

WEINGARTEN REALTY INVESTORS /TX/  
Form 10-Q  
August 01, 2016  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q  
(Mark One)

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

For the quarter ended June 30, 2016

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 1-9876

Weingarten Realty Investors

(Exact name of registrant as specified in its charter)

TEXAS

74-1464203

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

2600 Citadel Plaza Drive

P.O. Box 924133

Houston, Texas

77292-4133

(Address of principal executive offices)

(Zip Code)

(713) 866-6000

(Registrant's telephone number)

(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 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, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

YES  NO

As of July 28, 2016, there were 127,832,375 common shares of beneficial interest of Weingarten Realty Investors, \$.03 par value, outstanding.



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Exhibit  
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## PART I-FINANCIAL INFORMATION

## ITEM 1. Financial Statements

## WEINGARTEN REALTY INVESTORS

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Revenues:				
Rentals, net	\$132,814	\$124,310	\$261,323	\$246,968
Other	2,862	2,494	6,770	5,435
Total	135,676	126,804	268,093	252,403
Expenses:				
Depreciation and amortization	39,218	36,451	77,097	72,602
Operating	24,663	22,200	48,199	44,785
Real estate taxes, net	17,221	15,498	33,078	30,125
Impairment loss	—	153	43	153
General and administrative	6,388	6,461	12,886	13,833
Total	87,490	80,763	171,303	161,498
Operating Income	48,186	46,041	96,790	90,905
Interest Expense, net	(18,558 )	(20,292 )	(39,449 )	(46,750 )
Interest and Other Income	361	418	572	3,140
Gain on Sale and Acquisition of Real Estate Joint Venture and Partnership Interests	—	18	37,392	879
Equity in Earnings of Real Estate Joint Ventures and Partnerships, net	6,645	3,212	10,738	8,584
(Provision) Benefit for Income Taxes	(16 )	226	(5,915 )	(435 )
Income from Continuing Operations	36,618	29,623	100,128	56,323
Gain on Sale of Property	1,033	8,163	46,190	30,685
Net Income	37,651	37,786	146,318	87,008
Less: Net Income Attributable to Noncontrolling Interests	(1,835 )	(1,757 )	(3,428 )	(3,332 )
Net Income Adjusted for Noncontrolling Interests	35,816	36,029	142,890	83,676
Dividends on Preferred Shares	—	(1,120 )	—	(3,830 )
Redemption Costs of Preferred Shares	—	(9,687 )	—	(9,687 )
Net Income Attributable to Common Shareholders	\$35,816	\$25,222	\$142,890	\$70,159
Earnings Per Common Share - Basic:				
Net income attributable to common shareholders	\$ .28	\$ .20	\$ 1.15	\$ .57
Earnings Per Common Share - Diluted:				
Net income attributable to common shareholders	\$ .28	\$ .20	\$ 1.13	\$ .57

See Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	Three Months		Six Months Ended	
	Ended		June 30,	
	June 30,		June 30,	
	2016	2015	2016	2015
Net Income	\$37,651	\$37,786	\$146,318	\$87,008
Other Comprehensive (Loss) Income:				
Net unrealized gain (loss) on investments, net of taxes	80	(3 )	98	76
Realized gain on derivatives	—	5,007	—	5,007
Net unrealized (loss) gain on derivatives	(4,140 )	1,731	(8,571 )	381
Amortization of derivatives and designated hedges	360	321	731	709
Retirement liability adjustment	376	360	753	720
Total	(3,324 )	7,416	(6,989 )	6,893
Comprehensive Income	34,327	45,202	139,329	93,901
Comprehensive Income Attributable to Noncontrolling Interests	(1,835 )	(1,757 )	(3,428 )	(3,332 )
Comprehensive Income Adjusted for Noncontrolling Interests	\$32,492	\$43,445	\$135,901	\$90,569

See Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except per share amounts)

	June 30, 2016	December 31, 2015
<b>ASSETS</b>		
Property	\$4,446,535	\$ 4,262,959
Accumulated Depreciation	(1,144,670 )	(1,087,642 )
Property Held for Sale, net	—	34,363
Property, net *	3,301,865	3,209,680
Investment in Real Estate Joint Ventures and Partnerships, net *	292,530	267,041
Total	3,594,395	3,476,721
Unamortized Lease Costs, net	148,632	137,609
Accrued Rent and Accounts Receivable (net of allowance for doubtful accounts of \$6,563 in 2016 and \$6,072 in 2015) *	82,368	84,782
Cash and Cash Equivalents *	14,529	22,168
Restricted Deposits and Mortgage Escrows	5,652	3,074
Other, net	187,351	177,591
Total Assets	\$4,032,927	\$ 3,901,945
<b>LIABILITIES AND EQUITY</b>		
Debt, net *	\$2,052,236	\$ 2,113,277
Accounts Payable and Accrued Expenses	102,850	112,205
Other, net	159,995	131,453
Total Liabilities	2,315,081	2,356,935
Commitments and Contingencies	—	—
Deferred Compensation Share Awards	48,140	—
Equity:		
Shareholders' Equity:		
Common Shares of Beneficial Interest - par value, \$.03 per share; shares authorized: 275,000; shares issued and outstanding: 127,825 in 2016 and 123,951 in 2015	3,878	3,744
Additional Paid-In Capital	1,711,114	1,616,242
Net Income Less Than Accumulated Dividends	(186,136 )	(222,880 )
Accumulated Other Comprehensive Loss	(14,633 )	(7,644 )
Total Shareholders' Equity	1,514,223	1,389,462
Noncontrolling Interests	155,483	155,548
Total Equity	1,669,706	1,545,010
Total Liabilities and Equity	\$4,032,927	\$ 3,901,945
* Consolidated variable interest entities' assets and debt included in the above balances (see Note 15):		
Property, net	\$238,318	\$ 240,689
Investment in Real Estate Joint Ventures and Partnerships, net	17,528	18,278
Accrued Rent and Accounts Receivable, net	9,531	9,245
Cash and Cash Equivalents	9,607	13,250
Debt, net	47,522	47,919

See Notes to Condensed Consolidated Financial Statements.





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WEINGARTEN REALTY INVESTORS  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
(In thousands)

	Six Months Ended	
	June 30,	
	2016	2015
Cash Flows from Operating Activities:		
Net Income	\$146,318	\$87,008
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	77,097	72,602
Amortization of debt deferred costs and intangibles, net	1,305	1,310
Impairment loss	43	153
Equity in earnings of real estate joint ventures and partnerships, net	(10,738 )	(8,584 )
Gain on sale and acquisition of real estate joint venture and partnership interests	(37,392 )	(879 )
Gain on sale of property	(46,190 )	(30,685 )
Distributions of income from real estate joint ventures and partnerships	591	1,887
Changes in accrued rent and accounts receivable, net	2,555	2,956
Changes in unamortized lease costs and other assets, net	(10,159 )	(8,660 )
Changes in accounts payable, accrued expenses and other liabilities, net	(5,090 )	(7,526 )
Other, net	(567 )	10,161
Net cash provided by operating activities	117,773	119,743
Cash Flows from Investing Activities:		
Acquisition of real estate and land	(92,071 )	(124,914)
Development and capital improvements	(53,441 )	(38,505 )
Proceeds from sale of property and real estate equity investments	108,782	48,051
Change in restricted deposits and mortgage escrows	(5,348 )	68,520
Real estate joint ventures and partnerships - Investments	(42,025 )	(30,053 )
Real estate joint ventures and partnerships - Distribution of capital	34,224	22,653
Purchase of investments	(3,247 )	—
Proceeds from investments	750	1,000
Other, net	2,518	(489 )
Net cash used in investing activities	(49,858 )	(53,737 )
Cash Flows from Financing Activities:		
Proceeds from issuance of debt	2,111	448,083
Principal payments of debt	(58,275 )	(201,845)
Changes in unsecured credit facilities	(51,500 )	(116,000)
Proceeds from issuance of common shares of beneficial interest, net	127,965	42,288
Redemption of preferred shares of beneficial interest	—	(150,000)
Common and preferred dividends paid	(91,675 )	(89,106 )
Debt issuance and extinguishment costs paid	(3,114 )	(9,691 )
Distributions to noncontrolling interests	(3,493 )	(3,938 )
Other, net	2,427	4,313
Net cash used in financing activities	(75,554 )	(75,896 )
Net decrease in cash and cash equivalents	(7,639 )	(9,890 )
Cash and cash equivalents at January 1	22,168	23,189
Cash and cash equivalents at June 30	\$14,529	\$13,299
Interest paid during the period (net of amount capitalized of \$1,137 and \$1,673, respectively)	\$40,413	\$38,999
Income taxes paid during the period	\$925	\$1,499

See Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited)

(In thousands, except per share amounts)

	Preferred Shares of Beneficial Interest	Common Shares of Beneficial Interest	Additional Paid-In Capital	Net Income Less Than Accumulated Dividends	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total
Balance, January 1, 2015	\$ 2	\$ 3,700	\$1,706,880	\$ (212,960 )	\$ (12,436 )	\$ 153,757	\$1,638,943
Net income				83,676		3,332	87,008
Redemption of preferred shares (2 )			(140,311 )	(9,687 )			(150,000 )
Issuance of common shares, net		34	40,311				40,345
Shares issued under benefit plans, net		10	7,219				7,229
Shares issued in exchange for noncontrolling interests			111			(111 )	—
Dividends paid – common shares (1)				(85,233 )			(85,233 )
Dividends paid – preferred shares (2)				(3,873 )			(3,873 )
Distributions to noncontrolling interests						(3,938 )	(3,938 )
Other comprehensive income					6,893		6,893
Other, net			280	43		(794 )	(471 )
Balance, June 30, 2015	\$ —	\$ 3,744	\$1,614,490	\$ (228,034 )	\$ (5,543 )	\$ 152,246	\$1,536,903
Balance, January 1, 2016	\$ —	\$ 3,744	\$1,616,242	\$ (222,880 )	\$ (7,644 )	\$ 155,548	\$1,545,010
Net income				142,890		3,428	146,318
Issuance of common shares, net		99	123,690				123,789
Shares issued under benefit plans, net		35	4,851				4,886
Change in classification of deferred compensation plan			(37,488 )				(37,488 )
Change in redemption value of deferred compensation plan				(14,471 )			(14,471 )
Diversification of share awards within deferred compensation plan			3,819				3,819
Dividends paid – common shares (1)				(91,675 )			(91,675 )
Distributions to noncontrolling interests						(3,493 )	(3,493 )
Other comprehensive loss					(6,989 )		(6,989 )
Balance, June 30, 2016	\$ —	\$ 3,878	\$1,711,114	\$ (186,136 )	\$ (14,633 )	\$ 155,483	\$1,669,706

(1) Common dividend per share was \$.73 and \$.69 for the six months ended June 30, 2016 and 2015, respectively.

(2) Series F preferred dividend per share was \$64.55 for the six months ended June 30, 2015.  
See Notes to Condensed Consolidated Financial Statements.

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WEINGARTEN REALTY INVESTORS  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

## Note 1. Summary of Significant Accounting Policies

## Business

Weingarten Realty Investors is a real estate investment trust (“REIT”) organized under the Texas Business Organizations Code. We currently operate, and intend to operate in the future, as a REIT.

We, and our predecessor entity, began the ownership and development of shopping centers and other commercial real estate in 1948. Our primary business is leasing space to tenants in the shopping centers we own or lease. We also provide property management services for which we charge fees to either joint ventures where we are partners or other outside owners.

We operate a portfolio of neighborhood and community shopping centers, totaling approximately 44.7 million square feet of gross leaseable area, that is either owned by us or others. We have a diversified tenant base, with our largest tenant comprising only 3.3% of base minimum rental revenue during the first six months of 2016. Total revenues generated by our centers located in Houston and its surrounding areas was 20.5% of total revenue for the six months ended June 30, 2016, and an additional 10.5% of total revenue was generated during this period from centers that are located in other parts of Texas.

## Basis of Presentation

Our condensed consolidated financial statements include the accounts of our subsidiaries, certain partially owned real estate joint ventures or partnerships and variable interest entities (“VIEs”) which meet the guidelines for consolidation. All intercompany balances and transactions have been eliminated.

The condensed consolidated financial statements included in this report are unaudited; however, amounts presented in the condensed consolidated balance sheet as of December 31, 2015 are derived from our audited financial statements at that date. In our opinion, all adjustments necessary for a fair presentation of such financial statements have been included. Such adjustments consisted of normal recurring items. Interim results are not necessarily indicative of results for a full year.

The condensed consolidated financial statements and notes are presented as permitted by Form 10-Q and certain information included in our annual financial statements and notes thereto has been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and related notes for the year ended December 31, 2015.

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Such statements require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

## Restricted Deposits and Mortgage Escrows

Restricted deposits and mortgage escrows consist of escrow deposits held by lenders primarily for property taxes, insurance and replacement reserves and restricted cash that is held for a specific use or in a qualified escrow account for the purposes of completing like-kind exchange transactions.

Our restricted deposits and mortgage escrows consist of the following (in thousands):

	June 30, December 31,	
	2016	2015
Restricted cash <sup>(1)</sup>	\$ 4,531	\$ 1,952
Mortgage escrows	1,121	1,122
Total	\$ 5,652	\$ 3,074

(1) The increase between the periods presented is primarily attributable to \$3.6 million of funds being placed in a qualified escrow account for the purpose of completing like-kind exchange transactions.



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## Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss by component consists of the following (in thousands):

	Gain on Investments	Gain on Cash Flow Hedges	Defined Benefit Pension Plan	Total
Balance, December 31, 2015	\$ (557 )	\$(8,160)	\$ 16,361	\$ 7,644
Change excluding amounts reclassified from accumulated other comprehensive loss	(98 )	8,571		8,473
Amounts reclassified from accumulated other comprehensive loss		(731 ) <sup>(1)</sup>	(753 ) <sup>(2)</sup>	(1,484 )
Net other comprehensive (income) loss	(98 )	7,840	(753 )	6,989
Balance, June 30, 2016	\$ (655 )	\$(320 )	\$ 15,608	\$ 14,633
	Gain on Investments	Gain on Cash Flow Hedges	Defined Benefit Pension Plan	Total
Balance, December 31, 2014	\$ (656 )	\$(3,416)	\$ 16,508	\$ 12,436
Change excluding amounts reclassified from accumulated other comprehensive loss	(76 )	(5,388 )		(5,464 )
Amounts reclassified from accumulated other comprehensive loss		(709 ) <sup>(1)</sup>	(720 ) <sup>(2)</sup>	(1,429 )
Net other comprehensive income	(76 )	(6,097 )	(720 )	(6,893 )
Balance, June 30, 2015	\$ (732 )	\$(9,513)	\$ 15,788	\$ 5,543

(1) This reclassification component is included in interest expense (see Note 6 for additional information).

(2) This reclassification component is included in the computation of net periodic benefit cost (see Note 12 for additional information).

## Deferred Compensation Plan

Our deferred compensation plan was amended, effective April 1, 2016, to permit participants in this plan to diversify their holdings of our common shares of beneficial interest ("common shares") six months after vesting. Thus, as of April 1, 2016, the fully vested share awards and the proportionate share of nonvested share awards eligible for diversification was reclassified from additional paid-in capital to temporary equity in our Condensed Consolidated Balance Sheet. The outstanding share awards are adjusted to their redemption value each reporting period based upon the market value of our common shares at the end of such reporting period, and such change in value from the prior reporting period will be reported in net income less than accumulated dividends in our Condensed Consolidated Statement of Equity. The following table summarizes the eligible share award activity since the effective date through June 30, 2016 (in thousands):

Value of share awards resulting from:	
Change in classification	\$ 37,488
Change in redemption value	14,471
Diversification of share awards	(3,819 )
Balance at June 30, 2016	\$ 48,140

## Retrospective Application of Accounting Standard Update

The retrospective application of adopting Accounting Standard Update No. 2015-02, "Amendments to the Consolidation Analysis" on prior years' condensed consolidated balance sheet and applicable notes to the consolidated financial statements was made to conform to the current year presentation. The impact of this change is described in Note 2.





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Note 2. Newly Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers." This ASU's core objective is for an entity to recognize revenue based on the consideration it expects to receive in exchange for goods or services. Additionally, this ASU requires entities to use a single model in accounting for revenues derived from contracts with customers. ASU No. 2014-09 replaces prior guidance regarding the recognition of revenue from sales of real estate, except for revenue from sales that are part of a sale-leaseback transaction. The provisions of ASU No. 2014-09, as amended in subsequently issued amendments, are effective for us on January 1, 2018, and are required to be applied either on a retrospective or a modified retrospective approach. We are currently assessing the impact, if any, that the adoption of this ASU will have on our consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." This ASU's core objective is that management should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued or are available to be issued. The provisions of ASU No. 2014-15 are effective for us as of December 31, 2016, and early adoption is permitted. We early adopted this update effective January 1, 2016, and the adoption did not have any impact to our consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, "Amendments to the Consolidation Analysis." This ASU amends the consolidation analysis required under GAAP and requires management to reevaluate all previous consolidation conclusions. ASU No. 2015-02 considers limited partnerships as VIEs, unless the limited partners have either substantive kick-out or participating rights. The presumption that a general partner should consolidate a limited partnership has also been eliminated. The ASU amends the effect that fees paid to a decision maker or service provider have on the consolidation analysis, as well as amends how variable interests held by a reporting entity's related parties affect the consolidation conclusion. The ASU also clarifies how to determine whether equity holders as a group have power over an entity. The provisions of ASU No. 2015-02 were effective for us as of January 1, 2016. Upon adoption of this update, we have reported 10 additional entities as VIEs, since the limited partners in these entities do not have either substantive kick-out or participating rights. The adoption expanded our VIE disclosures for these 10 entities, but had no impact to our condensed consolidated balance sheets or condensed consolidated statements of operations or cash flows as the consolidation status of these entities did not change. Retrospective disclosures associated with our VIEs were made to conform to the current year presentation.

In September 2015, the FASB issued ASU No. 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments." This ASU will allow measurement-period adjustments associated with business combinations recorded in the reporting period in which the adjustment amounts are determined, rather than retrospectively, as if the accounting for the business combination had been completed as of the acquisition date. The provisions of ASU No. 2015-16 were effective for us as of January 1, 2016. We have adopted this update, and the adoption did not have any impact to our consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities." This ASU will require equity investments, excluding those investments accounted for under the equity method of accounting or those that result in consolidation of the investee, to be measured at fair value with the changes in fair value recognized in net income; will simplify the impairment assessment of those investments; will eliminate the disclosure of the method(s) and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost and change the fair value calculation for those investments; will change the disclosure in other comprehensive income for financial liabilities that are measured at fair value in accordance with the fair value options for financial instruments; and will clarify that a deferred asset related to available-for-sale securities should be included in an entity's evaluation for a valuation allowance. The provisions of ASU No. 2016-01 are effective for us as of January 1, 2018. We are currently assessing the impact, if any, that the adoption of this ASU will have on our consolidated financial statements.



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In February 2016, the FASB issued ASU No. 2016-02, "Leases." The ASU sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. The ASU requires lessees to adopt a right-of-use asset approach that will bring substantially all leases onto the balance sheet, with the exception of short-term leases. The subsequent accounting for this right-of-use asset will be based on a dual-model approach, under which the lease will be classified as either a finance or an operating lease. The lessor accounting model under this ASU is similar to current guidance, but certain underlying principles in the lessor model have been aligned with the new revenue recognition standard. The provisions of ASU No. 2016-02 are effective for us as of January 1, 2019, are required to be applied on a modified retrospective approach and early adoption is permitted. We are currently assessing the impact, if any, that the adoption of this ASU will have on our consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Measurement of Credit Losses on Financial Instruments." This ASU amends prior guidance on the impairment of financial instruments, and adds an impairment model that is based on expected losses rather than incurred losses with the recognition of an allowance based on an estimate of expected credit losses. The provision of ASU No. 2016-13 are effective for us as of January 1, 2020, and early adoption is permitted for fiscal years beginning after December 15, 2018. We are currently assessing the impact, if any, that the adoption of this ASU will have on our consolidated financial statements.

## Note 3. Property

Our property consists of the following (in thousands):

	June 30, 2016	December 31, 2015
Land	\$952,879	\$ 929,958
Land held for development	90,064	95,524
Land under development	14,942	17,367
Buildings and improvements	3,318,140	3,152,215
Construction in-progress	70,510	67,895
Total	\$4,446,535	\$ 4,262,959

During the six months ended June 30, 2016, we sold three centers and other property. Aggregate gross sales proceeds from these transactions approximated \$110.4 million and generated gains of approximately \$46.2 million. Also, during the six months ended June 30, 2016, we acquired one center and other property with an aggregate gross purchase price of approximately \$93.2 million and invested \$16.5 million in new development projects. In February 2016, property increased by \$58.7 million as a result of a business combination (see Note 17 for additional information).

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## Note 4. Investment in Real Estate Joint Ventures and Partnerships

We own interests in real estate joint ventures or limited partnerships and have tenancy-in-common interests in which we exercise significant influence, but do not have financial and operating control. We account for these investments using the equity method, and our interests range from 20% to 75% for the periods presented. Combined condensed financial information of these ventures (at 100%) is summarized as follows (in thousands):

	June 30, 2016	December 31, 2015
Combined Condensed Balance Sheets		
ASSETS		
Property	\$1,216,844	\$1,290,784
Accumulated depreciation	(254,672 )	(293,474 )
Property, net	962,172	997,310
Other assets, net	116,765	130,251
Total Assets	\$1,078,937	\$1,127,561
LIABILITIES AND EQUITY		
Debt, net (primarily mortgages payable)	\$315,193	\$345,186
Amounts payable to Weingarten Realty Investors and Affiliates	12,608	12,285
Other liabilities, net	29,350	29,509
Total Liabilities	357,151	386,980
Equity	721,786	740,581
Total Liabilities and Equity	\$1,078,937	\$1,127,561

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
Combined Condensed Statements of Operations				
Revenues, net	\$34,146	\$36,587	\$70,068	\$73,705
Expenses:				
Depreciation and amortization	10,605	9,203	19,986	18,583
Interest, net	5,622	4,235	9,630	8,652
Operating	6,358	6,771	13,961	13,236
Real estate taxes, net	4,494	4,725	8,986	9,257
General and administrative	312	333	455	535
(Benefit) provision for income taxes	(31 )	43	28	111
Impairment loss	—	7,487	1,303	7,487
Total	27,360	32,797	54,349	57,861
Gain on sale of non-operating property	—	—	373	—
Gain on dispositions	12,591	265	12,591	1,393
Net income	\$19,377	\$4,055	\$28,683	\$17,237

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Our investment in real estate joint ventures and partnerships, as reported in our Condensed Consolidated Balance Sheets, differs from our proportionate share of the entities' underlying net assets due to basis differences, which arose upon the transfer of assets to the joint ventures. The net positive basis differences, which totaled \$2.6 million and \$4.9 million at June 30, 2016 and December 31, 2015, respectively, are generally amortized over the useful lives of the related assets.

Our real estate joint ventures and partnerships have determined from time to time that the carrying amount of certain centers was not recoverable and that the centers should be written down to fair value. For the six months ended June 30, 2016, our unconsolidated real estate joint ventures and partnerships recorded an impairment charge of \$1.3 million associated with a center that had been marketed and sold during the period. For both the three and six months ended June 30, 2015, there was a \$7.5 million impairment charge realized on various centers that were marketed and sold during the three months ended June 30, 2015.

Fees earned by us for the management of these real estate joint ventures and partnerships totaled \$1.1 million for both the three months ended June 30, 2016 and 2015, and \$2.3 million for both the six months ended June 30, 2016 and 2015.

For the six months ended June 30, 2016, four centers and a land parcel were sold for an aggregate of approximately \$63.7 million, of which our share of the gain totaled \$3.4 million. Additionally, one center with a gross purchase price of \$65 million was acquired, of which our net interest, of both our direct and indirect investments, aggregated 66%. As of December 31, 2015, we held a combined 51% interest in an unconsolidated real estate joint venture that owned three centers in Colorado with total assets and debt of \$43.7 million and \$72.4 million, respectively. In February 2016, in exchange for our partners' aggregate 49% interest in this venture and \$2.5 million in cash, we distributed one center to our partners. We have consolidated this venture as of the transaction date and re-measured our investment in this venture to its fair value (See Note 17 for additional information).

During 2015, we sold one center held in a 50% owned unconsolidated real estate joint venture for approximately \$1.1 million, of which our share of the gain totaled \$.6 million. Associated with this transaction, a gain of \$.9 million on our investment of this real estate joint venture was realized. Additionally, we sold three centers and other property held in unconsolidated joint ventures for approximately \$17.6 million, of which our share of the gain totaled \$1.0 million. Also, a 51% owned unconsolidated real estate joint venture acquired real estate assets of approximately \$54.1 million.

## Note 5. Debt

Our debt consists of the following (in thousands):

	June 30, 2016	December 31, 2015
Debt payable, net to 2038 <sup>(1)</sup>	\$1,863,401	\$1,872,942
Unsecured notes payable under credit facilities	98,000	149,500
Debt service guaranty liability	69,835	69,835
Obligations under capital leases	21,000	21,000
Total	\$2,052,236	\$2,113,277

<sup>(1)</sup> At June 30, 2016, interest rates ranged from 1.7% to 8.6% at a weighted average rate of 4.2%. At December 31, 2015, interest rates ranged from 1.0% to 8.6% at a weighted average rate of 4.3%.

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The allocation of total debt between fixed and variable-rate as well as between secured and unsecured is summarized below (in thousands):

	June 30, 2016	December 31, 2015
As to interest rate (including the effects of interest rate contracts):		
Fixed-rate debt	\$ 1,924,649	\$ 1,869,683
Variable-rate debt	127,587	243,594
Total	\$ 2,052,236	\$ 2,113,277
As to collateralization:		
Unsecured debt	\$ 1,597,315	\$ 1,650,521
Secured debt	454,921	462,756
Total	\$ 2,052,236	\$ 2,113,277

We maintain a \$500 million unsecured revolving credit facility, which was amended and extended on March 30, 2016. This facility expires in March 2020, provides for two consecutive six-month extensions upon our request and borrowing rates that float at a margin over LIBOR plus a facility fee. At June 30, 2016, the borrowing margin and facility fee, which are priced off a grid that is tied to our senior unsecured credit ratings, were 90 and 15 basis points, respectively. The facility also contains a competitive bid feature that allows us to request bids for up to \$250 million. Additionally, an accordion feature allows us to increase the facility amount up to \$850 million.

As of December 31, 2015, we had a \$500 million unsecured revolving credit facility, which was amended and extended on April 18, 2013. This facility would have expired in April 2017, provided for two consecutive six-month extensions upon our request and had borrowing rates that floated at a margin over LIBOR plus a facility fee. At December 31, 2015, the borrowing margin and facility fee, which were priced off a grid that was tied to our senior unsecured credit ratings, were 105 and 15 basis points, respectively. The facility also contained a competitive bid feature that allowed us to request bids for up to \$250 million. Additionally, an accordion feature allowed us to increase the facility amount up to \$700 million.

Effective March 2015, we entered into an agreement with a bank for a short-term, unsecured facility totaling \$20 million that we maintain for cash management purposes. We extended and amended this agreement to reduce the facility to \$10 million on March 27, 2016. The facility, which matures in March 2017, provides for fixed interest rate loans at a 30-day LIBOR rate plus a borrowing margin, facility fee and an unused facility fee of 125, 10, and 10 basis points, respectively.

The following table discloses certain information regarding our unsecured notes payable under our credit facilities (in thousands, except percentages):

	June 30, 2016	December 31, 2015
Unsecured revolving credit facility:		
Balance outstanding	\$ 95,000	\$ 140,000
Available balance	400,190	355,190
Letters of credit outstanding under facility	4,810	4,810
Variable interest rate (excluding facility fee)	1.3	% 1.3
Unsecured short-term facility:		
Balance outstanding	\$ 3,000	\$ 9,500
Variable interest rate (excluding facility fee)	1.8	% 1.7
Both facilities:		
Maximum balance outstanding during the period	\$ 200,000	\$ 244,500
Weighted average balance	128,381	100,506
Year-to-date weighted average interest rate (excluding facility fee)	1.3	% 0.9



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Related to a development project in Sheridan, Colorado, we have provided a guaranty for the payment of any debt service shortfalls until a coverage rate of 1.4x is met on tax increment revenue bonds issued in connection with the project. The bonds are to be repaid with incremental sales and property taxes and a public improvement fee (“PIF”) to be assessed on current and future retail sales and, to the extent necessary, any amounts we may have to provide under a guaranty. The incremental taxes and PIF are to remain intact until the earlier of the date the bond liability has been paid in full or 2040. Therefore, a debt service guaranty liability equal to the fair value of the amounts funded under the bonds was recorded. As of both June 30, 2016 and December 31, 2015, we had \$69.8 million outstanding for the debt service guaranty liability.

In June 2016, we amended an existing \$90 million secured note to extend the maturity to 2028 and reduce the interest rate from 7.5% to 4.5% per annum. In connection with this transaction, we have recorded a \$2.0 million gain on extinguishment of debt that has been classified as net interest expense in our Condensed Consolidated Statements of Operations.

In May 2015, we issued \$250 million of 3.85% senior unsecured notes maturing in 2025. The notes were issued at 99.23% of the principal amount with a yield to maturity of 3.94%. The net proceeds received of \$246.5 million were used to reduce the amount outstanding under our \$500 million unsecured revolving credit facility.

In March 2015, we entered into a \$200 million unsecured term loan. We used the proceeds to pay down amounts outstanding under our \$500 million unsecured revolving credit facility. The loan matures in March 2020, and we have the option to repay the loan without penalty at any time. Borrowing rates under the agreement float at a margin over LIBOR and are priced off a grid that is tied to our senior unsecured credit ratings, which is currently 97.5 basis points, but have been swapped to a fixed rate of 2.5%. Additionally, the loan contains an accordion feature which allows us to increase the loan amount up to an additional \$100 million.

During 2015, we repaid \$90 million of fixed-rate medium term notes upon maturity at a weighted average interest rate of 5.4%. Additionally, we amended an existing \$66 million secured note to extend the maturity to 2025 and reduced the interest rate from 7.4% to 3.5% per annum. In connection with this transaction, we have recorded a \$6.1 million loss on extinguishment of debt that has been classified as net interest expense in our Condensed Consolidated Statements of Operations.

Various leases and properties, and current and future rentals from those leases and properties, collateralize certain debt. At June 30, 2016 and December 31, 2015, the carrying value of such assets aggregated \$0.7 billion and \$0.8 billion, respectively.

Scheduled principal payments on our debt (excluding \$98.0 million unsecured notes payable under our credit facilities, \$21.0 million of certain capital leases, \$(4.3) million net premium/(discount) on debt, \$(9.4) million of deferred debt costs, \$5.6 million of non-cash debt-related items, and \$69.8 million debt service guaranty liability) are due during the following years (in thousands):

2016 remaining	\$78,835
2017	86,839
2018	87,974
2019	56,245
2020	237,779
2021	17,667
2022	307,858
2023	305,705
2024	255,965
2025	303,314
Thereafter	133,329
Total	\$1,871,510

Our various debt agreements contain restrictive covenants, including minimum interest and fixed charge coverage ratios, minimum unencumbered interest coverage ratios, minimum net worth requirements and maximum total debt levels. We are not aware of any non-compliance with our public debt and revolving credit facility covenants as of June 30, 2016.





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## Note 6. Derivatives and Hedging

The fair value of all our interest rate swap contracts was reported as follows (in thousands):

Assets		Liabilities	
Balance Sheet	Amount	Balance Sheet	Amount
Location		Location	

## Designated Hedges:

June 30, 2016 Other Assets, net \$ — Other Liabilities, net \$ 8,227

December 31, 2015 Other Assets, net 2,664 Other Liabilities, net 725

The gross presentation, the effects of offsetting for derivatives with the right to offset under master netting agreements and the net presentation of our interest rate swap contracts is as follows (in thousands):

	Gross Amounts Recognized	Gross Amounts Offset in Balance Sheet	Net Amounts Presented in Balance Sheet	Gross Amounts Not Offset in Balance Sheet		Net Amount
				Financial Instruments	Cash Collateral Received	
June 30, 2016						
Liabilities	\$ 8,227	\$ —	—\$ 8,227	\$ —	\$ —	—\$ 8,227
December 31, 2015						
Assets	2,664	—	2,664	(346)	—	2,318
Liabilities	725	—	725	(346)	—	379

## Cash Flow Hedges

As of June 30, 2016 and December 31, 2015, we had three interest rate swap contracts, maturing through March 2020, with an aggregate notional amount of \$200 million that were designated as cash flow hedges and fix the LIBOR component of the interest rates at 1.5%. We have determined that these contracts are highly effective in offsetting future variable interest cash flows.

Also, at June 30, 2016, we had a forward-starting interest rate swap contract that will be effective in October 2016 with an aggregate notional amount of \$200 million hedging future fixed-rate debt issuances. This contract matures in October 2026 and fixes the 10-year swap rate at 1.5% per annum.

During 2015, we entered into and settled two forward-starting interest rate swap contracts with an aggregate notional amount of \$215 million hedging future fixed-rate debt issuances, which fixed the 10-year swap rates at 2.0% per annum. Upon settlement of these contracts during 2015, we received \$5.0 million resulting in a gain in accumulated other comprehensive loss.

As of June 30, 2016 and December 31, 2015, the net gain balance in accumulated other comprehensive loss relating to cash flow interest rate swap contracts was \$.3 million and \$8.2 million, respectively, and will be reclassified to net interest expense as interest payments are made on the originally hedged debt. Within the next 12 months, a loss of approximately \$2.3 million in accumulated other comprehensive loss is expected to be reclassified to net interest expense related to our interest rate contracts.

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A summary of cash flow interest rate swap contract hedging activity is as follows (in thousands):

Derivatives Hedging Relationships	Amount of (Gain) Loss Recognized in Other Comprehensive Income on Derivative (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Three Months Ended June 30, 2016	\$ 4,140	Interest expense, net	\$ (360 )	Interest expense, net	\$ —
Six Months Ended June 30, 2016	8,571	Interest expense, net	(731 )	Interest expense, net	—
Three Months Ended June 30, 2015	(6,738 )	Interest expense, net	(321 )	Interest expense, net	—
Six Months Ended June 30, 2015	(5,388 )	Interest expense, net	(709 )	Interest expense, net	—

## Fair Value Hedges

Associated with the refinancing of a secured note, on June 24, 2016, we terminated two interest rate swap contracts that were designated as fair value hedges and had an aggregate notional amount of \$62.9 million. Upon settlement, we received \$2.2 million, which was recognized as part of the gain on extinguishment of debt related to the hedged debt. As of December 31, 2015, we had two interest rate swap contracts, maturing through October 2017, with an aggregate notional amount of \$63.7 million that were designated as fair value hedges and convert fixed interest payments at rates of 7.5% to variable interest payments ranging from 4.41% to 4.44%. We have determined that our fair value hedges were highly effective in limiting our risk of changes in the fair value of fixed-rate notes attributable to changes in interest rates.

A summary of fair value interest rate swap contract hedging activity is as follows (in thousands):

	Gain (Loss) on Contracts	Gain (Loss) on Borrowings	Net Settlements and Accruals on Contracts <sup>(1)</sup> <sub>(3)</sub>	Amount of Gain (Loss) Recognized in Income <sup>(2)</sup> <sup>(3)</sup>
Three Months Ended June 30, 2016				
Interest expense, net	\$ (320 )	\$ 320	\$ 2,674	\$ 2,674
Six Months Ended June 30, 2016				
Interest expense, net	(418 )	418	3,140	3,140
Three Months Ended June 30, 2015				
Interest expense, net	(442 )	442	513	513
Six Months Ended June 30, 2015				
Interest expense, net	(389 )	389	1,038	1,038

(1) Amounts in this caption include gain (loss) recognized in income on derivatives and net cash settlements.

(2) No ineffectiveness was recognized during the respective periods.

(3) Included in each caption for both the three and six months ended June 30, 2016 is \$2.2 million received upon the termination of two interest rate swap contracts.

Credit-risk-related Contingent Features

We have agreements with some of our derivative counterparties that contain a provision that if we default on any of our indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, we could also be declared in default on our derivative obligations.

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As of June 30, 2016, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$7.1 million. As of June 30, 2016, we have not posted any collateral related to these agreements, and if we had breached any of the provisions, we would have been required to settle our obligations under them at their termination value of \$7.1 million.

## Note 7. Common Shares of Beneficial Interest

In February 2015, we established an at-the-market ("ATM") equity offering program under which we may, but are not obligated to, sell up to \$200 million of common shares, in amounts and at times as we determine, at prices determined by the market at the time of sale. Actual sales may depend on a variety of factors including, among others, market conditions, the trading price of our common shares, and determinations by management of the appropriate sources of funding for us. We intend to use the net proceeds from future sales for general trust purposes, which may include reducing borrowings under our \$500 million unsecured revolving credit facility, repaying other indebtedness or repurchasing outstanding debt.

The following shares were sold under the ATM equity offering program (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Shares sold	2,792	320	3,277	1,129
Weighted average price per share	\$38.32	\$35.91	\$38.16	\$36.18
Gross proceeds	\$106,992	\$11,476	\$125,058	\$40,836

As of the date of this filing, \$34.1 million of common shares remained available for sale under this ATM equity program.

In October 2015, our Board of Trust Managers approved a \$200 million share repurchase plan. Under this plan, we may repurchase common shares from time-to-time in open-market or in privately negotiated purchases. The timing and amount of any shares repurchased will be determined by management based on its evaluation of market conditions and other factors. The repurchase plan may be suspended or discontinued at any time, and we have no obligations to repurchase any amount of our common shares under the plan. As of the date of this filing, we have not repurchased any shares under this plan.

## Note 8. Noncontrolling Interests

The following table summarizes the effect of changes in our ownership interest in subsidiaries on the equity attributable to us as follows (in thousands):

	Six Months Ended June 30,	
	2016	2015
Net income adjusted for noncontrolling interests	\$142,890	\$83,676
Transfers from the noncontrolling interests:		
Increase in equity for operating partnership units	—	111
Change from net income adjusted for noncontrolling interests and transfers from the noncontrolling interests	\$142,890	\$83,787

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## Note 9. Supplemental Cash Flow Information

Non-cash investing and financing activities are summarized as follows (in thousands):

	Six Months Ended June 30,	
	2016	2015
Accrued property construction costs	\$7,895	\$6,412
Exchange of operating partnership units for common shares	—	111
Property acquisitions and investments in unconsolidated real estate joint ventures:		
Increase in debt, net	—	20,116
Consolidation of real estate joint venture (see Note 17):		
Increase in property, net	58,665	—
Increase in restricted deposits and mortgage escrows	30	—
Increase in debt, net	48,727	—
Increase in security deposits	169	—
Decrease in equity associated with deferred compensation plan (see Note 1)	48,140	—

## Note 10. Earnings Per Share

Earnings per common share – basic is computed using net income attributable to common shareholders and the weighted average number of shares outstanding – basic. Earnings per common share – diluted includes the effect of potentially dilutive securities. Income from continuing operations attributable to common shareholders includes gain on sale of property in accordance with Securities and Exchange Commission guidelines. Earnings per common share – basic and diluted components for the periods indicated are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Numerator:				
Income from continuing operations	\$36,618	\$29,623	\$100,128	\$56,323
Gain on sale of property	1,033	8,163	46,190	30,685
Net income attributable to noncontrolling interests	(1,835 )	(1,757 )	(3,428 )	(3,332 )
Dividends on preferred shares	—	(1,120 )	—	(3,830 )
Redemption costs of preferred shares	—	(9,687 )	—	(9,687 )
Net income attributable to common shareholders - basic	35,816	25,222	142,890	70,159
Income attributable to operating partnership units	—	—	998	—
Net income attributable to common shareholders - diluted	\$35,816	\$25,222	\$143,888	\$70,159
Denominator:				
Weighted average shares outstanding – basic	125,791	123,298	124,692	122,715
Effect of dilutive securities:				
Share options and awards	1,053	1,252	1,136	1,344
Operating partnership units	—	—	1,462	—
Weighted average shares outstanding – diluted	126,844	124,550	127,290	124,059

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Anti-dilutive securities of our common shares, which are excluded from the calculation of earnings per common share – diluted, are as follows (in thousands):

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
Share options <sup>(1)</sup>	462	899	462	897
Operating partnership units	1,462	1,480	—	1,483
Total anti-dilutive securities	1,924	2,379	462	2,380

(1) Exclusion results as exercise prices were greater than the average market price for each respective period.

## Note 11. Share Options and Awards

During 2016, we granted restricted share awards incorporating both service-based and market-based measures to promote share ownership among the participants and to emphasize the importance of total shareholder return ("TSR"). The terms of each grant vary depending upon the participant's responsibilities and position within the Company. We categorize these share awards as either service-based share awards or market-based share awards. All awards were valued at the fair market value on the date of grant and earn dividends from the date of grant. Compensation expense is measured at the grant date and recognized over the vesting period. Generally, unvested restricted share awards are forfeited upon the termination of the participant's employment with us.

The fair value of the market-based share awards was estimated on the date of grant using a Monte Carlo valuation model based on the following assumptions:

	Six Months Ended June 30, 2016	
	Minimum	Maximum
Dividend yield	0.0 %	4.0 %
Expected volatility <sup>(1)</sup>	16.0 %	20.4 %
Expected life (in years)	N/A	3
Risk-free interest rate	0.5 %	0.9 %

(1) Includes the volatility of the FTSE NAREIT U.S. Shopping Center index and Weingarten Realty Investors.

A summary of the status of unvested restricted share awards for the six months ended June 30, 2016 is as follows:

	Unvested Restricted Share Awards	Weighted Average Grant Date Fair Value
Outstanding, January 1, 2016	589,906	\$ 32.05
Granted:		
Service-based awards	117,268	34.54
Market-based awards relative to FTSE NAREIT U.S. Shopping Center Index	50,170	37.11
Market-based awards relative to three-year absolute TSR	50,170	24.20
Trust manager awards	24,983	37.63
Vested	(230,834)	32.00
Forfeited	(9,054)	33.98
Outstanding, June 30, 2016	592,609	\$ 32.53





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As of June 30, 2016 and December 31, 2015, there was approximately \$3.2 million and \$2.2 million, respectively, of total unrecognized compensation cost related to unvested restricted shares, which is expected to be amortized over a weighted average of 1.6 years and 0.8 years, respectively.

## Note 12. Employee Benefit Plans

## Defined Benefit Plan

We sponsor a noncontributory qualified retirement plan. The components of net periodic benefit cost for this plan are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Service cost	\$ 309	\$ 321	\$ 618	\$ 643
Interest cost	499	476	997	952
Expected return on plan assets	(729 )	(797 )	(1,458)	(1,569)
Recognized loss	376	360	753	720
Total	\$455	\$360	\$910	\$746

For the six months ended June 30, 2016 and 2015, we contributed \$2.0 million and \$1.5 million, respectively, to the qualified retirement plan. Currently, we do not anticipate making any additional contributions to this plan during 2016.

## Defined Contribution Plans

Compensation expense related to our defined contribution plans was \$.9 million and \$.8 million for the three months ended June 30, 2016 and 2015, respectively, and \$1.8 million and \$2.1 million for six months ended June 30, 2016 and 2015, respectively.

## Note 13. Related Parties

Through our management activities and transactions with our real estate joint ventures and partnerships, we had net accounts receivable of \$1.6 million and \$1.2 million outstanding as of June 30, 2016 and December 31, 2015, respectively. We also had accounts payable and accrued expenses of \$5.2 million outstanding as of both June 30, 2016 and December 31, 2015. We recorded joint venture fee income for both the three months ended June 30, 2016 and 2015 of \$1.1 million, and \$2.3 million for both the six months ended June 30, 2016 and 2015.

As of December 31, 2015, we held a combined 51% interest in an unconsolidated real estate joint venture that owned three centers in Colorado with total assets and debt of \$43.7 million and \$72.4 million, respectively. In February 2016, in exchange for our partners' aggregate 49% interest in this venture and \$2.5 million in cash, we distributed one center to our partners. We have consolidated this venture as of the transaction date and re-measured our investment in this venture to its fair value, and recognized a gain of \$37.4 million (See Note 17 for additional information).

## Note 14. Commitments and Contingencies

## Commitments and Contingencies

As of June 30, 2016 and December 31, 2015, we participated in two real estate ventures structured as DownREIT partnerships that have centers in Arkansas, North Carolina and Texas. As a general partner, we have operating and financial control over these ventures and consolidate them in our consolidated financial statements. These ventures allow the outside limited partners to put their interest in the partnership to us. We may acquire any limited partnership interests that are put to the partnership, and we have the option to redeem the interest in cash or a fixed number of our common shares, at our discretion. We also participate in a real estate venture that has a property in Texas that allows its outside partner to put operating partnership units to us. We have the option to redeem these units in cash or a fixed number of our common shares, at our discretion. No common shares were issued in exchange for any of these interests during the six months ended June 30, 2016. For the six months ended June 30, 2015, common shares valued at \$.1 million were issued in exchange for certain of these interests. The aggregate redemption value of these interests was approximately \$60 million and \$51 million as of June 30, 2016 and December 31, 2015, respectively.

As of June 30, 2016, we have entered into commitments aggregating \$52.2 million comprised principally of construction contracts which are generally due in 12 to 36 months.

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We have executed an agreement to purchase the retail portion of a mixed-use project for approximately \$24.0 million at delivery by the developer, which is estimated to occur in early 2017. Including this payment, our expected total investment in the retail portion of the project is approximately \$30.7 million.

We issue letters of intent signifying a willingness to negotiate for acquisitions, dispositions or joint ventures, as well as other types of potential transactions, during the ordinary course of our business. Such letters of intent and other arrangements are non-binding to all parties unless and until a definitive contract is entered into by the parties. Even if definitive contracts relating to the acquisition or disposition of property are entered into, these contracts generally provide the purchaser a time period to evaluate the property and conduct due diligence. The purchaser, during this time, will have the ability to terminate a contract without penalty or forfeiture of any deposit or earnest money. No assurance can be provided that any definitive contracts will be entered into with respect to any matter covered by letters of intent, or that we will consummate any transaction contemplated by a definitive contract. Additionally, due diligence periods for property transactions are frequently extended as needed. An acquisition or disposition of property becomes probable at the time the due diligence period expires and the definitive contract has not been terminated. Our risk is then generally extended only to any earnest money deposits associated with property acquisition contracts, and our obligation to sell under a property sales contract.

We are subject to numerous federal, state and local environmental laws, ordinances and regulations in the areas where we own or operate properties. We are not aware of any contamination which may have been caused by us or any of our tenants that would have a material effect on our consolidated financial statements.

As part of our risk management activities, we have applied and been accepted into state sponsored environmental programs which will limit our expenses if contaminants need to be remediated. We also have an environmental insurance policy that covers us against third party liabilities and remediation costs.

While we believe that we do not have any material exposure to environmental remediation costs, we cannot give absolute assurance that changes in the law or new discoveries of contamination will not result in additional liabilities to us.

Litigation

We are involved in various matters of litigation arising in the normal course of business. While we are unable to predict the amounts involved, our management and counsel are of the opinion that, when such litigation is resolved, any additional liability, if any, will not have a material effect on our consolidated financial statements.

Note 15. Variable Interest EntitiesConsolidated VIEs

At June 30, 2016 and December 31, 2015, 11 of our real estate joint ventures, whose activities primarily consisted of owning and operating 30 neighborhood/community shopping centers, were determined to be VIEs. Based on a financing agreement by one of our real estate joint ventures that is guaranteed solely by us, we have determined that we are the primary beneficiary and have consolidated this joint venture. For the remaining real estate joint ventures, we concluded we are the primary beneficiary based primarily on our significant power to direct the entities' activities without any substantive kick-out or participating rights.

A summary of our consolidated VIEs is as follows (in thousands):

	June 30, 2016	December 31, 2015
Assets Held by VIEs <sup>(1)</sup>	\$283,417	\$ 289,558
Assets Held as Collateral for Debt <sup>(2)</sup>	55,181	57,735
Debt Held by a VIE <sup>(2)</sup>	37,178	37,178

(1) Upon adoption of ASU No. 2015-02, "Amendments to the Consolidation Analysis," prior year's amount was made to conform to the current year presentation. See Note 2 for additional information.

(2) Represents the amount of debt and related assets held as collateral that are solely guaranteed by us at one real estate joint venture.



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Restrictions on the use of these assets can be significant because they may serve as collateral for debt. Further, we are generally required to obtain our partner's approval in accordance with the joint venture agreement for any major transactions. Transactions with these joint ventures on our consolidated financial statements have primarily been positive as demonstrated by the generation of net income and operating cash flows, as well as the receipt of cash distributions. We and our partners are subject to the provisions of the joint venture agreements which include provisions for when additional contributions may be required to fund operating cash shortfalls and unplanned capital expenditures. For the six months ended June 30, 2016, no additional contributions were made or are anticipated for these joint ventures.

In May 2015, the joint venture agreement related to a VIE, in which we guaranteed its debt, was amended to reflect an additional contribution of \$43 million made by us to the joint venture in the form of a preferred equity arrangement. The amended agreement specified that these funds were to be used by the joint venture to pay down debt that became due. This arrangement provided the most favorable economics, including financing and taxation considerations, to the joint venture, as well as to us.

## Unconsolidated VIEs

At June 30, 2016 and December 31, 2015, one unconsolidated real estate joint venture was determined to be a VIE through the issuance of a secured loan, since the lender had the ability to make decisions that could have a significant impact on the success of the entity. A summary of our unconsolidated VIE is as follows (in thousands):

	June 30, December 31,	
	2016	2015
Investment in Real Estate Joint Ventures and Partnerships, net <sup>(1) (2)</sup>	\$	—\$ 10,497
Maximum Risk of Loss <sup>(3)</sup>	34,000	10,992

(1) The carrying amount of the investment represents our contributions to the real estate joint venture, net of any distributions made and our portion of the equity in earnings of the joint venture.

(2) As of June 30, 2016, the carrying amount of the investment is \$(8) million, which is included in Other Liabilities as a result of the distribution of proceeds from the issuance of debt.

(3) The maximum risk of loss has been determined to be limited to our debt exposure for the real estate joint venture. We and our partner are subject to the provisions of the joint venture agreement that specify conditions, including operating shortfalls and unplanned capital expenditures, under which additional contributions may be required.

## Note 16. Fair Value Measurements

## Recurring Fair Value Measurements

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 and December 31, 2015, aggregated by the level in the fair value hierarchy in which those measurements fall, are as follows (in thousands):

	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)				Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at June 30, 2016
<b>Assets:</b>							
Investments, mutual funds held in a grantor trust	\$ 24,571						\$24,571
Investments, mutual funds	7,195						7,195
Total	\$ 31,766	\$ —	\$				—\$31,766
<b>Liabilities:</b>							
<b>Derivative instruments:</b>							
Interest rate contracts		\$ 8,227					\$8,227
Deferred compensation plan obligations	\$ 24,571						24,571

Total	\$ 24,571	\$ 8,227	\$	—\$32,798
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	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at December 31, 2015
Assets:				
Investments, mutual funds held in a grantor trust	\$ 20,579			\$ 20,579
Investments, mutual funds	7,043			7,043
Derivative instruments:				
Interest rate contracts		\$ 2,664		2,664
Total	\$ 27,622	\$ 2,664	\$	—\$ 30,286
Liabilities:				
Derivative instruments:				
Interest rate contracts		\$ 725		\$ 725
Deferred compensation plan obligations	\$ 20,579			20,579
Total	\$ 20,579	\$ 725	\$	—\$ 21,304

## Fair Value Disclosures

Unless otherwise described below, short-term financial instruments and receivables are carried at amounts which approximate their fair values based on their highly-liquid nature, short-term maturities and/or expected interest rates for similar instruments.

Schedule of our fair value disclosures is as follows (in thousands):

	June 30, 2016		December 31, 2015	
	Carrying Value	Fair Value Using Significant Other Observable Inputs (Level 2)	Carrying Value	Fair Value Using Significant Other Observable Inputs (Level 2)
Tax increment revenue bonds <sup>(1)</sup>	\$25,162	\$ 25,162	\$25,162	\$ 25,162
Investments, held to maturity <sup>(2)</sup>	4,247	\$ 4,252	1,750	\$ 1,750
Debt:				
Fixed-rate debt	1,924,649	2,016,566	1,869,683	1,907,579
Variable-rate debt	127,587	124,839	243,594	248,460

(1) At June 30, 2016 and December 31, 2015, the credit loss balance on our tax increment revenue bonds was \$31.0 million.

(2) Investments held to maturity are recorded at cost. As of June 30, 2016, these investments have a gross unrealized gain of \$5 thousand, and as of December 31, 2015, no unrealized gain or loss was recognized.

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The quantitative information about the significant unobservable inputs used for our Level 3 fair value measurements as of June 30, 2016 and December 31, 2015 reported in the above tables, is as follows:

Description	Fair Value at		Valuation Technique	Unobservable Inputs	Range			
	June 30, 2016	December 31, 2015			Minimum 2016	Maximum 2015	Minimum 2016	Maximum 2015
Tax increment revenue bonds	\$25,162	\$ 25,162	Discounted cash flows	Discount rate	6.5%	6.5%	7.5%	7.5%
				Expected future growth rate	1.0%	1.0%	2.0%	2.0%
				Expected future inflation rate	1.0%	1.0%	2.0%	3.0%
Fixed-rate debt								