with the economic objectives of those activities. ASU 2017-12 is effective for annual reporting periods beginning after December 15, 2018, with early adoption permitted. ASU 2017-12 requires a modified retrospective transition method which requires a cumulative effect of the change on the opening balance of each affected component of equity in the Company s consolidated financial statements as of the date of adoption. The Company is currently in the process of evaluating the impact the adoption of ASU 2017-12 will have on the Company s consolidated financial statements.

3. RECENT TRANSACTIONS

Management Changes

On March 15, 2018, the Company announced the appointment of Michael J. DeMarco, Chief Executive Officer of the General Partner, to its Board of Directors effective immediately. Mr. DeMarco s addition to the Board expanded the total number of members from nine to ten.

On January 29, 2018, the Company announced the appointment of David J. Smetana as chief financial officer and Nicholas Hilton as executive vice president of leasing of the General Partner. Mr. Smetana began to perform his duties as chief financial officer and Anthony Krug ceased to serve as chief financial officer immediately following the filing of the Company s Annual Report on Form 10-K for the year ended December 31, 2017. Mr. Krug remained an employee of the Company and provided transition services through March 31, 2018. Mr. Hilton s employment

commenced on February 12, 2018 following the departure of Christopher DeLorenzo. In addition, the Company also restructured certain corporate and property management personnel during the three months ended March 31, 2018. As a result of the executive management changes and other personnel changes, the Company incurred total severance and related expenses in the quarter of $5.05 million, $4.5 million of which was included in general and administrative expense (of which $0.6 million pertained to stock compensation), and $539,000 of which was in operating services for the period.

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Properties Commencing Initial Operations

The following property commenced initial operations during the three months ended March 31, 2018 *(dollars in thousands)*:

In-Service Date	Property	Location	Type	# of Apartment Units		Total Development Costs
03/01/18	145 Front at City Square	Worcester, MA	Multi-Family	365	$	94,753(a)
Totals				365	$	94,753

(a) Development costs as of March 31, 2018 included approximately $4.4 million in land costs. As of March 31, 2018, the Company anticipates additional costs of approximately $3.2 million, which will be primarily funded from a construction loan.

Dispositions/Rental Property Held for Sale

The Company disposed of the following office properties during the three months ended March 31, 2018 *(dollars in thousands)*:

Disposition Date	Property/Address	Location	# of Bldgs.	Rentable Square Feet		Net Sales Proceeds		Net Carrying Value		Realized Gains (losses)/ Unrealized Losses, net
02/15/18	35 Waterview Boulevard (a)	Parsippany, New Jersey	1	172,498	$	25,994	$	25,739	$	255
03/05/18	Hamilton portfolio (b)	Hamilton, New Jersey	6	239,262		17,546		17,501		45
03/07/18	Wall portfolio first closing	Wall, New Jersey	5	179,601		14,053		10,526		3,527
03/22/18	700 Horizon Drive	Hamilton, New Jersey	1	120,000		33,020		16,053		16,967
03/23/18	Wall portfolio second closing	Wall, New Jersey	3	217,822		30,209		12,961		17,248
03/28/18	75 Livingston Avenue	Roseland, New Jersey	1	94,221		7,983		5,609		2,374
03/28/18	20 Waterview Boulevard (c)	Parsippany, New Jersey	1	225,550		12,475		11,795		680
03/30/18	Westchester Financial Center (d)	White Plains, New York	2	489,000		81,769		64,679		17,090
Totals			20	1,737,954	$	223,049	$	164,863	$	58,186

(a) The Company recorded a valuation allowance of $0.7 million on this property during the year ended December 31, 2017.

(b) The Company recorded a valuation allowance of $0.6 million on these properties during the year ended December 31, 2017. The disposition additionally included two land properties.

(c) The Company recorded a valuation allowance of $11 million on this property during the year ended December 31, 2017. Prior to closing, the Company provided short term financing through a note receivable to an affiliate of the buyers of $2.8 million, which is a noncash component of the net sales proceeds. See Note 5: Deferred charges, goodwill and other assets, net.

(d) Prior to closing, the Company provided financing through a note receivable to an affiliate of the buyers of $4.0 million, which is a noncash component of the net sales proceeds.

See Note 5: Deferred Charges, Goodwill and Other Assets, Net.

Rental Property Held for Sale, Net

The Company identified as held for sale two office properties totaling approximately 400,000 square feet as of March 31, 2018. The properties are located in Paramus and Rochelle Park, New Jersey. The total estimated sales proceeds, net of expected selling costs, from the sales are expected to be approximately $41.4 million.

The following table summarizes the rental property held for sale, net, as of March 31, 2018: *(dollars in thousands)*

		March 31, 2018
Land	$	12,428
Buildings and improvements		55,809
Less: Accumulated depreciation		(29,671)
Rental property held for sale, net	$	38,566

Other assets and liabilities related to the rental properties held for sale, as of March 31, 2018, include $2.7 million in Deferred charges, and other assets, $0.4 million in Unbilled rents receivable and $1.6 million in Accounts payable, accrued expenses and other liabilities. Approximately $2.6 million of these assets and $0.9 million of these liabilities are expected to be removed with the completion of the sales.

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4. INVESTMENTS IN UNCONSOLIDATED JOINT VENTURES

As of March 31, 2018, the Company had an aggregate investment of approximately $249.5 million in its equity method joint ventures. The Company formed these ventures with unaffiliated third parties, or acquired interests in them, to develop or manage primarily office and multi-family rental properties, or to acquire land in anticipation of possible development of office and multi-family rental properties. As of March 31, 2018, the unconsolidated joint ventures owned: four office properties aggregating approximately 0.5 million square feet, eight multi-family properties totaling 3,275 apartments, two retail properties aggregating approximately 81,700 square feet, a 350-room hotel, development projects for up to approximately 419 apartments; and interests and/or rights to developable land parcels able to accommodate up to 3,738 apartments. The Company s unconsolidated interests range from 12.5 percent to 85 percent subject to specified priority allocations in certain of the joint ventures.

The amounts reflected in the following tables (except for the Company s share of equity in earnings) are based on the historical financial information of the individual joint ventures. The Company does not record losses of the joint ventures in excess of its investment balances unless the Company is liable for the obligations of the joint venture or is otherwise committed to provide financial support to the joint venture. The outside basis portion of the Company s investments in joint ventures is amortized over the anticipated useful lives of the underlying ventures tangible and intangible assets acquired and liabilities assumed. Unless otherwise noted below, the debt of the Company s unconsolidated joint ventures generally is non-recourse to the Company, except for customary exceptions pertaining to such matters as intentional misuse of funds, environmental conditions, and material misrepresentations.

The Company has agreed to guarantee repayment of a portion of the debt of its unconsolidated joint ventures. As of March 31, 2018, such debt had a total facility amount of $318 million of which the Company agreed to guarantee up to $36 million. As of March 31, 2018, the outstanding balance of such debt totaled $202.7 million of which $24.4 million was guaranteed by the Company. The Company performed management, leasing, development and other services for the properties owned by the unconsolidated joint ventures and recognized $0.6 million and $0.9 million for such services in the three months ended March 31, 2018 and 2017, respectively. The Company had $0.5 million and $0.7 million in accounts receivable due from its unconsolidated joint ventures as of March 31, 2018 and December 31, 2017, respectively.

Included in the Company s investments in unconsolidated joint ventures as of March 31, 2018 are four unconsolidated development joint ventures, which are VIEs for which the Company is not the primary beneficiary. These joint ventures are primarily established to develop real estate property for long-term investment and were deemed VIEs primarily based on the fact that the equity investment at risk was not sufficient to permit the entities to finance their activities without additional financial support. The initial equity contributed to these entities was not sufficient to fully finance the real estate construction as development costs are funded by the partners throughout the construction period. The Company determined that it was not the primary beneficiary of these VIEs based on the fact that the Company has shared control of these entities along with the entity s partners and therefore does not have controlling financial interests in these VIEs. The Company s aggregate investment in these VIEs was approximately $128.6 million as of March 31, 2018. The Company s maximum exposure to loss as a result of its involvement with these VIEs is estimated to be approximately $164.6 million, which includes the Company s current investment and estimated future funding commitments/guarantees of approximately $36.0 million. The Company has not provided financial support to these VIEs that it was not previously contractually required to provide. In general, future costs of development not financed through third parties will be funded with capital contributions from the Company and its outside partners in accordance with their respective ownership percentages.

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The following is a summary of the Company s unconsolidated joint ventures as of March 31, 2018 and December 31, 2017: *(dollars in thousands)*

Entity / Property Name	Number of Apartment Units or Rentable Square Feet (sf)		Company s Effective Ownership% (a)	Carrying Value March 31, 2018	Carrying Value December 31, 2017	Property Debt As of March 31, 2018 Balance	Property Debt As of March 31, 2018 Maturity Date	Interest Rate
Multi-family								
Marbella	412	units	24.27%	$ 14,353	$ 14,544	$ 95,000	05/01/19	L+1.50%
Metropolitan at 40 Park (b) (c)	130	units	12.50%	6,759	6,834	54,962	(d)	(d)
RiverTrace at Port Imperial	316	units	22.50%	8,662	8,864	82,000	11/10/26	3.21%
Crystal House (e)	825	units	25.00%	30,075	30,570	165,000	04/01/20	3.17%
PI North - Riverwalk C	360	units	40.00%	18,018	16,844			
Marbella II	311	units	24.27%	16,199	16,471	74,690	03/30/19	L+2.25% (f)
Riverpark at Harrison	141	units	45.00%	1,504	1,604	30,000	08/01/25	3.70%
Station House	378	units	50.00%	39,603	40,124	99,685	07/01/33	4.82%
Urby at Harborside	762	units	85.00%	92,692	94,429	190,495	08/01/29	5.197% (g)
PI North -Land (h)	836	potential units	20.00%	1,678	1,678			
Liberty Landing	850	potential units	50.00%	337	337			
Hillsborough 206	160,000	sf	50.00%	1,962	1,962			
Office								
Red Bank	92,878	sf	50.00%	4,528	4,602	13,726	05/17/18	L+3.00% (i)
12 Vreeland Road	139,750	sf	50.00%	6,792	6,734	9,101	07/01/23	2.87%
Offices at Crystal Lake	106,345	sf	31.25%	3,395	3,369	4,618	11/01/23	4.76%
Other								
Riverwalk Retail	30,745	sf	20.00%	1,600	1,625			
Hyatt Regency Jersey City	350	rooms	50.00%		440	100,000	10/01/26	3.668%
Other (j)				1,356	1,595			
Totals:				$ 249,513	$ 252,626	$ 919,277		

(a) Company s effective ownership % represents the Company s entitlement to residual distributions after payments of priority returns, where applicable.

(b) The Company s ownership interests in this venture are subordinate to its partner s preferred capital balance and the Company is not expected to meaningfully participate in the venture s cash flows in the near term.

(c) Through the joint venture, the Company also owns a 12.5 percent interest in a 50,973 square feet retail building (Shops at 40 Park) and a 25 percent interest in a to-be-built 59-unit, five story multi-family rental development property (Lofts at 40 Park).

(d) Property debt balance consists of: (i) an amortizable loan, collateralized by the Metropolitan at 40 Park, with a balance of $36,632, bears interest at 3.25 percent, matures in September 2020; (ii) an amortizable loan, collateralized by the Shops at 40 Park, with a balance of $6,140, bears interest at 3.63 percent, matures in August 2018. On February 3, 2017, the venture obtained a construction loan with a maximum borrowing amount of $13,950 for the Lofts at 40 Park with a balance of $12,190, which bears interest at LIBOR plus 250 basis points and matures in February 2020.

(e) Included in this is the Company s unconsolidated 50 percent interest in a vacant land to accommodate the development of approximately 295 additional units of which 252 are currently approved.

(f) The construction loan which had a maximum borrowing amount of $75,000 was amended on 3/30/18 and, subject to certain conditions, provided for four 3-month extension options with a fee of 6.25 basis points for each extension.

(g) The construction/permanent loan has a maximum borrowing amount of $192,000. The Company owns an 85 percent interest with shared control over major decisions such as, approval of budgets, property financings and leasing guidelines. The development project was placed in service in second quarter 2017.

(h) The Company also owns a 20 percent residual interest in undeveloped land parcels: parcels 6, I, and J that can accommodate the development of 836 apartment units.

(i) The venture plans to refinance its mortgage loan at maturity.

(j) The Company owns other interests in various unconsolidated joint ventures, including interests in assets previously owned and interest in ventures whose businesses are related to its core operations. These ventures are not expected to significantly impact the Company s operations in the near term.

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The following is a summary of the Company s equity in earnings (loss) of unconsolidated joint ventures for the three months ended March 31, 2018 and 2017: *(dollars in thousands)*

Entity / Property Name	Three Months Ended March 31, 2018	2017
Multi-family		
Marbella	$ 91	$ 109
Metropolitan at 40 Park	(75)	(85)
RiverTrace at Port Imperial	44	48
Crystal House	(162)	(293)
PI North - Riverwalk C		(131)
Marbella II	22	27
Riverpark at Harrison	(63)	(11)
Station House	(428)	(375)
Urby at Harborside	1,721(b)	(145)
Liberty Landing		(15)
Hillsborough 206	16	(25)
Office		
Red Bank	(74)	106
12 Vreeland Road	59	77
Offices at Crystal Lake	26	6
Other		
Riverwalk Retail	(25)	(11)
Hyatt Regency Jersey City	310	587
Other	110	80
Company s equity in earnings (loss) of unconsolidated joint ventures (a)	$ 1,572	$ (51)

(a) Amounts are net of amortization of basis differences of $289 and $259 for the three months ended March 31, 2018 and 2017, respectively.

(b) Includes $2.6 million of the Company s share of the venture s income from its first annual sale of an economic tax credit certificate from the State of New Jersey to a third party. The venture has an agreement with a third party to sell it the tax credits over the next nine years for $3 million per year for a total of $27 million. The sales are subject to the venture obtaining the tax credits from the State of New Jersey and transferring the credit certificates each year.

5. DEFERRED CHARGES, GOODWILL AND OTHER ASSETS, NET

(dollars in thousands)	March 31, 2018	December 31, 2017
Deferred leasing costs	$ 149,948	$ 199,515
Deferred financing costs - unsecured revolving credit facility (a)	4,945	4,945
	154,893	204,460
Accumulated amortization	(60,815)	(98,956)
Deferred charges, net	94,078	105,504
Notes receivable (b)	54,291	50,167
In-place lease values, related intangibles and other assets, net	97,787	102,757
Goodwill (c)	2,945	2,945
Prepaid expenses and other assets, net (d)	57,456	80,947
Total deferred charges, goodwill and other assets, net	$ 306,557	$ 342,320

(a) Deferred financing costs related to all other debt liabilities (other than for the unsecured revolving credit facility) are netted against those debt liabilities for all periods presented. See Note 2: Significant Accounting Policies Deferred Financing Costs.

(b) Includes as of March 31, 2018: a mortgage receivable with a balance of $43.4 million (acquired in August 2017) which bears interest at 5.85 percent and matures in July 2019 with a three-month extension option; a note receivable for $4.0 million (provided to an affiliate of the buyers in connection with a property sale in March 2018) which bears interest at 3.0 percent and matures in April 2028; a note receivable for $2.8 million (provided to an affiliate of the buyers in connection with a property sale in March 2018) which bears interest at 6.0 percent and matures in May 2018, of which a part prepayment of $0.6 million was received in April 2018; and an interest-free note receivable with a net present value of $2.5 million which matures in April 2023. The Company believes these balances are fully collectible.

(c) All goodwill is attributable to the Company s Multi-family Real Estate and Services segment.

(d) The balance as of March 31, 2018 reflects the receipt by the Company of $26.9 million of proceeds from 2017 property sales held by a qualified intermediary as of December 31, 2017.

DERIVATIVE FINANCIAL INSTRUMENTS

Cash Flow Hedges of Interest Rate Risk

The Company s objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. As of March 31, 2018, the Company had outstanding interest rate swaps with a combined notional value of $675 million that

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were designated as cash flow hedges of interest rate risk. During the three months ending March 31, 2018, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the three months ended March 31, 2018 and 2017, respectively, the company recorded ineffectiveness loss of $74,000 and $43,000, respectively, which is included in interest and other investment income (loss) in the consolidated statements of operations, attributable to a floor mismatch in the underlying indices of the derivatives and the hedged interest payments made on its variable-rate debt. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company s variable-rate debt. During the next 12 months, the Company estimates that an additional $4.0 million will be reclassified as a decrease to interest expense.

The table below presents the fair value of the Company s derivative financial instruments as well as their classification on the Balance Sheet as of March 31, 2018 and December 31, 2017. *(dollars in thousands)*

Asset Derivatives designated as hedging instruments	Fair Value March 31, 2018	Fair Value December 31, 2017	Balance sheet location
Interest rate swaps	$ 13,132	$ 8,060	Deferred charges, goodwill and other assets

The table below presents the effect of the Company s derivative financial instruments on the Statement of Operations for the three months ending March 31, 2018 and 2017. *(dollars in thousands)*

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) 2018	2017	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) 2018	2017	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion, Reclassification for Forecasted Transactions No Longer Probable of Occurring and Amount Excluded from Effectiveness Testing) 2018	2017
Three months ended March 31,								
Interest rate swaps	$ 5,226	$ 635	Interest expense	$ 80	$ (592)	Interest and other investment income (loss)	$ (74)	$ (43)

Credit-risk-related Contingent Features

The Company has agreements with each of its derivative counterparties that contain a provision where the Company could be declared in default on its derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the Company s default on the indebtedness. As of March 31, 2018, the Company did not have derivatives in a net liability position including accrued interest but excluding

any adjustment for nonperformance risk related to these agreements. As of March 31, 2018, the Company has not posted any collateral related to these agreements.

6. RESTRICTED CASH

Restricted cash generally includes tenant and resident security deposits for certain of the Company s properties, and escrow and reserve funds for debt service, real estate taxes, property insurance, capital improvements, tenant improvements, and leasing costs established pursuant to certain mortgage financing arrangements, and is comprised of the following: *(dollars in thousands)*

	March 31, 2018	December 31, 2017
Security deposits	$ 8,971	$ 9,446
Escrow and other reserve funds	25,859	30,346
Total restricted cash	$ 34,830	$ 39,792

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7. SENIOR UNSECURED NOTES

A summary of the Company s senior unsecured notes as of March 31, 2018 and December 31, 2017 is as follows: *(dollars in thousands)*

	March 31, 2018	December 31, 2017	Effective Rate (1)
4.500% Senior Unsecured Notes, due April 18, 2022	$ 300,000	$ 300,000	4.612%
3.150% Senior Unsecured Notes, due May 15, 2023	275,000	275,000	3.517%
Principal balance outstanding	575,000	575,000	
Adjustment for unamortized debt discount	(3,338)	(3,505)	
Unamortized deferred financing costs	(2,224)	(2,350)	
Total senior unsecured notes, net	$ 569,438	$ 569,145	

(1) Includes the cost of terminated treasury lock agreements (if any), offering and other transaction costs and the discount/premium on the notes, as applicable.

The terms of the Company s senior unsecured notes include certain restrictions and covenants which require compliance with financial ratios relating to the maximum amount of debt leverage, the maximum amount of secured indebtedness, the minimum amount of debt service coverage and the maximum amount of unsecured debt as a percent of unsecured assets. The Company was in compliance with its debt covenants under the indenture relating to its senior unsecured notes as of March 31, 2018.

8. UNSECURED REVOLVING CREDIT FACILITY AND TERM LOANS

On January 25, 2017, the Company entered into an amended revolving credit facility and new term loan agreement (2017 Credit Agreement) with a group of 13 lenders. Pursuant to the 2017 Credit Agreement, the Company refinanced its existing $600 million unsecured revolving credit facility (2017 Credit Facility) and entered into a new $325 million unsecured, delayed-draw term loan facility (2017 Term Loan).

The terms of the 2017 Credit Facility include: (1) a four-year term ending in January 2021, with two six-month extension options; (2) revolving credit loans may be made to the Company in an aggregate principal amount of up to $600 million (subject to increase as discussed below), with a sublimit under the 2017 Credit Facility for the issuance of letters of credit in an amount not to exceed $60 million (subject to increase as discussed below); (3) an interest rate based on the Operating Partnership s unsecured debt ratings from Moody s or S&P, currently the London Inter-Bank Offered Rate (LIBOR) plus 120 basis points, or, at the Operating Partnership s option, if it no longer maintains a debt rating from Moody s or S&P or such debt ratings fall below Baa3 and BBB-, based on a defined leverage ratio; and (4) a facility fee payable quarterly based on the Operating Partnership s unsecured debt ratings from Moody s or S&P, currently 25 basis points, or, at the Operating Partnership s option, if it no longer maintains a debt rating from Moody s or S&P or such debt ratings fall below Baa3 and BBB-, based on a defined leverage ratio.

The interest rates on outstanding borrowings, alternate base rate loans and the facility fee on the current borrowing capacity payable quarterly in arrears on the 2017 Credit Facility are based upon the Operating Partnership s unsecured debt ratings, as follows:

Operating Partnership s Unsecured Debt Ratings: Higher of S&P or Moody s	Interest Rate - Applicable Basis Points Above LIBOR	Interest Rate - Applicable Basis Points Above LIBOR for Alternate Base Rate Loans	Facility Fee Basis Points
No ratings or less than BBB-/Baa3	155.0	55.0	30.0
BBB- or Baa3 (interest rate based on Company s election through March 5, 2018)	120.0	20.0	25.0
BBB or Baa2	100.0	0.0	20.0
BBB+ or Baa1	90.0	0.0	15.0
A- or A3 or higher	87.5	0.0	12.5

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On March 6, 2018, the Company elected to use the defined leverage ratio and the interest rate under the 2017 Credit Facility is based on the following total leverage ratio grid:

Total Leverage Ratio	**Interest Rate - Applicable Basis Points Above LIBOR**	**Interest Rate - Applicable Basis Points Above LIBOR for Alternate Base Rate Loans**	**Facility Fee Basis Points**
<45%	125.0	25.0	20.0
≥45% and <50% (current ratio)	130.0	30.0	