MACERICH CO
Form 10-Q
May 07, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
Commission File No. 1-12504
THE MACERICH COMPANY
(Exact name of registrant as specified in its charter)

MARYLAND	95-4448705
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

401 Wilshire Boulevard, Suite 700, Santa Monica, California 90401
(Address of principal executive office, including zip code)
(310) 394-6000
(Registrant's telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding twelve (12) months (or for such shorter period that the registrant was required to submit and post 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 definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.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 shares outstanding as of May 7, 2018 of the registrant's common stock, par value $0.01 per share: 140,992,474 shares

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THE MACERICH COMPANY
FORM 10-Q
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THE MACERICH COMPANY
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except par value)
(Unaudited)

	March 31, 2018	December 31, 2017
ASSETS:		
Property, net	$6,908,416	$7,109,230
Assets held for sale	142,611	—
Cash and cash equivalents	118,175	91,038
Restricted cash	49,677	52,067
Tenant and other receivables, net	94,081	112,653
Deferred charges and other assets, net	399,153	449,190
Due from affiliates	84,674	82,162
Investments in unconsolidated joint ventures	1,360,486	1,709,522
Total assets	$9,157,273	$9,605,862
LIABILITIES AND EQUITY:		
Mortgage notes payable:		
Related parties	$170,311	$171,569
Others	4,075,936	4,066,511
Total	4,246,247	4,238,080
Bank and other notes payable	657,594	932,184
Accounts payable and accrued expenses	67,430	58,412
Other accrued liabilities	285,447	325,701
Distributions in excess of investments in unconsolidated joint ventures	93,879	83,486
Financing arrangement obligation	398,091	—
Total liabilities	5,748,688	5,637,863
Commitments and contingencies		
Equity:		
Stockholders' equity:		
Common stock, $0.01 par value, 250,000,000 shares authorized, 141,104,587 and 140,993,985 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	1,411	1,410
Additional paid-in capital	4,549,748	4,510,489
Accumulated deficit	(1,393,418)	(830,279)
Accumulated other comprehensive income (loss)	19	(42)
Total stockholders' equity	3,157,760	3,681,578
Noncontrolling interests	250,825	286,421
Total equity	3,408,585	3,967,999
Total liabilities and equity	$9,157,273	$9,605,862

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

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THE MACERICH COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share amounts)
(Unaudited)

	For the Three Months Ended March 31,	
	2018	2017
Revenues:		
Minimum rents	$142,407	$145,555
Percentage rents	1,884	1,918
Tenant recoveries	68,092	72,412
Other	13,809	15,264
Management Companies	10,542	11,896
Total revenues	236,734	247,045
Expenses:		
Shopping center and operating expenses	74,510	75,897
Management Companies' operating expenses	38,323	28,517
REIT general and administrative expenses	8,019	8,463
Depreciation and amortization	79,937	83,073
	200,789	195,950
Interest expense:		
Related parties	10,169	2,211
Other	42,466	39,090
	52,635	41,301
Total expenses	253,424	237,251
Equity in income of unconsolidated joint ventures	16,872	15,843
Co-venture expense	—	(3,877)
Income tax benefit	2,949	3,484
(Loss) gain on sale or write down of assets, net	(37,512)	49,565
Net (loss) income	(34,381)	74,809
Less net (loss) income attributable to noncontrolling interests	(808)	5,566
Net (loss) income attributable to the Company	$(33,573)	$69,243
Earnings per common share—attributable to common stockholders:		
Basic	$(0.24)	$0.48
Diluted	$(0.24)	$0.48
Weighted average number of common shares outstanding:		
Basic	141,024,000	143,596,000
Diluted	141,050,000	143,655,000

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

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THE MACERICH COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(Dollars in thousands, except per share amounts)
(Unaudited)

	For the Three Months Ended March 31,	
	2018	2017
Net (loss) income	$(34,381)	$74,809
Other comprehensive loss:		
Interest rate cap	61	—
Comprehensive (loss) income	(34,320)	74,809
Less net (loss) income attributable to noncontrolling interests	(808)	5,566
Comprehensive (loss) income attributable to the Company	$(33,512)	$69,243

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

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THE MACERICH COMPANY
CONSOLIDATED STATEMENT OF EQUITY
(Dollars in thousands, except per share data)
(Unaudited)

	Stockholders' Equity Common Stock							
	Shares	Par Value	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at January 1, 2018	140,993,985	$1,410	$4,510,489	$(830,279)	$(42)	$3,681,578	$286,421	$3,967,999
Net loss	—	—	—	(33,573)	—	(33,573)	(808)	(34,381)
Cumulative effect of adoption of ASU 2014-09	—	—	—	(424,859)	—	(424,859)	—	(424,859)
Interest rate cap	—	—	—	—	61	61	—	61
Amortization of share and unit-based plans	109,602	1	13,611	—	—	13,612	—	13,612
Distributions declared ($0.74) per share	—	—	—	(104,707)	—	(104,707)	—	(104,707)
Distributions to noncontrolling interests	—	—	—	—	—	—	(9,075)	(9,075)
Conversion of noncontrolling interests to common shares	1,000	—	—	—	—	—	—	—
Redemption of noncontrolling interests	—	—	(46)	—	—	(46)	(19)	(65)
Adjustment of noncontrolling interests in Operating Partnership	—	—	25,694	—	—	25,694	(25,694)	—
Balance at March 31, 2018	141,104,587	$1,411	$4,549,748	$(1,393,418)	$19	$3,157,760	$250,825	$3,408,585

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

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THE MACERICH COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	For the Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net (loss) income	$(34,381)	$74,809
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss (gain) on sale or write down of assets, net	37,512	(49,565)
Depreciation and amortization	81,524	84,551
Amortization of premium on mortgage notes payable	(235)	(926)
Amortization of share and unit-based plans	11,003	13,805
Straight-line rent adjustment	(2,683)	(1,884)
Amortization of above and below-market leases	152	193
Provision for doubtful accounts	1,354	1,318
Income tax benefit	(2,949)	(3,484)
Equity in income of unconsolidated joint ventures	(16,872)	(15,843)
Distributions of income from unconsolidated joint ventures	155	—
Change in fair value of financing arrangement obligation	4,382	—
Co-venture expense	—	3,877
Changes in assets and liabilities, net of acquisitions and dispositions:		
Tenant and other receivables	11,699	8,757
Other assets	11,473	12,618
Due from affiliates	(2,512)	(12,015)
Accounts payable and accrued expenses	13,239	4,285
Other accrued liabilities	(17,893)	(17,792)
Net cash provided by operating activities	94,968	102,704
Cash flows from investing activities:		
Development, redevelopment, expansion and renovation of properties	(49,242)	(33,013)
Property improvements	(4,968)	(4,350)
Proceeds from repayment of notes receivable	202	212
Deferred leasing costs	(13,384)	(11,267)
Distributions from unconsolidated joint ventures	418,333	114,528
Contributions to unconsolidated joint ventures	(40,990)	(26,593)
Proceeds from sale of assets	1,450	167,649
Net cash provided by investing activities	311,401	207,166

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THE MACERICH COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Dollars in thousands)
(Unaudited)

	For the Three Months Ended March 31,	
	2018	2017
Cash flows from financing activities:		
Proceeds from mortgages, bank and other notes payable	120,000	200,000
Payments on mortgages, bank and other notes payable	(387,643)	(263,927)
Deferred financing costs	(132)	(142)
Stock repurchases	—	(132,550)
Redemption of noncontrolling interests	(65)	(15)
Dividends and distributions	(113,782)	(110,621)
Distributions to co-venture partner	—	(4,302)
Net cash used in financing activities	(381,622)	(311,557)
Net increase (decrease) in cash and cash equivalents	24,747	(1,687)
Cash, cash equivalents and restricted cash, beginning of period	143,105	143,997
Cash, cash equivalents and restricted cash, end of period	$167,852	$142,310
Supplemental cash flow information:		
Cash payments for interest, net of amounts capitalized	$46,418	$40,462
Non-cash investing and financing transactions:		
Accrued development costs included in accounts payable and accrued expenses and other accrued liabilities	$36,286	$24,712
Accrued stock repurchase costs	$—	$8,552
Conversion of Operating Partnership Units to common stock	$—	$638

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

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THE MACERICH COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts)
(Unaudited)

1. Organization:

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

The Company commenced operations effective with the completion of its initial public offering on March 16, 1994. As of March 31, 2018, the Company was the sole general partner of and held a 93% ownership interest in The Macerich Partnership, L.P. (the "Operating Partnership"). The Company was organized to qualify as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code").

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

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

2. Summary of Significant Accounting Policies:

Basis of Presentation:

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

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

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

	March 31, 2018	December 31, 2017
Assets:		
Property, net	$ 288,521	$ 288,881
Other assets	59,321	60,586
Total assets	$ 347,842	$ 349,467
Liabilities:		
Mortgage notes payable	$ 128,449	$ 129,436
Other liabilities	74,841	72,705
Total liabilities	$ 203,290	$ 202,141

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

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THE MACERICH COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, except per share amounts)
(Unaudited)
2. Summary of Significant Accounting Policies: (Continued)

The unaudited interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the consolidated financial statements for the interim periods have been made. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The accompanying consolidated balance sheet as of December 31, 2017 has been derived from the audited financial statements but does not include all disclosures required by GAAP.
Recent Accounting Pronouncements:
In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update ("ASU") 2014-09, “Revenue From Contracts With Customers (ASC 606)," which outlines a comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The standard states that “an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.” While the standard specifically references contracts with customers, it may apply to certain other transactions such as the sale of real estate or equipment. The standard applies to the Company's recognition of management companies and other revenues. The Company's adoption of the standard on January 1, 2018 did not have an impact on the pattern of revenue recognition for management companies and other revenues.
Additionally, under ASC 606, the Company changed its accounting for its joint venture in Chandler Freehold from a co-venture arrangement to a financing arrangement (See Note 11—Financing Arrangement). Upon adoption of the standard on January 1, 2018, the Company replaced its $31,150 distributions in excess of co-venture obligation (See Note 8—Deferred Charges and Other Assets, net) with a financing arrangement obligation of $393,709 on its consolidated balance sheets. This resulted in the recognition of a $424,859 increase in the Company’s accumulated deficit as a cumulative effect adjustment under the modified retrospective method of adoption.
In February 2016, the FASB issued ASU 2016-02, which sets out principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The standard requires that lessors expense, on an as-incurred basis, certain initial direct costs that are not incremental in negotiating a lease. Under existing standards, certain of these costs are capitalizable and therefore this new standard may result in certain of these costs being expensed as incurred after adoption. Under the standard, lessees apply a dual approach, classifying leases as either finance or operating leases. A lessee is required to record a right-of-use asset and a lease liability for all leases with a term of greater than twelve months, regardless of their lease classification. The Company is a lessee on ground leases at certain properties, on certain office space leases and on certain other improvements and equipment. The standard will impact the accounting and disclosure requirements for these leases. The standard is effective for the Company under a modified retrospective approach beginning January 1, 2019. The Company is evaluating the impact of the adoption of this standard on its consolidated financial statements.
On November 17, 2016, the FASB issued ASU 2016-18, “Restricted Cash,” which requires that the statement of cash flows explain the change during a reporting period in the total of cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. This standard states that transfers between cash, cash equivalents, and restricted cash are not part of the entity’s operating, investing, and financing activities. Therefore, restricted cash should 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. On January 1, 2018, the Company adopted the standard and retrospectively applied the guidance of the standard to the prior period presented, which resulted in an

increase of $63 in net cash provided by investing activities on its consolidated statements of cash flows for the three months ended March 31, 2017.

Recent Accounting Pronouncements: (Continued)
The following table presents a reconciliation of the beginning of period and end of period cash, cash equivalents and restricted cash reported on the Company's consolidated balance sheets to the totals shown on its consolidated statements of cash flows:

	For the Three Months Ended March 31,	
	2018	2017
Beginning of period		
Cash and cash equivalents	$91,038	$94,046
Restricted cash	52,067	49,951
Cash, cash equivalents and restricted cash	$143,105	$143,997
End of period		
Cash and cash equivalents	$118,175	$92,296
Restricted cash	49,677	50,014
Cash, cash equivalents and restricted cash	$167,852	$142,310

On January 5, 2017, the FASB issued ASU 2017-01, “Business Combinations,” which clarifies the definition of a business. The objective of the standard is to add further guidance that assists entities in evaluating whether a transaction will be accounted for as an acquisition of an asset or a business. The guidance requires an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If so, the set of transferred assets and activities are not a business and should be treated as an asset acquisition. The guidance also requires a business to include at least one substantive process and narrows the definition of outputs. The primary difference between business combinations and asset acquisitions is the recognition of transaction costs, which are expensed as period costs for business combinations and capitalized for asset acquisitions. The Company's adoption of this standard on January 1, 2018 did not have a significant impact on its consolidated financial statements.

In February 2017, the FASB issued ASU No. 2017-05, “Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets,” which clarifies the scope of asset derecognition and adds further guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with non-customers. The Company has concluded that property sales represent transactions with non-customers. Sales of property generally represent only one performance obligation and are recognized when an enforceable contract is in place, collectability is ensured and control is transferred to the buyer. The Company's adoption of this standard on January 1, 2018 did not have a significant impact on its consolidated financial statements.

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

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THE MACERICH COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, except per share amounts)
(Unaudited)
3. Earnings per Share ("EPS"):

The following table reconciles the numerator and denominator used in the computation of EPS for the three months ended March 31, 2018 and 2017 (shares in thousands):

	For the Three Months Ended March 31,	
	2018	2017
Numerator		
Net (loss) income	$(34,381)	$74,809
Less net (loss) income attributable to noncontrolling interests	(808)	5,566
Net (loss) income attributable to the Company	(33,573)	69,243
Allocation of earnings to participating securities	(244)	(184)
Numerator for basic and diluted EPS—net income attributable to common stockholders	$(33,817)	$69,059
Denominator		
Denominator for basic EPS—weighted average number of common shares outstanding	141,024	143,596
Effect of dilutive securities(1):		
Share and unit-based compensation plans	26	59
Denominator for diluted EPS—weighted average number of common shares outstanding	141,050	143,655
EPS—net (loss) income attributable to common stockholders:		
Basic	$(0.24)	$0.48
Diluted	$(0.24)	$0.48

(1) Diluted EPS excludes 90,619 convertible preferred partnership units for the three months ended March 31, 2018 and 2017 as their impact was antidilutive. Diluted EPS excludes 10,291,217 and 10,591,428 Operating Partnership units ("OP Units") for the three months ended March 31, 2018 and 2017, respectively, as their impact was antidilutive.

4. Investments in Unconsolidated Joint Ventures:
The Company has made the following recent investments and dispositions in its unconsolidated joint ventures:
On March 17, 2017, the Company's joint venture in Country Club Plaza sold an office building for $78,000, resulting in a gain on sale of assets of $4,580. The Company's pro rata share of the gain on the sale of assets of $2,290 was included in equity in income from unconsolidated joint ventures. The Company used its share of the proceeds to fund repurchases under the 2017 Stock Buyback Program (See Note 13—Stockholders' Equity).
On September 18, 2017, the Company's joint venture in Fashion District Philadelphia sold its ownership interest in an office building for $61,500, resulting in a gain on sale of assets of $13,078. The Company's pro rata share of the gain on the sale of assets of $6,539 was included in equity in income from unconsolidated joint ventures. The Company used its share of the proceeds to fund repurchases under the 2017 Stock Buyback Program (See Note 13—Stockholders' Equity).
On December 14, 2017, the Company’s joint venture in Westcor/Queen Creek LLC sold land for $30,491, resulting in a gain on sale of assets of $14,853. The Company’s share of the gain on sale was $5,436, which was included in equity in income of unconsolidated joint ventures. The Company used its portion of the proceeds to pay down its line of credit and for general corporate purposes.

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THE MACERICH COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, except per share amounts)
(Unaudited)
4. Investments in Unconsolidated Joint Ventures: (Continued)

On February 16, 2018, the Company's joint venture in Fashion District Philadelphia sold its ownership interest in an office building for $41,800, resulting in a gain on sale of assets of $5,545. The Company's pro rata share of the gain on the sale of assets of $2,773 was included in equity in income from unconsolidated joint ventures. The Company used its share of the proceeds to pay down its line of credit and for general corporate purposes.
Combined and condensed balance sheets and statements of operations are presented below for all unconsolidated joint ventures.
Combined and Condensed Balance Sheets of Unconsolidated Joint Ventures:

	March 31, 2018	December 31, 2017
Assets(1):		
Property, net	$8,994,424	$9,052,105
Other assets	602,553	635,838
Total assets	$9,596,977	$9,687,943
Liabilities and partners' capital(1):		
Mortgage and other notes payable(2)	$5,979,160	$5,296,594
Other liabilities	388,245	405,052
Company's capital	1,822,298	2,188,057
Outside partners' capital	1,407,274	1,798,240
Total liabilities and partners' capital	$9,596,977	$9,687,943
Investments in unconsolidated joint ventures:		
Company's capital	$1,822,298	$2,188,057
Basis adjustment(3)	(555,691)	(562,021)
	$1,266,607	$1,626,036
Assets—Investments in unconsolidated joint ventures	$1,360,486	$1,709,522
Liabilities—Distributions in excess of investments in unconsolidated joint ventures	(93,879)	(83,486)
	$1,266,607	$1,626,036

(1) These amounts include the assets of $3,068,722 and $3,106,105 of Pacific Premier Retail LLC (the "PPR Portfolio") as of March 31, 2018 and December 31, 2017, respectively, and liabilities of $1,864,302 and $1,872,227 of the PPR Portfolio as of March 31, 2018 and December 31, 2017, respectively.

(2) Included in mortgage and other notes payable are amounts due to an affiliate of Northwestern Mutual Life ("NML") of $704,402 and $482,332 as of March 31, 2018 and December 31, 2017, respectively. NML is considered a related party because it is a joint venture partner with the Company in Macerich Northwestern Associates—Broadway Plaza. Interest expense on these borrowings was $4,958 and $3,160 for the three months ended March 31, 2018 and 2017, respectively.

(3) The Company amortizes the difference between the cost of its investments in unconsolidated joint ventures and the book value of the underlying equity into income on a straight-line basis consistent with the lives of the underlying assets. The amortization of this difference was $4,103 and $4,027 for the three months ended March 31, 2018 and 2017, respectively.

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THE MACERICH COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Dollars in thousands, except per share amounts)
(Unaudited)
4. Investments in Unconsolidated Joint Ventures: (Continued)

Combined and Condensed Statements of Operations of Unconsolidated Joint Ventures:

	PPR Portfolio	Other Joint Ventures	Total
Three Months Ended March 31, 2018			
Revenues:			
Minimum rents	$32,739	$127,708	$160,447
Percentage rents	432	1,811	2,243
Tenant recoveries	11,400	48,104	59,504
Other	1,017	11,091	12,108
Total revenues	45,588	188,714	234,302
Expenses:			
Shopping center and operating expenses	9,681	61,321	71,002
Interest expense	16,726	33,032	49,758
Depreciation and amortization	24,484	62,412	86,896
Total operating expenses	50,891	156,765	207,656
Gain on sale or write down of assets, net	—	970	970
Net (loss) income	$(5,303)	$32,919	$27,616
Company's equity in net (loss) income	$(616)	$17,488	$16,872
Three Months Ended March 31, 2017			
Revenues:			
Minimum rents	$33,536	$123,503	$157,039
Percentage rents	730	1,738	2,468
Tenant recoveries	11,439	47,915	59,354
Other	1,026	11,511	12,537
Total revenues	46,731	184,667	231,398
Expenses:			
Shopping center and operating expenses	9,760	62,195	71,955
Interest expense	16,726	32,279	49,005
Depreciation and amortization	26,275	62,879	89,154
Total operating expenses	52,761	157,353	210,114
(Loss) gain on sale or write down of assets, net	(35)	4,581	4,546
Net (loss) income	$(6,065)	$31,895	$25,830
Company's equity in net (loss) income	$(962)	$16,805	$15,843

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

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5. Derivative Instruments and Hedging Activities:

The Company recorded other comprehensive income related to the marking-to-market of an interest rate cap agreement of $61 for the three months ended March 31, 2018. There were no derivatives outstanding during the three months ended March 31, 2017.

The following derivative was outstanding at March 31, 2018:

Property	Notional Amount	Product	LIBOR Rate	Maturity	Fair Value
Santa Monica Place	$300,000	Cap	4.00 %	12/9/2019	$ 65

The above interest rate cap agreement was designated as a hedging instrument with a fair value (Level 2 measurement) of $65 and $11 at March 31, 2018 and December 31, 2017, respectively, was included in deferred charges and other assets, net.
6. Property, net:
Property, net consists of the following:

	March 31, 2018	December 31, 2017
Land	$1,527,460	$1,567,152
Buildings and improvements	6,164,004	6,385,035
Tenant improvements	616,955	620,352
Equipment and furnishings	183,434	187,998
Construction in progress	391,222	366,996
	8,883,075	9,127,533
Less accumulated depreciation	(1,974,659)	(2,018,303)
	$6,908,416	$7,109,230

Depreciation expense was $67,944 and $68,956 for the three months ended March 31, 2018 and 2017, respectively.
The (loss) gain on sale or write down of assets, net was $(37,512) and $49,565 for the three months ended March 31, 2018 and 2017, respectively.
The loss on sale or write down of assets, net for the three months ended March 31, 2018 includes an impairment loss of $36,338 on SouthPark Mall and $1,043 on Promenade at Casa Grande. The impairment losses are due to the reduction of the estimated holding period of the properties. The gain on sale or write down of assets, net for the three months ended March 31, 2017 includes a gain of $59,713 on the sale of Cascade Mall and Northgate Mall (See Note 15—Dispositions) offset in part by a loss of $10,138 on the write down of an investment in non-real estate assets.
The following table summarizes certain of the Company's assets that were measured on a nonrecurring basis as a result of impairment losses recorded for the three months ended March 31, 2018 as described above:

	Total Fair Value Measurement	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Unobservable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2018	$ 49,000	$ —	$ 49,000	$ —

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

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7. Tenant and Other Receivables, net:
Included in tenant and other receivables, net is an allowance for doubtful accounts of $3,139 and $2,786 at March 31, 2018 and December 31, 2017, respectively. Also included in tenant and other receivables, net are accrued percentage rents of $1,373 and $8,711 at March 31, 2018 and December 31, 2017, respectively, and a deferred rent receivable due to straight-line rent adjustments of $64,538 and $61,859 at March 31, 2018 and December 31, 2017, respectively.
8. Deferred Charges and Other Assets, net:
Deferred charges and other assets, net consist of the following:

	March 31, 2018	December 31, 2017
Leasing	$213,550	$ 232,819
Intangible assets:		
In-place lease values	99,339	108,432
Leasing commissions and legal costs	24,830	25,958
Above-market leases	152,270	164,040
Deferred tax assets	31,517	29,006
Deferred compensation plan assets	51,983	52,221
Distributions in excess of co-venture obligation(1)	—	31,150
Other assets	56,313	66,990
	629,802	710,616
Less accumulated amortization(2)	(230,649)	(261,426)
	$399,153	$ 449,190

(1) See Note 11—Financing Arrangement.
(2) Accumulated amortization includes $68,181 and $74,507 relating to in-place lease values, leasing commissions and legal costs at March 31, 2018 and December 31, 2017, respectively. Amortization expense of in-place lease values, leasing commissions and legal costs was $3,835 and $6,004 for the three months ended March 31, 2018 and 2017, respectively.

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

	March 31, 2018	December 31, 2017
Above-Market Leases		
Original allocated value	$152,270	$ 164,040
Less accumulated amortization	(52,021)	(60,210)
	$100,249	$ 103,830
Below-Market Leases(1)		
Original allocated value	$118,089	$ 120,573
Less accumulated amortization	(56,029)	(55,489)
	$62,060	$ 65,084

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

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9. Mortgage Notes Payable:
Mortgage notes payable at March 31, 2018 and December 31, 2017 consist of the following:

	Carrying Amount of Mortgage Notes(1)						
	March 31, 2018		December 31, 2017				
Property Pledged as Collateral	Related Party	Other	Related Party	Other	Effective Interest Rate(2)	Monthly Debt Service(3)	Maturity Date(4)
Chandler Fashion Center(5)	$—	$199,920	$—	$199,904	3.77 %	$ 625	2019
Danbury Fair Mall	103,737	103,736	104,599	104,598	5.53 %	1,538	2020
Fashion Outlets of Chicago(6)	—	199,379	—	199,298	3.32 %	527	2020
Fashion Outlets of Niagara Falls USA	—	111,981	—	112,770	4.89 %	727	2020
Freehold Raceway Mall(5)	—	398,088	—	398,050	3.94 %	1,300	2029
Fresno Fashion Fair	—	323,311	—	323,261	3.67 %	971	2026
Green Acres Commons(7)	—	127,105	—	107,219	4.38 %	413	2021
Green Acres Mall	—	289,684	—	291,366	3.61 %	1,447	2021
Kings Plaza Shopping Center	—	444,688	—	447,231	3.67 %	2,229	2019
Oaks, The	—	195,576	—	196,732	4.14 %	1,064	2022
Pacific View	—	123,650	—	124,397	4.08 %	668	2022
Queens Center	—	600,000	—	600,000	3.49 %	1,744	2025
Santa Monica Place(8)	—	296,550	—	296,366	3.38 %	771	2022
SanTan Village Regional Center	—	123,919	—	124,703	3.14 %	589	2019
Towne Mall	—	21,053	—	21,161	4.48 %	117	2022
Tucson La Encantada	66,574	—	66,970	—	4.23 %	368	2022
Victor Valley, Mall of	—	114,631	—	114,617	4.00 %	380	2024
Vintage Faire Mall	—	262,403	—	263,818	3.55 %	1,256	2026
Westside Pavilion(9)	—	140,262	—	141,020	4.49 %	783	2022
	$170,311	$4,075,936	$171,569	$4,066,511			

(1) The mortgage notes payable balances include the unamortized debt premiums. Debt premiums represent the excess of the fair value of debt over the principal value of debt assumed in various acquisitions and are amortized into interest expense over the remaining term of the related debt in a manner that approximates the effective interest method. The loan on Fashion Outlets of Niagara Falls USA had a premium of $2,398 and $2,630 at March 31, 2018 and December 31, 2017, respectively.

The mortgage notes payable also include unamortized deferred finance costs that are amortized into interest expense over the remaining term of the related debt in a manner that approximates the effective interest method. Unamortized deferred finance costs were $16,997 and $17,838 at March 31, 2018 and December 31, 2017, respectively.

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

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

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

(5) A 49.9% interest in the loan has been assumed by a third party in connection with the Company's joint venture in Chandler Freehold (See Note 11—Financing Arrangement).

(6) The loan bears interest at LIBOR plus 1.50%. At March 31, 2018 and December 31, 2017, the total interest rate was 3.32% and 3.02%, respectively.

(7) On March 1, 2018, the Company borrowed the remaining $20,000 available under the loan agreement on the property. The loan bears interest at LIBOR plus 2.15%. At March 31, 2018 and December 31, 2017, the total interest rate was 4.38% and 4.07%, respectively.

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9. Mortgage Notes Payable: (Continued)

(8) The loan bears interest at LIBOR plus 1.35%. At March 31, 2018 and December 31, 2017, the total interest rate was 3.38% and 3.13%, respectively.
(9) On March 1, 2018, the Company entered into an agreement to contribute the underlying property into an unconsolidated joint venture (See Note 14—Collaborative Arrangement).

Most of the mortgage loan agreements contain a prepayment penalty provision for the early extinguishment of the debt.
The Company's mortgage notes payable are secured by the properties on which they are placed and are non-recourse to the Company.
The Company expects that all loan maturities during the next twelve months will be refinanced, restructured, extended and/or paid-off from the Company's line of credit or with cash on hand.
Total interest expense capitalized was $4,331 and $2,634 for the three months ended March 31, 2018 and 2017, respectively.
Related party mortgage notes payable are amounts due to an affiliate of NML. See Note 17—Related Party Transactions for interest expense associated with loans from NML.
The estimated fair value (Level 2 measurement) of mortgage notes payable at March 31, 2018 and December 31, 2017 was $4,244,902 and $4,250,816, respectively, based on current interest rates for comparable loans. Fair value was determined using a present value model and an interest rate that included a credit value adjustment based on the estimated value of the property that serves as collateral for the underlying debt.
10. Bank and Other Notes Payable:
Bank and other notes payable consist of the following:
Line of Credit:
The Company has a $1,500,000 revolving line of credit that bears interest at LIBOR plus a spread of 1.30% to 1.90%, depending on the Company's overall leverage level, and matures on July 6, 2020 with a one-year extension option. The line of credit can be expanded, depending on certain conditions, up to a total facility of $2,000,000.
Based on the Company's leverage level as of March 31, 2018, the borrowing rate on the facility was LIBOR plus 1.45%. As of March 31, 2018 and December 31, 2017, borrowings under the line of credit were $660,000 and $935,000, respectively, less unamortized deferred finance costs of $6,936 and $7,548, respectively, at a total interest rate of 3.47% and 3.13%, respectively. The estimated fair value (Level 2 measurement) of the line of credit at March 31, 2018 and December 31, 2017 was $649,031 and $919,158, respectively, based on a present value model using a credit interest rate spread offered to the Company for comparable debt.
Prasada Note:
On March 29, 2013, the Company issued a $13,330 note payable that bears interest at 5.25% and matures on May 30, 2021. The note payable is collateralized by a portion of a development reimbursement agreement with the City of Surprise, Arizona. At March 31, 2018 and December 31, 2017, the note had a balance of $4,530 and $4,732, respectively. The estimated fair value (Level 2 measurement) of the note at March 31, 2018 and December 31, 2017 was $4,515 and $4,717, respectively, based on current interest rates for comparable notes. Fair value was determined using a present value model and an interest rate that included a credit value adjustment based on the estimated value of the collateral for the underlying debt.
As of March 31, 2018 and December 31, 2017, the Company was in compliance with all applicable financial loan covenants.

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11. Financing Arrangement:

On September 30, 2009, the Company formed a joint venture, whereby a third party acquired a 49.9% interest in Chandler Fashion Center, a 1,318,000 square foot regional shopping center in Chandler, Arizona, and Freehold Raceway Mall, a 1,671,000 square foot regional shopping center in Freehold, New Jersey, referred to herein as Chandler Freehold. As a result of the Company having certain rights under the agreement to repurchase the assets after the seventh year of the formation of Chandler Freehold, the transaction did not qualify for sale treatment. The Company, however, is not obligated to repurchase the assets. The transaction was initially accounted for as a co-venture arrangement, and accordingly the assets, liabilities and operations of the properties remain on the books of the Company and a co-venture obligation was established for the net cash proceeds received from the third party less costs allocated to a warrant. The co-venture obligation was increased for the allocation of income to the co-venture partner and decreased for distributions to the co-venture partner.

Upon adoption of ASC 606 on January 1, 2018, the Company changed its accounting for Chandler Freehold from a co-venture arrangement to a financing arrangement. Accordingly, the Company replaced its $31,150 distributions in excess of co-venture obligation (See Note 8—Deferred Charges and Other Assets, net) with a financing arrangement liability of $393,709 on its consolidated balance sheets. This resulted in the recognition of a $424,859 increase in the Company’s accumulated deficit as a cumulative effect adjustment under the modified retrospective method of adoption. The fair value (Level 3 measurement) of the financing arrangement obligation was based upon a multiple on net operating income of 21 times, a discount rate of 5.8% and market rents per square foot of $20 to $225. The fair value of the financing arrangement obligation is sensitive to these significant unobservable inputs and a change in these inputs may result in a significantly higher or lower fair value measurement. Under the standard, distributions to the partner and subsequent changes in fair value of the financing arrangement obligation are recognized as interest expense in the Company's consolidated statements of operations.

During the three months ended March 31, 2018, the Company incurred interest expense of $8,022 in connection with the financing arrangement that consisted of i) a charge of $4,382 to adjust the fair value of the financing arrangement obligation during the period, ii) distributions of $2,002 to its partner representing the partner's share of net income, and iii) distributions of $1,638 to its partner in excess of the partner's share of net income.

12. Noncontrolling Interests:

The Company allocates net income of the Operating Partnership based on the weighted average ownership interest during the period. The net income of the Operating Partnership that is not attributable to the Company is reflected in the consolidated statements of operations as noncontrolling interests. The Company adjusts the noncontrolling interests in the Operating Partnership at the end of each period to reflect its ownership interest in the Company. The Company had a 93% ownership interest in the Operating Partnership as of March 31, 2018 and December 31, 2017. The remaining 7% limited partnership interest as of March 31, 2018 and December 31, 2017 was owned by certain of the Company's executive officers and directors, certain of their affiliates and other third party investors in the form of OP Units. The OP Units may be redeemed for shares of stock or cash, at the Company's option. The redemption value for each OP Unit as of any balance sheet date is the amount equal to the average of the closing price per share of the Company's common stock, par value $0.01 per share, as reported on the New York Stock Exchange for the 10 trading days ending on the respective balance sheet date. Accordingly, as of March 31, 2018 and December 31, 2017, the aggregate redemption value of the then-outstanding OP Units not owned by the Company was $593,454 and $671,592, respectively.

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

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

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13. Stockholders' Equity:

2017 Stock Buyback Program:

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

During the period from February 12, 2017 to December 31, 2017, the Company repurchased a total of 3,627,390 of its common shares for $221,428, representing an average price of $61.01 per share. The Company funded the repurchases from the net proceeds of the sale of Cascade Mall and Northgate Mall (See Note 15—Dispositions), its share of the proceeds from the sale of ownership interests in office buildings at Fashion District Philadelphia and Country Club Plaza (See Note 4—Investments in Unconsolidated Joint Ventures) and from borrowings under its line of credit. There were no repurchases during the three months ended March 31, 2018.

At-The-Market Stock Offering Program ("ATM Program"):

On August 20, 2014, the Company entered into an equity distribution agreement with a number of sales agents (the "ATM Program") to issue and sell, from time to time, shares of common stock, par value $0.01 per share, having an aggregate offering price of up to $500,000. The ATM Program expired by its terms in August 2017. No shares were sold under the ATM Program.

14. Collaborative Arrangement:

On March 1, 2018, the Company formed a 25/75 joint venture with a third party, whereby the Company agreed to contribute Westside Pavilion, a 755,000 square foot regional shopping center in Los Angeles, California in exchange for a cash payment of $142,500. The Company expects to complete the transfer during the next twelve months. Both partners share operating control of the property and the Company will be reimbursed by the outside partner for 75% of the carrying cost of the property, which are defined in the agreement as operating expenses in excess of revenues, debt service and capital expenditures.

Since March 1, 2018, the Company has accounted for the operations of Westside Pavilion as a collaborative arrangement. Accordingly, the Company has reduced minimum rents, percentage rents, tenant recoveries, other revenue, shopping center and operating expenses and interest expense by its partner's 75% share and recorded a receivable due from its partner, which will be settled upon completion of the transfer of the property. The Company's partner's reimbursable 75% share of mortgage loan principal payments and capital expenditures are recorded as a receivable and a deferred gain that will be recognized when the transfer is completed.

Additionally, the Company has classified the long-lived assets of Westside Pavilion as held for sale on its consolidated balance sheet as of March 1, 2018 and has ceased the recognition of depreciation and amortization expense.

15. Dispositions:

The following are recent dispositions of properties:

On January 18, 2017, the Company sold Cascade Mall, a 589,000 square foot regional shopping center in Burlington, Washington; and Northgate Mall, a 750,000 square foot regional shopping center in San Rafael, California, in a combined transaction for $170,000, resulting in a gain on the sale of assets of $59,713. The proceeds were used to pay off the mortgage note payable on Northgate Mall and to repurchase shares of the Company's common stock under the 2017 Stock Buyback Program (See Note 13—Stockholders' Equity).

On November 16, 2017, the Company sold 500 North Michigan Avenue, a 326,000 square foot office building in Chicago, Illinois for $86,350, resulting in a gain on sale of assets of $14,597. The Company used the proceeds from the sale to pay down its line of credit and for other general corporate purposes.

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16. Commitments and Contingencies:
The Company has certain properties that are subject to non-cancelable operating leases. The leases expire at various times through 2098, subject in some cases to options to extend the terms of the lease. Certain leases provide for contingent rent payments based on a percentage of base rental income, as defined in the lease. Rent expense was $4,236 and $4,217 for the three months ended March 31, 2018 and 2017, respectively. No contingent rent was incurred during the three months ended March 31, 2018 or 2017.
As of March 31, 2018, the Company was contingently liable for $60,588 in letters of credit guaranteeing performance by the Company of certain obligations relating to the Centers. The Company does not believe that these letters of credit will result in a liability to the Company.
The Company has entered into a number of construction agreements related to its redevelopment and development activities. Obligations under these agreements are contingent upon the completion of the services within the guidelines specified in the agreements. At March 31, 2018, the Company had $31,916 in outstanding obligations which it believes will be settled in the next twelve months.
17. Related Party Transactions:
Certain unconsolidated joint ventures have engaged the Management Companies to manage the operations of the Centers. Under these arrangements, the Management Companies are reimbursed for compensation paid to on-site employees, leasing agents and project managers at the Centers, as well as insurance costs and other administrative expenses.
The following are fees charged to unconsolidated joint ventures:

	For the Three Months Ended March 31,	
	2018	2017
Management fees	$4,679	$4,480
Development and leasing fees	3,604	