Seritage Growth Properties
Form 10-Q
November 03, 2017
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2017
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______to _______

Commission File Number 001-37420

SERITAGE GROWTH PROPERTIES

(Exact name of registrant as specified in its charter)

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

489 Fifth Avenue, 18th Floor, New York, New York	10017
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of October 27, 2017, the registrant had the following common shares outstanding:

Class	Shares Outstanding
Class A common shares of beneficial interest, par value $0.01 per share	28,672,642
Class B common shares of beneficial interest, par value $0.01 per share	1,434,922
Class C common shares of beneficial interest, par value $0.01 per share	5,280,630

SERITAGE GROWTH PROPERTIES

QUARTERLY REPORT ON FORM 10-Q

QUARTER ENDED SEPTEMBER 30, 2017

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PART I. FINANCIAL INFORMATION
Item 1. Unaudited Condensed Consolidated Financial Statements
SERITAGE GROWTH PROPERTIES

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	September 30, 2017	December 31, 2016
ASSETS		
Investment in real estate		
Land	$799,971	$840,021
Buildings and improvements	859,782	839,663
Accumulated depreciation	(126,712)	(89,940)
	1,533,041	1,589,744
Construction in progress	175,516	55,208
Net investment in real estate	1,708,557	1,644,952
Investment in unconsolidated joint ventures	338,326	425,020
Cash and cash equivalents	104,153	52,026
Restricted cash	202,513	87,616
Tenant and other receivables, net	28,166	23,172
Lease intangible assets, net	327,229	464,399
Prepaid expenses, deferred expenses and other assets, net	20,284	15,052
Total assets	$2,729,228	$2,712,237
LIABILITIES AND EQUITY		
Liabilities		
Mortgage loans payable, net	$1,200,615	$1,166,871
Unsecured term loan, net	84,009	—
Accounts payable, accrued expenses and other liabilities	111,482	121,055
Total liabilities	1,396,106	1,287,926
Commitments and contingencies (Note 9)		
Shareholders' Equity		
Class A shares $0.01 par value; 100,000,000 shares authorized; 28,001,411 and 25,843,251 shares issued and outstanding as of September 30, 2017 and December 31, 2016, respectively	280	258
Class B shares $0.01 par value; 5,000,000 shares authorized; 1,434,922 and 1,589,020 shares issued and outstanding as of September 30, 2017 and December 31, 2016, respectively	14	16
Class C shares $0.01 par value; 50,000,000 shares authorized; 5,951,861 and 5,754,685 shares issued and outstanding as of	59	58

September 30, 2017 and December 31, 2016, respectively		
Additional paid-in capital	996,047	925,563
Accumulated deficit	(177,394)	(121,338)
Total shareholders' equity	819,006	804,557
Non-controlling interests	514,116	619,754
Total equity	1,333,122	1,424,311
Total liabilities and equity	$2,729,228	$2,712,237

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

SERITAGE GROWTH PROPERTIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
REVENUE				
Rental income	$48,167	$45,584	$139,526	$136,737
Tenant reimbursements	15,881	12,023	47,813	45,741
Total revenue	64,048	57,607	187,339	182,478
EXPENSES				
Property operating	4,311	4,505	13,985	17,176
Real estate taxes	11,335	7,965	35,707	31,101
Depreciation and amortization	61,059	44,532	170,293	121,365
General and administrative	5,272	4,252	16,639	13,104
Litigation charge	—	19,000	—	19,000
Provision for doubtful accounts	68	124	119	269
Acquisition-related expenses	—	—	—	73
Total expenses	82,045	80,378	236,743	202,088
Operating loss	(17,997)	(22,771)	(49,404)	(19,610)
Equity in (loss) income of unconsolidated joint ventures	(3,686)	1,497	(4,226)	4,495
Gain on sale of interest in unconsolidated joint venture	43,729	—	43,729	—
Gain on sale of real estate	13,018	—	13,018	—
Interest and other income	352	77	472	196
Interest expense	(18,049)	(15,931)	(53,072)	(47,297)
Unrealized loss on interest rate cap	(91)	(47)	(686)	(1,898)
Income (loss) before income taxes	17,276	(37,175)	(50,169)	(64,114)
Provision for income taxes	—	(72)	(266)	(412)
Net income (loss)	17,276	(37,247)	(50,435)	(64,526)
Net (income) loss attributable to non-controlling interests	(6,762)	16,145	19,892	27,972
Net income (loss) attributable to common shareholders	$10,514	$(21,102)	$(30,543)	$(36,554)
Net income (loss) per share attributable to Class A and Class C common shareholders - Basic	$0.31	$(0.67)	$(0.91)	$(1.16)
Net income (loss) per share attributable to Class A and Class C common shareholders - Diluted	$0.31	$(0.67)	$(0.91)	$(1.16)
Weighted average Class A and Class C common shares	33,774	31,419	33,685	31,414

outstanding - Basic				
Weighted average Class A and Class C common shares				
outstanding - Diluted	33,841	31,419	33,685	31,414

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

SERITAGE GROWTH PROPERTIES

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited, amounts in thousands)

	Class A Shares	Amount	Class B Shares	Amount	Class C Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Non-Controlling Interests	Total Equity
Balance at January 1, 2016	24,818	$ 248	1,589	$ 16	6,773	$ 68	$ 924,508	$ (38,145)	$ 683,382	$ 1,570,077
Net loss	—	—	—	—	—	—	—	(36,554)	(27,972)	(64,526)
Dividends and distributions declared ($0.75 per share and unit)	—	—	—	—	—	—	—	(23,726)	(18,133)	(41,859)
Vesting of restricted share units	7	0	—	—	—	—	(13)	—	—	(13)
Stock-based compensation	—	—	—	—	—	—	801	—	—	801
Share class exchanges, net (997,450 common shares)	997	10	—	—	(997)	(10)	—	—	—	—
Balance at September 30, 2016	25,822	$ 258	1,589	$ 16	5,776	$ 58	$ 925,296	$ (98,425)	$ 637,277	$ 1,464,480
Balance at January 1, 2017	25,843	258	1,589	16	5,755	58	925,563	(121,338)	619,754	1,424,311
Net loss	—	—	—	—	—	—	—	(30,543)	(19,892)	$ (50,435)
Dividends and distributions declared ($0.75 per share and unit)	—	—	—	—	—	—	—	(25,513)	(16,394)	(41,907)
Vesting of restricted share	11	0	—	—	—	—	(13)	—	—	(13)

units										
Stock-based compensation	—	—	—	—	—	—	1,166	—	—	1,166
Share class exchanges, net (197,176 common shares)	(197)	(1)	—	—	197	1	—	—	—	—
Share class surrenders (154,098 common shares)	—	—	(154)	(2)	—	—	2	—	—	—
OP Unit exchanges (2,344,589 units)	2,344	23	—	—	—	—	69,329	—	(69,352)	—
Balance at September 30, 2017	28,001	$ 280	1,435	$ 14	5,952	$ 59	$ 996,047	$ (177,394)	$ 514,116	$ 1,333,122

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

SERITAGE GROWTH PROPERTIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, amounts in thousands)

	Nine Months Ended September 30,	
	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES		
Net loss	$(50,435)	$(64,526)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Equity in loss (income) of unconsolidated joint ventures	4,226	(4,495)
Distributions from unconsolidated joint ventures	10,714	11,872
Gain on sale of interest in unconsolidated joint venture	(43,729)	—
Gain on sale of real estate	(13,018)	—
Unrealized loss on interest rate cap	686	1,898
Stock-based compensation	1,167	801
Depreciation and amortization	170,293	121,365
Amortization of deferred financing costs	6,390	4,021
Amortization of above and below market leases, net	(581)	(520)
Straight-line rent adjustment	(2,364)	(11,242)
Change in operating assets and liabilities		
Tenants and other receivables	(3,444)	8,425
Prepaid expenses, deferred expenses and other assets	(7,300)	8,496
Accounts payable, accrued expenses and other liabilities	(15,657)	24,043
Net cash provided by operating activities	56,948	100,138
CASH FLOW FROM INVESTING ACTIVITIES		
Investments in unconsolidated joint ventures	(36,038)	—
Net proceeds from sale of real estate	50,887	—
Net proceeds from disposition of interest in unconsolidated joint venture	189,391	—
Development of real estate	(164,070)	(47,236)
Net cash provided by (used in) investing activities	40,170	(47,236)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Future Funding Facility	79,998	19,239
Proceeds from Unsecured Term Loan	85,000	—
Repayment of mortgage loans payable, net	(50,634)	—
Payment of deferred financing costs	(2,686)	(6)
Common dividends paid	(25,379)	(31,482)
Non-controlling interests distributions paid	(16,393)	(24,176)
Net cash provided by (used in) financing activities	69,906	(36,425)
Net increase in cash, cash equivalents, and restricted cash	167,024	16,477
Cash, cash equivalents, and restricted cash, beginning of period	139,642	155,342
Cash, cash equivalents, and restricted cash, end of period	$306,666	$171,819

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	$54,026	$45,495
Capitalized interest	7,785	2,198
Income taxes paid	266	412

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Development of real estate financed with accounts payable	$17,223	$3,442
Dividends and distribution declared and unpaid	13,969	13,954
Decrease in assets and liabilities resulting from deconsolidated properties		
Real estate, net	(64,998)	—
Tenant and other receivables, net	(814)	—
Lease intangible assets, net	(13,480)	—
Prepaid expenses, deferred expenses and other assets, net	(8)	—
Accounts payable, accrued expenses and other liabilities	3,612	—

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

SERITAGE GROWTH PROPERTIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 – Organization

Seritage Growth Properties ("Seritage") was organized in Maryland on June 3, 2015 and was initially capitalized with 100 shares of Class A common shares. The Company conducts its operations through Seritage Growth Properties, L.P. (the "Operating Partnership"), a Delaware limited partnership that was formed on April 22, 2015. Unless the context otherwise requires, "Seritage" and the "Company" refer to Seritage, the Operating Partnership, and its subsidiaries.

On June 11, 2015, Sears Holdings Corporation ("Sears Holdings") effected a rights offering (the "Rights Offering") to Sears Holdings stockholders to purchase common shares of Seritage in order to fund, in part, the $2.7 billion acquisition of 234 of Sears Holdings' owned properties and one of its ground leased properties (the "Wholly Owned Properties"), and its 50% interests in three joint ventures (such joint ventures, the "JVs," and such 50% joint venture interests, the "JV Interests") that collectively owned 28 properties, ground leased one property and leased two properties (collectively, the "JV Properties") (collectively, the "Transaction"). The Rights Offering ended on July 2, 2015, and the Company's Class A common shares were listed on the New York Stock Exchange ("NYSE") on July 6, 2015.

On July 7, 2015, the Company completed the Transaction with Sears Holdings and commenced operations. The Company did not have any operations prior to the completion of the Rights Offering and the Transaction.

On July 12, 2017, the Company completed two transactions whereby it (i) sold its 50% JV Interests in eight JV Properties and (ii) sold a 50% interest in five Wholly-Owned Properties retaining a 50% JV Interest in the five new JV Properties.

Seritage is a fully-integrated, self-administered, self-managed real estate investment trust ("REIT") primarily engaged in the real property business through the Company's investment in the Operating Partnership. As of September 30, 2017, the Company's portfolio consisted of interests in 258 properties, including 230 Wholly Owned Properties and 28 JV Properties. 171 of the Wholly Owned Properties were leased to Sears Holdings pursuant to a master lease agreement (the "Master Lease") and operated under either the Sears or Kmart brand. At 85 Wholly Owned Properties, third-party tenants under direct leases occupied a portion of leasable space alongside Sears or Kmart, and 41 Wholly Owned Properties were leased only to third parties. A substantial majority of the space at the JV Properties is also leased (or subleased) by the JVs to Sears Holdings under master lease agreements (collectively, the "JV Master Leases"). The Master Lease and the JV Master Leases provide the Company and the JVs with the right to recapture certain space from Sears Holdings at each property for retenanting or redevelopment purposes.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

These condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission ("SEC") and should be read in conjunction with the consolidated

financial statements and notes thereto included in our Annual Report on Form 10-K, as amended, (the "Annual Report"), for the year ended December 31, 2016. Certain footnote disclosures which would substantially duplicate those contained in our Annual Report have been condensed or omitted from this quarterly report. In the opinion of management, all adjustments necessary for a fair presentation (which include only normal recurring adjustments) have been included in this quarterly report. Operating results of three and nine months ended September 30, 2017 may not be indicative of the results that may be expected for any other interim period or for the year ending December 31, 2017. Capitalized terms used, but not defined in this quarterly report, have the same meanings as set forth in our Annual Report.

The accompanying condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The condensed consolidated financial statements include the accounts of the Company, the Operating Partnership, each of their wholly-owned subsidiaries, and all other entities in which they have a controlling financial interest or entities that meet the definition of a variable interest entity ("VIE") in which the Company has, as a result of ownership, contractual interests or other financial interests, both the power to direct activities that most significantly impact the economic performance of the VIE and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. All intercompany accounts and transactions have been eliminated.

If the Company has an interest in a VIE but it is not determined to be the primary beneficiary, the Company accounts for its interest under the equity method of accounting. Similarly, for those entities which are not VIEs and over which the Company has the ability to exercise significant influence, but does not have a controlling financial interest, the Company accounts for its interests under the equity method of accounting. The Company continually reconsiders its determination of whether an entity is a VIE and whether the Company qualifies as its primary beneficiary.

To the extent such variable interests are in entities that cannot be evaluated under the VIE model, the Company evaluates its interests using the voting interest entity model. The Company holds a 60.9% interest in the Operating Partnership and is the sole general partner which gives the Company exclusive and complete responsibility for the day-to-day management, authority to make decisions, and control of the Operating Partnership. Through consideration of new consolidation guidance effective for the Company as of January 1, 2016, it has been concluded that the Operating Partnership is a VIE as the limited partners in the Operating Partnership, although entitled to vote on certain matters, do not possess kick-out rights or substantive participating rights. Accordingly, the Company consolidates its interest in the Operating Partnership. However, as the Company holds what is deemed a majority voting interest in the Operating Partnership, it qualifies for the exemption from providing certain of the disclosure requirements associated with investments in VIEs.

The portions of consolidated entities not owned by the Company and the Operating Partnership are presented as non-controlling interests as of and during the periods presented.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The most significant assumptions and estimates relate to fair values of acquired assets and liabilities assumed for purposes of applying the acquisition method of accounting, the useful lives of tangible and intangible assets, real estate impairment assessments, and assessing the recoverability of accounts receivables. These estimates are based on historical experience and other assumptions which management believes are reasonable under the circumstances. Management evaluates its estimates on an ongoing basis and makes revisions to these estimates and related disclosures as experience develops or new information becomes known. Actual results could differ from these estimates.

Segment Reporting

The Company currently operates in a single reportable segment which includes the acquisition, ownership, development, redevelopment, management, and leasing of retail properties. The Company’s chief operating decision maker, its Chief Executive Officer, assesses and measures the operating and financial results for each property on an individual basis and does not distinguish or group properties based on geography, size, or type. The Company, therefore, aggregates all properties into one reportable segment due to their similarities with regard to the nature and economics of the properties, tenants, and operations.

Accounting for Real Estate Acquisitions

Upon the acquisition of real estate, the Company assesses the fair value of acquired assets and liabilities assumed, including land, buildings, improvements and identified intangibles such as above-market and below-market leases, in-place leases and other items, as applicable, and allocates the purchase price based on these assessments. In making estimates of fair values, the Company may use a number of sources, including data provided by third parties, as well as information obtained by the Company as a result of its due diligence, including expected future cash flows of the property and various characteristics of the markets where the property is located.

The fair values of tangible assets are determined on an "if vacant" basis. The "if vacant" fair value allocated to land is generally estimated via a market or sales comparison approach with the subject site being compared to similar properties that have sold or are currently listed for sale. The comparable properties are adjusted for dissimilar characteristics such as market conditions, location, access/frontage, size, shape/topography, or intended use, including the impact of any encumbrances on such use. The "if vacant" value allocated to buildings and site improvements is generally estimated using an income approach and a cost approach that utilizes published guidelines for current replacement cost or actual construction costs for similar, recently developed properties. Assumptions used in the income approach include capitalization and discount rates, lease-up time, market rents, make-ready costs, land value, and site improvement value.

The estimated fair value of in-place tenant leases includes lease origination costs (the costs the Company would have incurred to lease the property to the current occupancy level) and the lost revenues during the period necessary to lease-up from vacant to the current occupancy level. Such estimates include the fair value of leasing commissions, legal costs and tenant coordination costs that would be incurred to lease the property to this occupancy level. Additionally, the Company evaluates the time period over which such occupancy level would be achieved and includes an estimate of the net operating costs (primarily real estate taxes, insurance and utilities) incurred during the lease-up period, which generally ranges up to one year. The fair value of acquired in-place tenant leases is included in lease intangible assets on the condensed consolidated balance sheets and amortized over the remaining lease term for each tenant.

Identifiable intangible assets and liabilities are calculated for above-market and below-market tenant and ground leases where the Company is either the lessor or the lessee. The difference between the contractual rental rates and the Company's estimate of market rental rates is measured over a period equal to the remaining non-cancelable term of the leases, including significantly below-market renewal options for which exercise of the renewal option appears to be reasonably assured. Above-market tenant leases and below-market ground leases are included in lease intangible assets on the condensed consolidated balance sheets; below-market tenant leases and above-market ground leases are included in accounts payable, accrued expenses and other liabilities on the condensed consolidated balance sheets. The values assigned to above-market and below-market tenant leases are amortized as reductions and increases, respectively, to base rental revenue over the remaining term of the respective leases. The values assigned to below-market and above-market ground leases are amortized as increases and reductions, respectively, to property operating expenses over the remaining term of the respective leases.

The Company expenses transaction costs associated with business combinations in the period incurred; these costs are included in acquisition-related expenses within the condensed consolidated statements of operations. The Company capitalizes transaction costs associated with asset acquisitions; these costs are allocated to the fair values of the net assets acquired, included within the condensed consolidated balance sheets and depreciated or amortized over the remaining life or term of the acquired assets.

Real Estate Investments

Real estate assets are recorded at cost, less accumulated depreciation and amortization.

Expenditures for ordinary repairs and maintenance will be expensed as incurred. Significant renovations which improve the property or extend the useful life of the assets are capitalized. As real estate is undergoing redevelopment activities, all amounts directly associated with and attributable to the project, including planning, development and construction costs, interest costs, personnel costs of employees directly involved and other miscellaneous costs incurred during the period of redevelopment, are capitalized. The capitalization period begins when redevelopment activities are underway and ends when the project is substantially complete.

Depreciation of real estate assets, excluding land, is recognized on a straight-line basis over their estimated useful lives as follows:

Building:	25 – 40 years
Site improvements:	5 – 15 years
Tenant improvements:	shorter of the estimated useful life or non-cancelable term of lease

The Company amortizes identified intangibles that have finite lives over the period they are expected to contribute directly or indirectly to the future cash flows of the property or business acquired, generally the remaining

non-cancelable term of a related lease.

On a periodic basis, management assesses whether there are indicators that the value of the Company’s real estate assets (including any related intangible assets or liabilities) may be impaired. If an indicator is identified, a real estate asset is considered impaired only if management’s estimate of current and projected operating cash flows (undiscounted and unleveraged), taking into account the anticipated and probability weighted holding period, are less than a real estate asset’s carrying value. Various factors are considered in the estimation process, including expected future operating income, trends and prospects and the effects of demand, competition, and other economic factors. If management determines that the carrying value of a real estate asset is impaired, a loss will be recorded for the excess of its carrying amount over its estimated fair value. No such impairment losses were recognized for the three or nine months ended September 30, 2017 or September 30, 2016.

Investments in Unconsolidated Joint Ventures

The Company accounts for its investments in unconsolidated joint ventures using the equity method of accounting as the Company exercises significant influence, but does not control these entities. These investments are initially recorded at cost and are subsequently adjusted for cash contributions, cash distributions, and earnings which are recognized in accordance with the terms of the applicable agreement.

On a periodic basis, management assesses whether there are indicators, including the operating performance of the underlying real estate and general market conditions, that the value of the Company's investments in unconsolidated joint ventures may be impaired. An investment's value is impaired only if management's estimate of the fair value of the Company's investment is less than its carrying value and such difference is deemed to be other-than-temporary. To the extent impairment has occurred, the loss is measured as the excess of the carrying amount of the investment over its estimated fair value. No such impairment losses were recognized for the three or nine months ended September 30, 2017 or September 30, 2016.

Cash and Cash Equivalents

The Company considers instruments with an original maturity of three months or less to be cash and cash equivalents. Cash and cash equivalents balances may, at a limited number of banks and financial institutions, exceed insurable amounts. The Company believes it mitigates this risk by investing in or through major financial institutions and primarily in funds that are insured by the United States federal government.

Restricted Cash

Restricted cash represents cash deposited in escrow accounts which generally can only be used for the payment of real estate taxes, debt service, insurance, and future capital expenditures as required by certain loan and lease agreements, as well as legally restricted tenant security deposits. As of September 30, 2017, the Company had approximately $202.5 million of restricted cash, including $174.4 million reserved for redevelopment costs, tenant allowances and leasing commissions, deferred maintenance, environmental remediation and other capital expenditures, $22.1 million reserved for basic property carrying costs such as real estate taxes, insurance and ground rent, and $6.0 million of other restricted cash which consisted primarily of prepaid rental income.

Tenant and Other Receivables

Accounts receivable includes unpaid amounts billed to tenants, accrued revenues for future billings to tenants for property expenses, and amounts arising from the straight-lining of rent. The Company periodically reviews its receivables for collectability, taking into consideration changes in factors such as the tenant's payment history, the financial condition of the tenant, business conditions in the industry in which the tenant operates, and economic conditions in the area where the property is located. In the event that the collectability of a receivable with respect to any tenant is in doubt, a provision for uncollectible amounts will be established or a direct write-off of the specific rent receivable will be made. For accrued rental revenues related to the straight-line method of reporting rental revenue, the Company performs a periodic review of receivable balances to assess the risk of uncollectible amounts and establish appropriate provisions.

Revenue Recognition

Rental income is recognized on a straight-line basis over the non-cancelable terms of the related leases. For leases that have fixed and measurable rent escalations, the difference between such rental income earned and the cash rent due under the provisions of the lease is recorded as deferred rent receivable and included as a component of tenant and other receivables on the condensed consolidated balance sheets.

In leasing tenant space, the Company may provide funding to the lessee through a tenant allowance. In accounting for a tenant allowance, the Company will determine whether the allowance represents funding for the construction of leasehold improvements and evaluate the ownership of such improvements. If the Company is considered the owner of the improvements for accounting purposes, the Company will capitalize the amount of the tenant allowance and depreciate it over the shorter of the useful life of the improvements or the related lease term. If the tenant allowance represents a payment for a purpose other than funding leasehold improvements, or in the event the Company is not considered the owner of the improvements for accounting purposes, the allowance is considered to be a lease incentive

and is recognized over the lease term as reduction of rental revenue on a straight-line basis.

The Company commences recognizing revenue based on an evaluation of a number of factors. In most cases, revenue recognition under a lease begins when the lessee takes possession of or controls the physical use of the leased asset. Generally, this occurs on the lease commencement date.

Tenant reimbursement income arises from tenant leases which provide for the recovery of all or a portion of the operating expenses and real estate taxes of the respective property. This revenue is accrued in the same periods as the expenses are incurred.

Accounting for Recapture and Termination Activity Pursuant to the Master Lease

Seritage 100% Recapture Rights. The Company generally treats the delivery of a 100% recapture notice as a modification of the Master Lease as of the date of notice. Such a notice and lease modification result in the following accounting adjustments for the recaptured property:

- Accrued rental revenues related to the straight-line method of reporting rental revenue that are deemed uncollectable as result of the lease modification are amortized over the remaining shortened life of the lease from the date of notice to the date of vacancy.
- Intangible lease assets and liabilities that are deemed to be impacted by the lease modification are amortized over the shorter of the shortened lease term from the date of notice to the date of vacancy or the remaining useful life of the asset or liability.

A 100% recapture will generally occur in conjunction with obtaining a new tenant or a real estate development project. As such, termination fees, if any, associated with the 100% recapture notice are generally capitalized as either an initial direct cost of obtaining a new lease or a necessary cost of the real estate project and depreciated over the life of the new lease obtained or the real estate asset being constructed or improved.

Seritage 50% Recapture Rights. The Company generally treats the delivery of a 50% recapture notice as a modification of the Master Lease as of the date of notice. Such a notice and lease modification result in the following accounting adjustments for the recaptured property:

- The portion of accrued rental revenues related to the straight-line method of reporting rental revenue that are subject to the lease modification are amortized over the remaining shortened life of the lease from the date of notice to the date of vacancy. The portion of accrued rental revenues related to the straight-line method of reporting rental revenue that is attributable to the retained space is amortized over the remaining life of the Master Lease.
- The portion of intangible lease assets and liabilities that is deemed to be impacted by the lease modification is amortized over the shorter of the shortened lease term from the date of notice to the date of vacancy or the remaining useful life of the asset or liability. The portion of intangible lease assets and liabilities that is attributable to the retained space is amortized over the remaining useful life of the asset or liability.

Sears Holdings Termination Rights. The Master Lease provides Sears Holdings with certain rights to terminate the Master Lease with respect to properties that cease to be profitable for operation by Sears Holdings. Such a termination would generally result in the following accounting adjustments for the terminated property:

- Accrued rental revenues related to the straight-line method of reporting rental revenue that are subject to the termination are amortized over the remaining shortened life of the lease from the date of notice to the date of vacancy.
- Intangible lease assets and liabilities that are deemed to be impacted by the termination are amortized over the shorter of the shortened lease term from the date of notice to the date of vacancy or the remaining useful life of the asset or liability.
- Termination fees required to be paid by Sears Holdings are recognized as follows:
  - For the portion of the termination fee attributable to the annual base rent of the subject property, termination income is recognized on a straight-line basis over the shortened life of the lease from the date the termination fee becomes legally binding to the date of vacancy.
  - For the portion of the termination fee attributable to estimated real estate taxes and property operating expenses for the subject property, prepaid rental income is recorded in the period such fee is received and recognized as tenant reimbursement revenue in the same periods as the expenses are incurred.

Derivatives

The Company’s use of derivative instruments is limited to the management of interest rate exposure and not for speculative purposes. In connection with the issuance of the Company’s Mortgage Loans and Future Funding Facility, the Company purchased for $5.0 million an interest rate cap with a term of four years, a notional amount of $1,261

million and a strike rate of 3.5%. The interest rate cap is measured at fair value and included as a component of prepaid expenses, deferred expenses and other assets on the condensed consolidated balance sheets. The Company has elected not to utilize hedge accounting, and therefore, the change in fair value is included within change in fair value of interest rate cap on the condensed consolidated statements of operations. For the three months ended September 30, 2017, the Company recorded a loss of $0.1 million compared to a loss of less than $0.1 million for the three months ended September 30, 2016. For the nine months ended September 30, 2017, the Company recorded a loss of $0.7 million compared to a loss of $1.9 million for the nine months ended September 30, 2016.

Stock-Based Compensation

The Company generally recognizes equity awards to employees as compensation expense and includes such expense within general and administrative expenses on the condensed consolidated statements of operations. Compensation expense for equity awards is generally based on the fair value of the common shares at the date of the grant and is recognized (i) ratably over the vesting period for awards with time-based vesting and (ii) for awards with performance-based vesting, at the date the achievement of performance criteria is deemed probable, an amount equal to that which would have been recognized ratably from the date of the grant through the date the achievement of performance criteria is deemed probable, and then ratably from the date the achievement of performance criteria is deemed probable through the remainder of the vesting period.

Concentration of Credit Risk

Concentrations of credit risk arise when a number of operators, tenants, or obligors related to the Company's investments are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations, including those to the Company, to be similarly affected by changes in economic conditions. As of September 30, 2017, a majority of the Company's real estate properties were leased to Sears Holdings, and the majority of Company’s rental revenues were derived from the Master Lease (see Note 5). Until the Company further diversifies the tenancy of its portfolio, an event that has a material adverse effect on Sears Holdings’ business, financial condition or results of operations could have a material adverse effect on the Company’s business, financial condition or results of operations. Sears Holdings is a publicly traded company that is subject to the informational filing requirements of the Securities Exchange Act of 1934, as amended, and is required to file periodic reports on Form 10-K and Form 10-Q with the SEC. Refer to www.sec.gov for Sears Holdings publicly-available financial information.

Other than the Company's tenant concentration, management believes the Company's portfolio was reasonably diversified by geographical location and did not contain any other significant concentrations of credit risk. As of September 30, 2017, the Company's portfolio of 230 Wholly Owned Properties and 28 JV Properties was diversified by location across 49 states and Puerto Rico.

Earnings per Share

The Company has three classes of common stock. The rights, including the liquidation and dividend rights, of the holders of the Company’s Class A common shares and Class C non-voting common shares are identical, except with respect to voting. As the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis. The net earnings (loss) per share amounts are the same for Class A and Class C common shares because the holders of each class are legally entitled to equal per share distributions whether through dividends or in liquidation. Class B non-economic common shares are excluded from earnings per share computations as they do not have economic rights.

All outstanding non-vested shares that contain non-forfeitable rights to dividends are considered participating securities and are included in computing earnings per share pursuant to the two-class method which specifies that all outstanding non-vested share-based payment awards that contain non-forfeitable rights to distributions are considered participating securities and should be included in the computation of earnings per share.

Recently Issued Accounting Pronouncements

In February 2017, the Financial Accounting Standards Boards (“FASB”) issued Accounting Standards Update (“ASU”) 2017-05, “Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets” to provide guidance for recognizing gains and losses from the transfer of nonfinancial assets. The standard requires a company to derecognize nonfinancial assets once it transfers control of a distinct nonfinancial asset or distinct in substance nonfinancial assets

to noncustomers. Additionally, when a company transfers its controlling interest in a nonfinancial asset, but retains a non-controlling ownership interest, the company is required to measure any non-controlling interest it receives or retains at fair value. ASU 2017-15 is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. The effective date of this guidance coincides with revenue recognition guidance. The Company is currently assessing the impact that adoption of this guidance will have on its condensed consolidated financial statements and footnote disclosures.

In January 2017, the FASB issued ASU 2017-01 which changes the definition of a business to exclude acquisitions where substantially all of the fair value of the assets acquired are concentrated in a single identifiable asset or a group of similar identifiable assets. While there are various differences between the accounting for an asset acquisition and a business combination, the Company expects that the largest impact will be the capitalization of transaction costs for asset acquisitions which are expensed for business combinations. ASU 2017-01 is effective, on a prospective basis, for interim and annual periods beginning after January 1, 2019; early adoption is permitted. The Company has chosen to early adopt ASU 2017-01 during the current period on a prospective basis and it did not have an impact on the condensed consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows - Restricted Cash." ASU 2016-18 requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or cash equivalents. Therefore, amounts generally described as restricted cash and equivalents should be included with cash and cash equivalents when reconciling the beginning and end of period total amounts on the statement of cash flows. ASU 2016-18 is effective, on a retroactive basis, for interim and annual periods beginning after December 15, 2017; early adoption is permitted. The Company early adopted this guidance on March 31, 2017, which changes our statements of cash flows and related disclosure for all periods presented and accordingly, the following is a summary of our cash, cash equivalents, and restricted cash total as presented in our statements of cash flows for the nine months ended September 30, 2017 and September 30, 2016 (in thousands):

	Nine Months Ended	
	September 30, 2017	September 30, 2016
Cash and cash equivalents	$104,153	$90,029
Restricted cash	202,513	81,790
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	$306,666	$171,819

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments." ASU 2016-15 provides classification guidance for eight specific topics including debt extinguishment costs, contingent consideration payments made after a business combination, and distributions received from equity method investees. ASU 2016-18 is effective, on a prospective basis, for interim and annual periods beginning after December 15, 2017; early adoption is permitted. The Company expects to retrospectively adopt ASU 2016-15 on the effective date of January 1, 2018, applying the cumulative earnings approach to classify distributions received from our equity method investees, which will impact our consolidated statements of cash flows upon adoption where distributions from unconsolidated joint ventures in excess of cumulative equity in earnings will be classified as an inflow from investing activities.

On February 25, 2016, the FASB issued Accounting Standards Codification (“ASC”) 842 (“ASC 842”), “Leases” which replaces the existing guidance in ASC 840, Leases. ASC 842 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. ASC 842 requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use (ROU) asset and a corresponding lease liability. For finance leases, the lessee would recognize interest expense and amortization of the ROU asset and for operating leases, the lessee would recognize a straight-line total lease expense. The Company is currently assessing the impact that adoption of this guidance will have on its condensed consolidated financial statements and footnote disclosures.

In September 2015, the FASB issued ASU 2015-16, which amends Topic 805, Business Combinations, and requires the recognition of purchase price allocation adjustments that are identified during the measurement period in the

reporting period in which the adjustment amounts are determined, and eliminates the requirement to retrospectively account for these adjustments. ASU 2015-16 is effective, on a prospective basis, for interim and annual periods beginning after December 15, 2015; early adoption is permitted. The Company has chosen to early adopt ASU 2015-16 during the current period on a prospective basis and it did not have an impact on the condensed consolidated financial statements.

In May 2014, with subsequent updates issued in August 2015 and March, April, May and December 2016, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 states that "an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." While ASU 2014-09 specifically references contracts with customers, it does not apply to contracts within the scope of ASC 840 and ASC 842 (leases) and it may apply to certain other transactions such as the sale of real estate or equipment. In July 2015, the FASB voted to defer the effective date of ASU 2014-09 by one year. Accordingly, ASU 2014-09 is effective for annual periods beginning after December 15, 2017, with early adoption permitted for annual periods beginning after December 15, 2016. The standard can be applied either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment recognized as of the date of initial application. Expanded quantitative and qualitative disclosures regarding revenue recognition will be required for contracts that are subject to this guidance.

We have considered the sources of revenue that will be affected by ASU 2014-09, and do not believe our revenue recognition will be impacted by the new standard, as leases (the source of the majority of the Company's revenues) are excluded from ASU 2014-09. However, once the new lease guidance goes into effect on January 1, 2019 which sets forth principles for the recognition, measurement, presentation and disclosure of leases, we believe that the new revenue standard will apply to executory costs and other components of revenue due under leases that are deemed to be non-lease components (such as common area maintenance), which could affect our recognition pattern for such revenue.

Note 3 – Lease Intangible Assets and Liabilities

Lease intangible assets (acquired in-place leases, above-market leases and below-market ground leases) and liabilities (acquired below-market leases), net of accumulated amortization, were $327.2 million and $15.0 million, respectively, as of September 30, 2017 and $464.4 million and $16.8 million, respectively, as of December 31, 2016. The following table summarizes the Company’s lease intangible assets and liabilities (in thousands):

September 30, 2017

Lease Intangible Assets	Gross Asset	Accumulated Amortization	Balance
In-place leases, net	$553,656	$ (243,872)	$309,784
Below-market ground leases, net	11,766	(457)	11,309
Above-market leases, net	8,925	(2,789)	6,136
Total	$574,347	$ (247,118)	$327,229

Lease Intangible Liabilities	Gross Liability	Accumulated Amortization	Balance
Below-market leases, net	$19,730	$ (4,732)	$14,998
Total	$19,730	$ (4,732)	$14,998

December 31, 2016

Lease Intangible Assets	Gross Asset	Accumulated Amortization	Balance
In-place leases, net	$592,871	$ (146,964)	$445,907
Below-market ground leases, net	11,766	(305)	11,461
Above-market leases, net	8,964	(1,933)	7,031
Total	$613,601	$ (149,202)	$464,399

Lease Intangible Liabilities	Gross Liability	Accumulated Amortization	Balance
Below-market leases, net	$20,011	$ (3,184)	$16,827
Total	$20,011	$ (3,184)	$16,827

Amortization of acquired below-market leases, net of acquired above-market leases, resulted in additional rental income of $0.3 million and $0.3 million for the three months ended September 30, 2017 and September 30, 2016, respectively, and $0.9 million and $0.9 million for the nine months ended September 30, 2017 and September 30, 2016, respectively. Future amortization of these intangibles is estimated to increase rental income as set forth below (in thousands):

Remainder of 2017	$(241)
2018	(961)
2019	(934)
2020	(800)
2021	(786)

Amortization of acquired below-market ground leases resulted in additional property expense of $50 thousand for the three months ended September 30, 2017 and September 30, 2016, respectively, and $150 thousand for the nine months ended September 30, 2017 and September 30, 2016, respectively. Future amortization of below-market ground leases is estimated to increase property expenses as set forth below (in thousands):

Remainder of 2017	$51
2018	203
2019	203
2020	203
2021	203

Amortization of acquired in-place leases resulted in additional depreciation and amortization expense of $47.5 million and $27.4 million for the three months ended September 30, 2017 and September 30, 2016, respectively, and $124.3 million and $72.1 million for the nine months ended September 30, 2017 and September 30, 2016, respectively. Future estimated amortization of acquired in-place leases is set forth below (in thousands):

Remainder of 2017	$15,521
2018	42,303
2019	40,543
2020	40,097
2021	39,313

Note 4 – Investments in Unconsolidated Joint Ventures

The Company conducts a portion of its property rental activities through investments in unconsolidated joint ventures for which the Company holds less than a controlling interest. The Company's partners in these unconsolidated joint ventures are unrelated real estate entities or commercial enterprises. The Company and its unconsolidated joint venture partners make initial and/or ongoing capital contributions to these unconsolidated joint ventures. The obligations to make capital contributions are governed by each unconsolidated joint venture's respective operating agreement and related governing documents.

The Company currently has investments in four unconsolidated entities: (i) GS Portfolio Holdings II LLC (the "GGP I JV"), a joint venture between Seritage and a subsidiary of GGP Inc. (together with its subsidiaries, "GGP"); (ii) GS Portfolio Holdings (2017) LLC (the "GGP II JV"), a joint venture between Seritage and a subsidiary of GGP; (iii) SPS Portfolio Holdings LLC (the "Simon JV"), a joint venture between Seritage and a subsidiary of Simon Property Group, Inc. (together with its subsidiaries, "Simon"); and (iv) MS Portfolio LLC (the "Macerich JV"), a joint venture between Seritage and a subsidiary of The Macerich Company (together with its subsidiaries, "Macerich"). A substantial majority of the space at the JV Properties is leased to Sears Holdings under the JV Master Leases which include recapture rights and termination rights with similar terms as those described under the Master Lease.

The Company's investments in unconsolidated joint ventures at September 30, 2017, consisted of (in thousands, except number of properties):

Joint Venture	Seritage % Ownership	# of Properties	Total GLA	Initial Value (1)
GGP I JV	50 %	4	598	$ 37,570
GGP II JV	50 %	5	1,187	57,500
Macerich JV	50 %	9	1,572	150,000
Simon JV	50 %	10	1,714	114,012
Total		28	5,071	$ 359,082

(1) Represents contribution value at formation of each JV.

On July 12, 2017, the Company completed two transactions with GGP for gross consideration of $247.6 million whereby the Company (i) sold to GGP the Company's 50% JV Interests in eight of the 12 assets in the GGP I JV for $190.1 million and recorded a gain of $43.7 million which is included in gain on sale of interest in unconsolidated joint venture within the condensed consolidated statements of operations; and (ii) contributed five Wholly Owned Properties to the GGP II JV and sold a 50% interest in the new JV Properties to GGP for $57.5 million and recorded a gain of $13.0 million which is included in gain on sale of real estate within the condensed consolidated statements of operations.

Subsequent to September 30, 2017, the Company agreed to sell to Simon the Company's 50% JV Interests in five of the ten assets in the Simon JV for $68.0 million, subject to certain closing conditions (see Note 16).

The Company continues to own 50% interests in nine assets in the Macerich JV.

Each unconsolidated joint venture is obligated to maintain financial statements in accordance with GAAP. The Company shares in the profits and losses of these unconsolidated joint ventures generally in accordance with the Company's respective equity interests. In some instances, the Company may recognize profits and losses related to investment in an unconsolidated joint venture that differ from the Company's equity interest in the unconsolidated joint venture. This may arise from impairments that the Company recognizes related to its investment that differ from the impairments the unconsolidated joint venture recognizes with respect to its assets; differences between the Company's basis in assets it has transferred to the unconsolidated joint venture and the unconsolidated joint venture's basis in those assets; the Company's deferral of the unconsolidated joint venture's profits from land sales to the Company; or other items. There were no joint venture impairment charges for the three or nine months ended September 30, 2017 or September 30, 2016.

The following tables present combined condensed financial data for the Company's unconsolidated joint ventures (in thousands):

	September 30, 2017	December 31, 2016
ASSETS		
Investment in real estate		
Land	$ 178,658	$ 214,109
Buildings and improvements	510,641	598,978
Accumulated depreciation	(62,959)	(56,324)
	626,340	756,763
Construction in progress	15,986	48,885
Net investment in real estate	642,326	805,648
Cash and cash equivalents	4,958	3,434
Tenant and other receivables, net	3,354	6,133
Other assets, net	47,564	38,646
Total assets	$ 698,202	$ 853,861
LIABILITIES AND MEMBERS INTERESTS		
Liabilities		
Mortgage loans payable, net	$ 121,665	$ —
Accounts payable, accrued expenses and other liabilities	6,681	14,177
Total liabilities	128,346	14,177
Members Interest		
Additional paid in capital	580,009	830,389
Retained earnings	(10,153)	9,295
Total members interest	569,856	839,684
Total liabilities and members interest	$ 698,202	$ 853,861

	Three Months Ended September 30, 2017	September 30, 2016	Nine Months Ended September 30, 2017	September 30, 2016
EQUITY IN INCOME OF UNCONSOLIDATED JOINT VENTURES				
Total revenue	$12,550	$16,266	$46,062	$50,113
Property operating expenses	(3,077)	(3,103)	(9,594)	(9,703)
Depreciation and amortization	(9,509)	(10,382)	(37,206)	(31,304)
Operating income	(36)	2,781	(738)	9,106
Other expenses	(7,337)	212	(7,714)	(117)
Net (loss) income	$(7,373)	$2,993	$(8,452)	$8,989
Equity in (loss) income of unconsolidated joint ventures	$(3,686)	$1,497	$(4,226)	$4,495

Note 5 – Leases

Master Lease

On July 7, 2015, subsidiaries of Seritage and subsidiaries of Sears Holdings entered into the Master Lease. The Master Lease generally is a triple net lease with respect to all space which is leased thereunder to Sears Holdings, subject to proportional sharing by Sears Holdings for repair and maintenance charges, real property taxes, insurance and other costs and expenses which are common to both the space leased by Sears Holdings and other space occupied by unrelated third-party tenants in the same or other buildings pursuant to third-party leases, space which is recaptured pursuant to the Company recapture rights described below and all other space which is constructed on the properties. Under the Master Lease, Sears Holdings and/or one or more of its subsidiaries will be required to make all expenditures reasonably necessary to maintain the premises in good appearance, repair and condition for as long as they are in occupancy.

The Master Lease has an initial term of 10 years and contains three options for five-year renewals of the term and a final option for a four-year renewal. As of September 30, 2017 and September 30, 2016, the annualized base rent paid directly by Sears Holdings and its subsidiaries under the Master Lease was approximately $108.5 million and $134.2 million, respectively. In each of the initial and first two renewal terms, annual base rent will be increased by 2.0% per annum for each lease year over the rent for the immediately preceding lease year. For subsequent renewal terms, rent will be set at the commencement of the renewal term at a fair market rent based on a customary third-party appraisal process, taking into account all the terms of the Master Lease and other relevant factors, but in no event will the renewal rent be less than the rent payable in the immediately preceding lease year.

Revenues from the Master Lease for the three and nine months ended September 30, 2017 and September 30, 2016 are as follows (in thousands and excluding straight-line rental income of ($1.7) million and $2.3 million for the three months ended September 30, 2017 and September 30, 2016, respectively, and $0.1 million and $8.4 million for the nine months ended September 30, 2017 and September 30, 2016, respectively):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Rental income	$27,889	$33,378	$88,748	$99,846
Termination fee income	10,596	—	17,361	—
Tenant reimbursements	10,639	10,627	38,370	41,895
Total revenue	$49,124	$44,005	$144,479	$141,741

The Master Lease provides the Company with the right to recapture up to approximately 50% of the space occupied by Sears Holdings at each of the 224 Wholly Owned Properties initially included in the Master Lease (subject to certain exceptions). While the Company is permitted to exercise its recapture rights all at once or in stages as to any particular property, it is not permitted to recapture all or substantially all of the space subject to the recapture right at more than 50 Wholly Owned Properties during any lease year. In addition, Seritage has the right to recapture any automotive care centers which are free-standing or attached as “appendages” to the properties, all outparcels or outlots and certain portions of the parking areas and common areas. Upon exercise of these recapture rights, the Company will generally incur certain costs and expenses for the separation of the recaptured space from the remaining Sears Holdings space as it reconfigures and rents the recaptured space to third-party tenants.

The Company also has the right to recapture 100% of the space occupied by Sears Holdings at each of 21 identified Wholly Owned Properties by making a specified lease termination payment to Sears Holdings, after which the Company can reposition and re-lease those stores. The lease termination payment is calculated as the greater of an amount specified at the time the Company entered into the Master Lease with Sears Holdings and an amount equal to 10 times the adjusted EBITDA attributable to such space within the Sears Holdings main store which is not attributable to the space subject to the separate 50% recapture right discussed above for the 12-month period ending at the end of the fiscal quarter ending immediately prior to recapturing such space.

As of September 30, 2017, the Company had exercised certain recapture rights at 45 properties:

Property	Recapture Type	Notice Date
North Little Rock, AK	Auto Center	September 2017
Ft. Wayne, IN	Out parcel	September 2017
St. Clair Shores, MI	100%	September 2017
Austin, TX	Partial	September 2017
Redmond, WA	Auto Center	September 2017
Temecula, CA	Partial	June 2017
Roseville, CA	Auto center	June 2017
North Riverside, IL	Partial	June 2017
Watchung, NJ	100%	June 2017
Canton, OH	Partial	June 2017
Dayton, OH	Auto center	June 2017
Carson, CA	100% (1)	April 2017 / December 2016
San Diego, CA	100% (2)	April 2017
Aventura, FL	100%	April 2017
Hialeah, FL	100% (2)	April 2017
Anderson, SC	100% (1)	April 2017 / July 2016
Charleston, SC	100% (1)	April 2017 / October 2016
Valley View, TX	100%	April 2017
North Miami, FL	100%	March 2017
Cockeysville, MD	Partial	March 2017
Olean, NY	Partial	March 2017
Santa Cruz, CA	Partial	December 2016
Santa Monica, CA	100%	December 2016
Saugus, MA	Partial	December 2016
Guaynabo, PR	Partial	December 2016
Roseville, MI	Partial	November 2016
Troy, MI	Partial	November 2016
West Hartford, CT	100%	October 2016
Rehoboth Beach, DE	Partial	October 2016
St. Petersburg, FL	100%	October 2016
Warwick, RI	Auto center	October 2016
North Hollywood, CA	Partial	July 2016
Orlando, FL	100%	July 2016
Ft. Wayne, IN	Out parcel	July 2016
West Jordan, UT	Partial + auto center	July 2016
Madison, WI	Partial	July 2016
Bowie, MD	Auto center	May 2016
Hagerstown, MD	Auto center	May 2016
Wayne, NJ (3)	Partial	May 2016
Albany, NY	Auto center	May 2016
Fairfax, VA	Partial + auto center	May 2016
San Antonio, TX	Auto center	March 2016
Honolulu, HI	100%	December 2015
Memphis, TN	100%	December 2015
Braintree, MA	100%	November 2015

(1) In April 2017, the Company converted previously exercised partial recapture rights to 100% recapture rights.
(2) In April 2017, the Company converted partial recapture rights to 100% recapture rights and exercised such recapture rights.
(3) In July 2017, the Company contributed this asset to the GGP II JV and retained a 50% JV Interest in the JV.

The Master Lease also provides for certain rights to Sears Holdings to terminate the Master Lease with respect to Wholly Owned Properties that cease to be profitable for operation by Sears Holdings. In order to terminate the Master Lease with respect to a certain property, Sears Holdings must make a payment to the Company of an amount equal to one year of rent (together with taxes and other expenses) with respect to such property. Sears Holdings must provide notice of not less than 90 days of their intent to exercise such termination right and such termination right will be limited so that it will not have the effect of reducing the fixed rent under the Master Lease by more than 20% per annum.

As of September 30, 3017, Sears Holdings had terminated, or provided notice that it intended to exercise its rights to terminate, the Master Lease with respect to 56 stores totaling 7.4 million square feet of gross leasable area. The aggregate base rent at these stores at the time of termination was approximately $23.6 million. Sears Holdings continued to pay the Company rent until it vacated the stores and also paid aggregate termination fees of approximately $45.1 million, amounts equal to one year of aggregate annual base rent plus one year of estimated real estate taxes and operating expense.

As of September 30, 2017, the Company had announced redevelopment projects at 17 of the terminated properties and will continue to announce redevelopment activity as new leases are signed to occupy the space formerly occupied by Sears Holdings.