RAMCO GERSHENSON PROPERTIES TRUST
Form 10-Q
November 01, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

Commission file number 1-10093

RAMCO-GERSHENSON PROPERTIES TRUST
(Exact name of registrant as specified in its charter)

MARYLAND (State of other jurisdiction of incorporation or organization)	13-6908486 (I.R.S Employer Identification Numbers)
31500 Northwestern Highway, Suite 300 Farmington Hills, Michigan (Address of principal executive offices)	48334 (Zip Code)

248-350-9900
(Registrant's telephone number, including area code)

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 x No o

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

Yes x No o

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 the definition of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o
Emerging growth company o

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

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

Yes o No x

Number of common shares of beneficial interest ($0.01 par value) of the registrant outstanding as of October 26, 2018: 80,153,381

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PART 1 – FINANCIAL INFORMATION
Item 1. Unaudited Condensed Consolidated Financial Statements
RAMCO-GERSHENSON PROPERTIES TRUST
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

	September 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Income producing properties, at cost:		
Land	$ 397,344	$ 397,935
Buildings and improvements	1,785,555	1,732,844
Less accumulated depreciation and amortization	(393,636)	(351,632)
Income producing properties, net	1,789,263	1,779,147
Construction in progress and land available for development or sale	59,692	58,243
Net real estate	1,848,955	1,837,390
Equity investments in unconsolidated joint ventures	1,556	3,493
Cash and cash equivalents	16,719	8,081
Restricted cash and escrows	3,017	4,810
Accounts receivable (net of allowance for doubtful accounts of $937 and $1,374 as of September 30, 2018 and December 31, 2017, respectively)	25,622	26,145
Acquired lease intangibles, net	47,676	59,559
Other assets, net	99,958	90,916
TOTAL ASSETS	$ 2,043,503	$ 2,030,394
LIABILITIES AND SHAREHOLDERS' EQUITY		
Notes payable, net	$ 1,047,113	$ 999,215
Capital lease obligation	1,022	1,022
Accounts payable and accrued expenses	59,433	56,750
Acquired lease intangibles, net	50,770	60,197
Other liabilities	8,494	8,375
Distributions payable	19,725	19,666
TOTAL LIABILITIES	1,186,557	1,145,225
Commitments and Contingencies		
Ramco-Gershenson Properties Trust ("RPT") Shareholders' Equity:		
Preferred shares, $0.01 par, 2,000 shares authorized: 7.25% Series D Cumulative Convertible Perpetual Preferred Shares, (stated at liquidation preference $50 per share), 1,849 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	92,427	92,427
Common shares of beneficial interest, $0.01 par, 120,000 shares authorized, 79,719 and 79,366 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	797	794
Additional paid-in capital	1,163,683	1,160,862
Accumulated distributions in excess of net income	(426,727)	(392,619)
Accumulated other comprehensive income	6,606	2,858
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO RPT	836,786	864,322

Noncontrolling interest	20,160	20,847
TOTAL SHAREHOLDERS' EQUITY	856,946	885,169
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 2,043,503	$ 2,030,394

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

RAMCO-GERSHENSON PROPERTIES TRUST
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
REVENUE				
Minimum rent	$47,851	$49,736	$147,282	$149,970
Percentage rent	120	106	545	570
Recovery income from tenants	15,161	14,923	45,995	46,655
Other property income	997	1,078	2,858	3,310
Management and other fee income	88	88	222	314
TOTAL REVENUE	64,217	65,931	196,902	200,819
EXPENSES				
Real estate taxes	11,037	10,948	31,796	32,670
Recoverable operating expense	6,301	6,660	19,248	20,699
Non-recoverable operating expense	1,358	1,039	3,470	3,430
Depreciation and amortization	21,150	23,130	65,719	69,282
Acquisition costs	—	—	233	—
General and administrative expense	8,131	5,738	27,396	18,561
Provision for impairment	—	1,885	216	8,423
TOTAL EXPENSES	47,977	49,400	148,078	153,065
OPERATING INCOME	16,240	16,531	48,824	47,754
OTHER INCOME AND EXPENSES				
Other (expense) income, net	(240)	123	(55)	(612)
Gain on sale of real estate	—	24,545	181	35,920
Earnings from unconsolidated joint ventures	297	81	570	223
Interest expense	(11,045)	(11,586)	(32,354)	(33,871)
Other gain on unconsolidated joint ventures	5,208	—	5,208	—
INCOME BEFORE TAX	10,460	29,694	22,374	49,414
Income tax provision	(96)	(65)	(147)	(119)
NET INCOME	10,364	29,629	22,227	49,295
Net income attributable to noncontrolling partner interest	(239)	(696)	(514)	(1,158)
NET INCOME ATTRIBUTABLE TO RPT	10,125	28,933	21,713	48,137
Preferred share dividends	(1,676)	(1,675)	(5,026)	(5,026)
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$8,449	$27,258	$16,687	$43,111
EARNINGS PER COMMON SHARE				
Basic	$0.10	$0.34	$0.21	$0.54
Diluted	$0.10	$0.33	$0.20	$0.54
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	79,712	79,381	79,547	79,337

Diluted	80,450	86,259	79,939	79,514
Cash Dividend Declared per Common Share	$0.22	$0.22	$0.66	$0.66
OTHER COMPREHENSIVE INCOME				
Net income	$10,364	$29,629	$22,227	$49,295
Other comprehensive gain:				
Gain on interest rate swaps	474	196	3,838	287
Comprehensive income	10,838	29,825	26,065	49,582
Comprehensive income attributable to noncontrolling interest	(250)	(701)	(604)	(1,164)
COMPREHENSIVE INCOME ATTRIBUTABLE TO RPT	$10,588	$29,124	$25,461	$48,418

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

RAMCO-GERSHENSON PROPERTIES TRUST
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
For the Nine Months Ended September 30, 2018
(In thousands)
(Unaudited)

	Shareholders' Equity of Ramco-Gershenson Properties Trust						
	Preferred Shares	Common Shares	Additional Paid-in Capital	Accumulated Distributions in Excess of Net Income	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total Shareholders' Equity
Balance, December 31, 2017	$92,427	$ 794	$1,160,862	$(392,619)	$ 2,858	$ 20,847	$ 885,169
Adoption of ASU 2017-05	—	—	—	2,109	—	51	2,160
Issuance of common shares, net of issuance costs	—	—	(39)	—	—	—	(39)
Redemption of OP unit holders	—	—	—	(18)	—	(79)	(97)
Share-based compensation and other expense, net of shares withheld for employee taxes	—	3	2,860	—	—	—	2,863
Dividends declared to common shareholders	—	—	—	(52,519)	—	—	(52,519)
Dividends declared to preferred shareholders	—	—	—	(5,026)	—	—	(5,026)
Distributions declared to noncontrolling interests	—	—	—	—	—	(1,263)	(1,263)
Dividends declared to deferred shares	—	—	—	(367)	—	—	(367)
Other comprehensive income adjustment	—	—	—	—	3,748	90	3,838
Net income	—	—	—	21,713	—	514	22,227
Balance, September 30, 2018	$92,427	$ 797	$1,163,683	$(426,727)	$ 6,606	$ 20,160	$ 856,946

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

RAMCO GERSHENSON PROPERTIES TRUST
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
OPERATING ACTIVITIES		
Net income	$22,227	$49,295
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	65,719	69,282
Amortization of deferred financing fees	1,140	1,040
Income tax provision	147	119
Earnings from unconsolidated joint ventures	(570)	(223)
Distributions received from operations of unconsolidated joint ventures	546	613
Provision for impairment	216	8,423
Other gain on unconsolidated joint ventures	(5,208)	—
Gain on sale of real estate	(181)	(35,920)
Amortization of premium on mortgages, net	(772)	(870)
Service-based restricted share expense	3,980	1,970
Long-term incentive cash and equity compensation expense	1,346	251
Changes in assets and liabilities:		
Accounts receivable, net	523	(1,441)
Acquired lease intangibles and other assets, net	(1,786)	(480)
Accounts payable, acquired lease intangibles and other liabilities	(7,509)	(3,201)
Net cash provided by operating activities	79,818	88,858
INVESTING ACTIVITIES		
Acquisition of real estate	(6,365)	(169,882)
Development and capital improvements	(64,335)	(43,966)
Net proceeds from sales of real estate	1,354	121,419
Distributions from sale of joint venture property	6,308	—
Investment in unconsolidated joint ventures	3,000	—
Net cash used in investing activities	(60,038)	(92,429)
FINANCING ACTIVITIES		
Repayments of mortgages and notes payable	(1,902)	(2,381)
Proceeds on revolving credit facility	65,000	224,000
Repayments on revolving credit facility	(15,000)	(161,000)
Payment of deferred financing costs	—	(2,263)
Proceeds, net of costs, from issuance of common stock	(39)	(24)
Redemption of operating partnership units for cash	(97)	(8)
Shares used for employee taxes upon vesting of awards	(1,781)	(497)
Dividends paid to preferred shareholders	(5,026)	(5,026)
Dividends paid to common shareholders and deferred shares	(52,827)	(52,653)
Distributions paid to operating partnership unit holders	(1,263)	(1,266)
Net cash used in financing activities	(12,935)	(1,118)

Net change in cash, cash equivalents and restricted cash	6,845	(4,689)
Cash, cash equivalents and restricted cash at beginning of period	12,891	14,726
Cash, cash equivalents and restricted cash at end of period	$19,736	$10,037
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest (net of capitalized interest of $706 and $193 in 2018 and 2017, respectively)	$27,986	$29,698
Deferred gain recognized in equity	$2,160	$—

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

RAMCO-GERSHENSON PROPERTIES TRUST
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Organization and Basis of Presentations

Organization

Ramco-Gershenson Properties Trust, together with its subsidiaries (the “Company” or "RPT"), owns and operates a national portfolio of dynamic open-air shopping destinations principally located in the top U.S. markets. The Company's locally-curated consumer experience reflect the lifestyles of its diverse neighborhoods and match the modern expectation of its retail partners. The Company is a fully integrated and self-administered REIT publicly traded on the New York Stock Exchange under the ticker symbol RPT. As of September 30, 2018, the Company's portfolio consisted of 57 shopping centers (including one shopping center owned through a joint venture) representing 13.8 million square feet. As of September 30, 2018, the Company’s aggregate portfolio was 94.2% leased.

Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of the Company and our majority owned subsidiary, the Operating Partnership, Ramco-Gershenson Properties, L.P. (the "OP") (97.7% owned by the Company at September 30, 2018 and December 31, 2017), and all wholly-owned subsidiaries, including entities in which we have a controlling financial interest.

We have elected to be a REIT for federal income tax purposes. All intercompany balances and transactions have been eliminated in consolidation. The information furnished is unaudited and reflects all adjustments which are, in the opinion of management, necessary to reflect a fair statement of the results for the interim periods presented, and all such adjustments are of a normal recurring nature. These condensed consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2017.

The preparation of our unaudited financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management of the Company 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 unaudited financial statements and the reported amounts of revenues and expenses during the reporting period. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and reported amounts that are not readily apparent from other sources. Actual results could differ from those estimates.

Recently Adopted Accounting Pronouncements

In February 2017, the FASB issued ASU 2017-05 "Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets" ("ASU 2017-05"). ASU 2017-05 clarifies that a financial asset is within the scope of Subtopic 610-20 if it meets the definition of an in substance nonfinancial asset. ASU 2017-05 also defines the term "in substance nonfinancial asset". In addition, ASU 2017-05 eliminates the guidance specific to real estate sales in ASC 360-20. It became effective for annual periods beginning after December 15, 2017, therefore we adopted the standard on January 1, 2018. In doing so, the Company recorded an adjustment under the modified retrospective method of approximately $2.2 million to shareholders' equity associated with a transaction that occurred in the fourth quarter of 2017. The adjustment had no impact on earnings or cash flows.

In May 2017, the FASB issued ASU 2017-09 "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting" ("ASU 2017-09"). ASU 2017-09 clarifies guidance about what changes to the terms and conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. It became effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The adoption of this standard did not have a material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18 "Statement of Cash Flows." This new guidance became effective January 1, 2018, with early adoption permitted, and requires amounts that are generally described as restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The pronouncement requires a retrospective transition method of adoption. The adoption of this standard resulted in the reclassification of approximately $4.0 million of cash outflows from real estate acquisitions during the nine months ended September 30, 2018 that were held in escrow as restricted cash. The amount was reclassified as acquisition of real estate from a non cash investing activity.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balances sheets that reconciles to the total shown within the consolidated statements of cash flows.

	As of September 30,	
	2018	2017
	(In thousands)	
Cash and cash equivalents	$16,719	$4,781
Restricted cash and escrows	3,017	5,256
	$19,736	$10,037

Restricted cash generally consists of funds held in escrow by lenders to pay real estate taxes, insurance premiums and certain capital expenditures. In limited instances, restricted cash may include deposits on potential future acquisitions and/or proceeds related to dispositions of real estate.

In August 2016, the FASB issued ASU 2016-15 "Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"), which clarifies the treatment of several cash flow categories. In addition, ASU 2016-15 clarifies that when cash receipts and cash payments have aspects of more than one class of cash flows and cannot be separated, classification will depend on the predominant source or use. This update became effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted, including adoption in an interim period. The adoption of this standard did not have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). ASU 2014-09 is a comprehensive revenue recognition standard that superseded nearly all prior GAAP revenue recognition guidance as well as prior GAAP guidance governing the sale of non-financial assets. The standard’s core principle is that a company should recognize revenue when it satisfies performance obligations, by transferring promised goods or services to customers, in an amount that reflects the consideration to which the company expects to be entitled in exchange for fulfilling those performance obligations. In doing so, companies need to exercise more judgment and make more estimates than under prior GAAP guidance. ASU 2014-09 became effective for public entities for annual and interim reporting periods beginning after December 15, 2017 and early adoption was permitted in periods ending after December 15, 2016. The guidance permitted two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect initially applying the guidance recognized at the date of initial application (modified retrospective method). We adopted the standard and the related updates subsequently issued by the FASB using the modified retrospective method on January 1, 2018. ASU 2014-09 applies only to certain revenue included in Other Property Income and Management and Other Fee Income in our Consolidated Statement of Operations which totaled $3.1 million, or less than 2.0% of total revenue, for the nine months ended September 30, 2018. The adoption of the standard did not result in a cumulative adjustment recognized as of January 1, 2018.

Recent Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-13, "Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement", which amends ASC 820, Fair Value Measurement. ASU 2018-13 modified the disclosure requirements for fair value measurements by removing, modifying or adding certain disclosures. This standard is effective for public companies for fiscal years beginning after December 15, 2019, including interim periods within that fiscal year. We are currently evaluating the guidance and have not determined the impact this standard may have on our consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, "Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting", which expands the scope of Topic 718, Compensation-Stock Compensation (which currently only includes share-based payments to employees) to include share-based payments issued to nonemployees for goods or services. Consequently, the accounting for share-based payments to nonemployees and employees will be substantially aligned. This standard is effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. The adoption of ASU 2018-07 is not expected to have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04 "Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"). ASU 2017-04 simplifies the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. ASU 2017-04 is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019, and should be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of ASU 2017-04 is not expected to have a material impact on our consolidated financial statements.

In June 2016, the FASB updated Accounting Standards Codification ("ASC") Topic 326 "Financial Instruments - Credit Losses" with ASU 2016-13 “Measurement of Credit Losses on Financial Instruments” ("ASU 2016-13"). ASU 2016-13 enhances the methodology of measuring expected credit losses to include the use of forward-looking information to better inform credit loss estimates. ASU 2016-13 is effective for annual periods beginning after December 15, 2019, including interim periods within that fiscal year. We are currently evaluating the guidance and have not determined the impact this standard may have on our consolidated financial statements.

In February 2016, the FASB updated ASC Topic 842 "Leases" ("ASU 2016-02"). ASU 2016-02 requires lessees to record operating and financing leases as assets and liabilities on the balance sheet and lessors to expense costs that are not direct leasing costs. In addition, the following ASUs were subsequently issued related to ASC Topic 842, all of which will be effective with ASU 2016-02:

- In January 2018, the FASB issued ASU 2018-01, "Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842". The standard provides an optional transition practical expedient for the adoption of ASU 2016-02 that, if elected, would not require an organization to reconsider its accounting for existing land easements that are not currently accounted for under the old leases standard.
- In July 2018, the FASB issued ASU 2018-10, "Codification Improvements to Topic 842, Leases", which affects narrow aspects of the guidance issued in the amendments in ASU 2016-02.
- In July 2018, the FASB issued ASU 2018-11, "Leases (Topic 842): Targeted Improvements", which provide lessors with a practical expedient, by class of underlying asset, to not separate nonlease components from the associated lease component and, instead, to account for those components as a single component if the nonlease components otherwise would be accounted for under the new revenue guidance (Topic 606) and certain criteria are met. The guidance also provides an optional transition method which would allow entities to initially apply the new guidance in the period of adoption, recognizing a cumulative-effect adjustment to the opening balance of retained earnings, if necessary.

ASU 2016-02 is effective for periods beginning after December 15, 2018, with early adoption permitted using a modified retrospective approach. The Company continues to evaluate the effect the adoption of ASU 2016-02 will have on our consolidated financial statements and related disclosures. We preliminarily plan to elect the practical expedients allowable under ASU 2018-01 and ASU 2018-11, and believe the adoption of ASU 2016-02 will not have a material impact for operating leases where we are a lessor and we will continue to record revenues from rental properties for operating leases on a straight-line basis. In addition, for leases where the Company is a lessee, primarily the Company’s ground lease and administrative office leases, the Company believes it will record a lease liability and a right of use asset at fair value upon adoption related to these items. Additionally, only incremental direct leasing costs may be capitalized under this new guidance. The Company expects to adopt this new guidance on January 1, 2019 and will continue to evaluate the impact of this guidance until it becomes effective.

2. Real Estate

Included in our net real estate assets are income producing properties that are recorded at cost less accumulated depreciation and amortization, construction in process and land available for development or sale.

We review our investment in real estate, including any related intangible assets, for impairment on a property-by-property basis whenever events or changes in circumstances indicate that the carrying value of the property may not be recoverable. These changes in circumstances include, but are not limited to, changes in occupancy, rental rates, tenant sales, net operating income, geographic location, real estate values and expected holding period.

For the three months ended September 30, 2018, we recorded no impairment provision. For the nine months ended September 30, 2018, we recorded an impairment provision totaling $0.2 million on a land parcel. The 2018 adjustment was triggered by higher costs related to this parcel. To estimate fair value, we use discounted cash flow models that include assumptions of the discount rates that market participants would use in pricing an asset or market pricing from potential or comparable transactions. For the three and nine months ended September 30, 2017, we recorded an impairment provision totaling $1.9 million and $8.4 million, respectively, on shopping centers classified as income producing.

In accordance with ASC360-10, the Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that long-lived assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. During the third quarter of 2018, events and circumstances indicated that shopping centers might be impaired. However, the Company’s estimates of undiscounted cash flows indicated that such carrying amounts were expected to be recovered. Nonetheless, it is reasonably possible that the estimates of undiscounted cash flows may change in the near term resulting in the need to write down these assets to fair value.

Land available for development or sale includes real estate projects where vertical construction has yet to commence, but which have been identified by us and are available for future development when market conditions dictate the demand for a new shopping center. The viability of all projects under construction or development, including those owned by unconsolidated joint ventures, is regularly evaluated under applicable accounting requirements, including requirements relating to abandonment of assets or changes in use. Land available for development or sale was $31.8 million and $31.6 million at September 30, 2018 and December 31, 2017, respectively.

Construction in progress represents existing development, redevelopment and tenant build-out projects. When projects are substantially complete and ready for their intended use, balances are transferred to land or building and improvements as appropriate. Construction in progress was $27.9 million and $26.6 million at September 30, 2018 and December 31, 2017, respectively. The increase in construction in progress from December 31, 2017 to September 30, 2018 was due primarily to the ongoing redevelopment and expansion projects across the portfolio.

Pursuant to the criteria established under ASC Topic 360 we classify properties as held for sale when executed purchase and sales agreement contingencies have been satisfied thereby signifying that the sale is legally binding. As of September 30, 2018, and December 31, 2017, we had no properties and no land parcels classified as held for sale.

3. Property Acquisitions and Dispositions

Acquisitions

The following table provides a summary of our acquisition activity for the nine months ended September 30, 2018:

Property Name	Location	GLA	Acreage	Date Acquired	Gross Purchase Price	Assumed Debt
		(in thousands)			(In thousands)	
Leasehold Interest (West Oaks)	Novi, MI	60	N/A	01/05/18	$ 6,365	$ —
Total consolidated income producing acquisitions		60	—		$ 6,365	$ —
Total Acquisitions		60	—		$ 6,365	$ —

The aggregate fair value of our 2018 acquisition through September 30, 2018, was allocated and is reflected in the following table.

	Allocated Fair Value
	(In thousands)
Buildings and improvements	$ 6,427
Above market leases	237
Lease origination costs	633
Other liabilities	(353)
Below market leases	(579)

Total purchase price allocated	$ 6,365

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Total revenue and net income for the 2018 acquisition included in our condensed consolidated statement of operations for the three and six months ended September 30, 2018 were as follows:

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
	(In thousands)	
Total revenue from 2018 acquisition	$196	$ 584
Net income from 2018 acquisition	$128	$ 372

Unaudited Proforma Information

If the 2018 acquisition had occurred on January 1, 2017, our consolidated revenues and net income for the three and nine months ended September 30, 2018 and 2017 would have been as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	(In thousands)			
Consolidated revenue	$64,217	$66,102	$196,910	$201,321
Consolidated net income available to common shareholders	$8,450	$27,358	$16,691	$43,401

Dispositions

The following table provides a summary of our disposition activity for the nine months ended September 30, 2018.

Property Name	Location	GLA	Acreage	Date Sold	Gross Sales Price	Gain on Sale
					(In thousands)	
Theatre Parcel - Hartland Town Square	Hartland, MI	N/A	7.5	04/02/18	$ 1,450	$ 181
Peachtree Hills - Outparcel	Duluth, GA	N/A	1.7	05/25/18	$ 650	$ —
Total outparcel dispositions		—	9.2		$ 2,100	$ 181
Total Dispositions		—	9.2		$ 2,100	$ 181

4. Equity Investments in Unconsolidated Joint Ventures

We have three joint venture agreements whereby we own 7%, 20%, and 30%, respectively, of the equity in each joint venture. We and the joint venture partners have joint approval rights for major decisions, including those regarding property operations. We cannot make significant decisions without our partner's approval. Accordingly, we account for our interest in the joint ventures using the equity method of accounting.

On April 27, 2018 we sold our 30% interest in a joint venture created in November 2017 for proceeds of $3.1 million to our unrelated joint venture partner. The proceeds received from the transaction represent the return of our initial investment of $3.0 million and our share of earnings from the joint venture's operations since inception of $0.1 million. We did not record a gain or loss on sale of our interest in the joint venture.

The combined condensed financial information for our unconsolidated joint ventures is summarized as follows:

Balance Sheets	September 30, 2018	December 31, 2017
	(In thousands)	
ASSETS		
Investment in real estate, net	$22,243	$ 93,801
Other assets	1,661	4,099
Total Assets	$23,904	$ 97,900
LIABILITIES AND OWNERS' EQUITY		
Mortgage notes payable	$—	$ 42,330
Other liabilities	$1	$ 220
Owners' equity	23,903	55,350
Total Liabilities and Owners' Equity	$23,904	$ 97,900
RPT's equity investments in unconsolidated joint ventures	$1,556	$ 3,493

	Three Months Ended September 30,		Nine Months Ended September 30,	
Statements of Operations	2018	2017	2018	2017
	(In thousands)		(In thousands)	
Total revenue	$782	$1,192	$3,204	$3,485
Total expenses	654	745	2,269	2,250
Income before other income and expense	128	447	935	1,235
Gain on sale of real estate	1,024	—	1,024	—
Net income	$1,152	$447	$1,959	$1,235
RPT's share of earnings from unconsolidated joint ventures	$297	$81	$570	$223

Acquisitions

There was no acquisition activity in the nine months ended September 30, 2018 by any of our unconsolidated joint ventures.

Dispositions

The following table provides a summary of our unconsolidated joint venture property disposition activity during the nine months ended September 30, 2018.

Property Name	Location	GLA	Ownership %		Date Sold	Gross Sales Price	Gross Gain on Sale (at 100%)
		(in thousands)				(In thousands)	
Martin Square	Stuart, FL	330	30	%	07/18/18	$22,000	$1,024
		330				$22,000	$1,024
RPT's proportionate share of gross sales price and gain on sale of joint venture property						$6,600	$307

The Company recorded an other gain on unconsolidated joint ventures for the three and nine months ended September 30, 2018 of $5.2 million which represents the excess of the net cash distributed to it from the Martin Square disposition and its proportionate share of the remaining equity in the unconsolidated joint venture.

Joint Venture Management and Other Fee Income

We are engaged by our joint ventures to provide asset management, property management, leasing and investing services for such ventures' respective properties. We receive fees for our services, including a property management fee calculated as a percentage of gross revenues received, and recognize these fees as the services are rendered.

The following table provides information for our fees earned which are reported in our condensed consolidated statements of operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In thousands)		(In thousands)	
Management fees	$ 33	$ 69	$127	$206
Leasing fees	—	19	40	108
Disposition fees	55	—	55	—
Total	$ 88	$ 88	$222	$314

5. Debt

The following table summarizes our mortgages, notes payable and capital lease obligation as of September 30, 2018 and December 31, 2017:

Notes Payable and Capital Lease Obligation	September 30, 2018	December 31, 2017
	(In thousands)	
Senior unsecured notes	$610,000	$ 610,000
Unsecured term loan facilities	210,000	210,000
Fixed rate mortgages	119,042	120,944
Unsecured revolving credit facility	80,000	30,000
Junior subordinated notes	28,125	28,125
	1,047,167	999,069
Unamortized premium	3,195	3,967
Unamortized deferred financing costs	(3,249)	(3,821)
Total notes payable	$1,047,113	$ 999,215
Capital lease obligation	$1,022	$ 1,022

Senior Unsecured Notes

The following table summarizes the Company's senior unsecured notes:

Senior Unsecured Notes	Maturity Date	September 30, 2018 Principal Balance	Interest Rate/Weighted Average Interest Rate	December 31, 2017 Principal Balance	Interest Rate/Weighted Average Interest Rate
		(in thousands)		(in thousands)	
Senior unsecured notes - 3.75% due 2021	6/27/2021	$37,000	3.75 %	$37,000	3.75 %
Senior unsecured notes - 4.13% due 2022	12/21/2022	25,000	4.13 %	25,000	4.13 %
Senior unsecured notes - 4.12% due 2023	6/27/2023	41,500	4.12 %	41,500	4.12 %
Senior unsecured notes - 4.65% due 2024	5/28/2024	50,000	4.65 %	50,000	4.65 %
Senior unsecured notes - 4.16% due 2024	11/4/2024	50,000	4.16 %	50,000	4.16 %
Senior unsecured notes - 4.05% due 2024	11/18/2024	25,000	4.05 %	25,000	4.05 %
Senior unsecured notes - 4.27% due 2025	6/27/2025	31,500	4.27 %	31,500	4.27 %
Senior unsecured notes - 4.20% due 2025	7/6/2025	50,000	4.20 %	50,000	4.20 %
Senior unsecured notes - 4.09% due 2025	9/30/2025	50,000	4.09 %	50,000	4.09 %
Senior unsecured notes - 4.74% due 2026	5/28/2026	50,000	4.74 %	50,000	4.74 %
Senior unsecured notes - 4.30% due 2026	11/4/2026	50,000	4.30 %	50,000	4.30 %
Senior unsecured notes - 4.28% due 2026	11/18/2026	25,000	4.28 %	25,000	4.28 %
Senior unsecured notes - 4.57% due 2027	12/21/2027	30,000	4.57 %	30,000	4.57 %
Senior unsecured notes - 3.64% due 2028	11/30/2028	75,000	3.64 %	75,000	3.64 %
Senior unsecured notes - 4.72% due 2029	12/21/2029	20,000	4.72 %	20,000	4.72 %
		$610,000	4.21 %	$610,000	4.21 %
Unamortized deferred financing costs		(1,611)		(1,783)	
	Total	$608,389		$608,217	

Unsecured Term Loan Facilities and Revolving Credit Facility

The following table summarizes the Company's unsecured term loan facilities and revolving credit facility:

Unsecured Credit Facilities	Maturity Date	September 30, 2018 Principal Balance (in thousands)	Interest Rate/Weighted Average Interest Rate		December 31, 2017 Principal Balance (in thousands)	Interest Rate/Weighted Average Interest Rate	
Unsecured term loan due 2020 - fixed rate (1)	5/16/2020	$75,000	2.99	%	$75,000	2.99	%
Unsecured term loan due 2021 - fixed rate (2)	5/29/2021	75,000	2.84	%	75,000	2.84	%
Unsecured term loan due 2023 - fixed rate (3)	3/1/2023	60,000	3.60	%	60,000	3.60	%
		$210,000	3.11	%	$210,000	3.11	%
Unamortized deferred financing costs		(900)			(1,224)		
Term loans, net		$209,100			$208,776		
Revolving credit facility - variable rate	9/14/2021	$80,000	3.39	%	30,000	2.71	%

(1) Swapped to a weighted average fixed rate of 1.69%, plus a credit spread of 1.30%, based on a leverage grid at September 30, 2018.
(2) Swapped to a weighted average fixed rate of 1.49%, plus a credit spread of 1.35%, based on a leverage grid at September 30, 2018.
(3) Swapped to a weighted average fixed rate of 1.95%, plus a credit spread of 1.65%, based on a leverage grid at September 30, 2018.

As of September 30, 2018, we had $80.0 million outstanding under our revolving credit facility, an increase of $50.0 million from December 31, 2017, as a result of borrowings to fund the Company's redevelopment projects and other liquidity needs. After adjusting for outstanding letters of credit issued under our revolving credit facility, not reflected in the accompanying condensed consolidated balance sheets, totaling $0.2 million, we had $269.8 million of availability under our revolving credit facility. The interest rate as of September 30, 2018 was 3.39%.

Mortgages

The following table summarizes the Company's fixed rate mortgages:

Mortgage Debt	Maturity Date	September 30, 2018 Principal Balance (in thousands)	Interest Rate/Weighted Average Interest Rate		December 31, 2017 Principal Balance (in thousands)	Interest Rate/Weighted Average Interest Rate	
Crossroads Centre Home Depot	12/1/2019	$3,275	7.38	%	$3,352	7.38	%
West Oaks II and Spring Meadows Place	4/20/2020	26,012	6.50	%	26,611	6.50	%
Bridgewater Falls Shopping Center	2/6/2022	54,780	5.70	%	55,545	5.70	%
The Shops on Lane Avenue	1/10/2023	28,650	3.76	%	28,650	3.76	%
Nagawaukee II	6/1/2026	6,325	5.80	%	6,786	5.80	%

	$119,042	5.46 %	$120,944	5.47 %
Unamortized premium	3,195		3,967	
Unamortized deferred financing costs	(99)		(149)	
Total	$122,138		$124,762	

The fixed rate mortgages are secured by properties that have an approximate net book value of $187.5 million as of September 30, 2018. It is our intent to repay the mortgages maturing in 2019 and beyond using cash, borrowings under our unsecured line of credit, net proceeds from the sale of real estate or other sources of financing which may include long-term unsecured notes.

The mortgage loans encumbering our properties are generally nonrecourse, subject to certain exceptions for which we would be liable for any resulting losses incurred by the lender. These exceptions vary from loan to loan but generally include fraud or a material misrepresentation, misstatement or omission by the borrower, intentional or grossly negligent conduct by the borrower that harms the property or results in a loss to the lender, filing of a bankruptcy petition by the borrower, either directly or indirectly and certain environmental liabilities. In addition, upon the occurrence of certain events, such as fraud or filing of a bankruptcy petition by the borrower, we or our joint ventures would be liable for the entire outstanding balance of the loan, all interest accrued thereon and certain other costs, including penalties and expenses.

We have entered into mortgage loans which are secured by multiple properties and contain cross-collateralization and cross-default provisions. Cross-collateralization provisions allow a lender to foreclose on multiple properties in the event that we default under the loan. Cross-default provisions allow a lender to foreclose on the related property in the event a default is declared under another loan.

Junior Subordinated Notes

Our junior subordinated notes have a variable rate of LIBOR plus 3.30%. The maturity date is January 2038.

Debt Maturities

The following table presents scheduled principal payments on mortgages and notes payable as of September 30, 2018:

Year Ending December 31,	(In thousands)
2018	$659
2019	5,860
2020	102,269
2021 [1]	194,508
2022	77,397
Thereafter	666,474
Subtotal debt	1,047,167
Unamortized premium	3,195
Unamortized deferred financing costs	(3,249)
Total debt	$1,047,113

[1] Scheduled maturities in 2021 include the $80.0 million balance on the unsecured revolving credit facility drawn as of September 30, 2018. The unsecured revolving credit facility has two six-month extensions available at the Company's option provided compliance with financial covenants is maintained.

Our unsecured revolving credit facility, senior unsecured notes, and unsecured term loan facilities contain financial covenants relating to total leverage, fixed charge coverage ratio, unencumbered assets, tangible net worth and various other calculations. As of September 30, 2018, we were in compliance with these covenants.

6. Fair Value

We utilize fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Derivative instruments (interest rate swaps) are recorded at fair value on a recurring basis. Additionally, we, from time to time, may be required to record other assets at fair value on a nonrecurring basis. As a basis for considering market participant assumptions in fair value measurements, GAAP establishes three fair value levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The assessed inputs used in determining any fair value measurement could result in incorrect valuations that could be material to our condensed consolidated financial statements. These levels are:

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 Valuation is based upon prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the assets or liabilities.

The following is a description of valuation methodologies used for our assets and liabilities recorded at fair value.

Derivative Assets and Liabilities

All of our derivative instruments are interest rate swaps for which quoted market prices are not readily available. For those derivatives, we measure fair value on a recurring basis using valuation models that use primarily market observable inputs, such as yield curves. We classify these instruments as Level 2. Refer to Note 7 Derivative Financial Instruments of the notes to the condensed consolidated financial statements for additional information on our derivative financial instruments.

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017.

	Balance Sheet Location	Total Fair Value	Level 2
September 30, 2018		(In thousands)	
Derivative assets - interest rate swaps	Other assets	$6,763	$6,763
Derivative liabilities - interest rate swaps	Other liabilities	$—	$—
December 31, 2017			
Derivative assets - interest rate swaps	Other assets	$3,133	$3,133
Derivative liabilities - interest rate swaps	Other liabilities	$(208)	$(208)

The carrying values of cash and cash equivalents, restricted cash, receivables and accounts payable and accrued liabilities are reasonable estimates of their fair values because of the short maturity of these financial instruments.

We estimated the fair value of our debt based on our incremental borrowing rates for similar types of borrowing arrangements with the same remaining maturity and on the discounted estimated future cash payments to be made for other debt. The discount rates used approximate current lending rates for loans or groups of loans with similar maturities and credit quality, assume the debt is outstanding through maturity and consider the debt's collateral (if applicable). Since such amounts are estimates that are based on limited available market information for similar transactions (Level 3), there can be no assurance that the disclosed value of any financial instrument could be realized by immediate settlement of the instrument.

Fixed rate debt (including variable rate debt swapped to fixed through derivatives) with carrying values of $939.0 million and $940.9 million as of September 30, 2018 and December 31, 2017, respectively, had fair values of approximately $921.6 million and $940.8 million, respectively. Variable rate debt's fair value is estimated to be the carrying values of $108.1 million and $58.1 million as of September 30, 2018 and December 31, 2017, respectively.

The following is a description of valuation methodologies used for our assets and liabilities recorded at fair value on a nonrecurring basis:

Net Real Estate

Our net investment in real estate, including any identifiable intangible assets, is subject to impairment testing on a nonrecurring basis. To estimate fair value, we use discounted cash flow models that include assumptions of the discount rates that market participants would use in pricing the asset or pricing from potential or comparable market transactions. To the extent impairment has occurred, we charge to expense the excess of the carrying value of the property over its estimated fair value. We classify impaired real estate assets as nonrecurring Level 3. During the nine months ended September 30, 2018, a land parcel with a fair value of approximately $0.6 million incurred impairment charges of $0.2 million. We did not have any material liabilities that were required to be measured at fair value on a nonrecurring basis during the period.

7. Derivative Financial Instruments

We utilize interest rate swap agreements for risk management purposes to reduce the impact of changes in interest rates on our variable rate debt. We may also enter into forward starting swaps to set the effective interest rate on planned variable rate financing. On the date we enter into an interest rate swap, the derivative is designated as a hedge against the variability of cash flows that are to be paid in connection with a recognized liability. Subsequent changes in the fair value of a derivative designated as a cash flow hedge that is determined to be effective are recorded in other comprehensive income (“OCI”) until earnings are affected by the variability of cash flows of the hedged transaction. The differential between fixed and variable rates to be paid or received is accrued, as interest rates change, and recognized currently as interest expense in the condensed consolidated statements of operations. We assess effectiveness of our cash flow hedges both at inception and on an ongoing basis. Our cash flow hedges become ineffective, for example, if critical terms of the hedging instrument and the debt do not perfectly match such as notional amounts, settlement dates, reset dates and calculation period and LIBOR rate. At September 30, 2018, all of our hedges were effective.

The following table summarizes the notional values and fair values of our derivative financial instruments as of September 30, 2018:

Underlying Debt	Hedge Type	Notional Value (In thousands)	Fixed Rate	Fair Value (In thousands)	Expiration Date
Derivative Assets					
Unsecured term loan	Cash Flow	$ 25,000	1.850%	$ —	10/2018
Unsecured term loan	Cash Flow	5,000	1.840%	—	10/2018
Unsecured term loan	Cash Flow	30,000	2.048%	—	10/2018
Unsecured term loan	Cash Flow	15,000			