MACERICH CO
Form 10-Q
November 03, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017
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 November 2, 2017 of the registrant's common stock, par value $0.01 per share: 140,772,872 shares

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

	September 30, 2017	December 31, 2016
ASSETS:		
Property, net	$ 7,164,649	$ 7,357,310
Cash and cash equivalents	71,088	94,046
Restricted cash	50,736	49,951
Tenant and other receivables, net	111,153	136,998
Deferred charges and other assets, net	439,495	478,058
Due from affiliates	81,184	68,227
Investments in unconsolidated joint ventures	1,688,606	1,773,558
Total assets	$ 9,606,911	$ 9,958,148
LIABILITIES AND EQUITY:		
Mortgage notes payable:		
Related parties	$ 172,810	$ 176,442
Others	3,910,864	3,908,976
Total	4,083,674	4,085,418
Bank and other notes payable	966,757	880,482
Accounts payable and accrued expenses	69,617	61,316
Other accrued liabilities	302,082	366,165
Distributions in excess of investments in unconsolidated joint ventures	88,569	78,626
Co-venture obligation	59,118	58,973
Total liabilities	5,569,817	5,530,980
Commitments and contingencies		
Equity:		
Stockholders' equity:		
Common stock, $0.01 par value, 250,000,000 shares authorized, 140,918,189 and 143,985,036 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	1,409	1,440
Additional paid-in capital	4,503,670	4,593,229
Accumulated deficit	(758,758)	(488,782)
Total stockholders' equity	3,746,321	4,105,887
Noncontrolling interests	290,773	321,281
Total equity	4,037,094	4,427,168
Total liabilities and equity	$ 9,606,911	$ 9,958,148

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 September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues:				
Minimum rents	$144,991	$ 154,018	$443,439	$ 457,514
Percentage rents	2,806	3,871	6,784	9,279
Tenant recoveries	72,897	74,447	214,257	230,568
Other	11,701	12,048	40,484	42,985
Management Companies	10,056	8,983	31,955	28,925
Total revenues	242,451	253,367	736,919	769,271
Expenses:				
Shopping center and operating expenses	75,598	76,310	222,527	229,544
Management Companies' operating expenses	22,046	23,285	76,779	75,484
REIT general and administrative expenses	5,287	6,930	21,208	23,240
Depreciation and amortization	83,147	86,976	249,463	259,097
	186,078	193,501	569,977	587,365
Interest expense:				
Related parties	2,175	2,224	6,567	6,752
Other	41,090	37,759	120,320	114,202
	43,265	39,983	126,887	120,954
Gain on extinguishment of debt, net	—	(5,284)	—	(1,709)
Total expenses	229,343	228,200	696,864	706,610
Equity in income of unconsolidated joint ventures	23,993	11,261	56,772	37,537
Co-venture expense	(3,150)	(3,006)	(11,150)	(9,507)
Income tax (expense) benefit	(2,869)	(905)	178	(2,736)
(Loss) gain on sale or write down of assets, net	(11,854)	(19,321)	37,234	426,050
Net income	19,228	13,196	123,089	514,005
Less net income (loss) attributable to noncontrolling interests	1,730	(534)	9,710	34,138
Net income attributable to the Company	$17,498	$ 13,730	$113,379	$ 479,867
Earnings per common share—net income attributable to common stockholders:				
Basic	$0.12	$ 0.09	$0.79	$ 3.25
Diluted	$0.12	$ 0.09	$0.79	$ 3.25
Weighted average number of common shares outstanding:				
Basic	141,299,000	143,923,000	142,188,000	147,504,000
Diluted	141,310,000	144,036,000	142,223,000	147,630,000

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	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at January 1, 2017	143,985,036	$1,440	$4,593,229	$(488,782)	$4,105,887	$321,281	$4,427,168
Net income	—	—	—	113,379	113,379	9,710	123,089
Cumulative effect of adoption of ASU 2016-09	—	—	—	6,484	6,484	—	6,484
Amortization of share and unit-based plans	87,632	1	30,436	—	30,437	—	30,437
Employee stock purchases	20,443	—	986	—	986	—	986
Stock repurchases	(3,627,390)	(36)	(135,176)	(86,216)	(221,428)	—	(221,428)
Distributions declared ($2.13) per share	—	—	—	(303,623)	(303,623)	—	(303,623)
Distributions to noncontrolling interests	—	—	—	—	—	(25,110)	(25,110)
Conversion of noncontrolling interests to common shares	452,468	4	15,191	—	15,195	(15,195)	—
Redemption of noncontrolling interests	—	—	(608)	—	(608)	(301)	(909)
Adjustment of noncontrolling interests in Operating Partnership	—	—	(388)	—	(388)	388	—
Balance at September 30, 2017	140,918,189	$1,409	$4,503,670	$(758,758)	$3,746,321	$290,773	$4,037,094

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

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

	For the Nine Months Ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net income	$123,089	$514,005
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on early extinguishment of debt, net	—	(1,709)
Gain on sale or write down of assets, net	(37,234)	(426,050)
Depreciation and amortization	253,793	263,514
Amortization of net premium on mortgage notes payable	(2,799)	(3,082)
Amortization of share and unit-based plans	25,159	27,643
Straight-line rent adjustment	(7,502)	(3,449)
Amortization of above and below-market leases	(408)	(9,115)
Provision for doubtful accounts	3,806	2,460
Income tax (benefit) expense	(178)	2,736
Equity in income of unconsolidated joint ventures	(56,772)	(37,537)
Distributions of income from unconsolidated joint ventures	—	5,607
Co-venture expense	11,150	9,507
Changes in assets and liabilities, net of acquisitions and dispositions:		
Tenant and other receivables	838	2,370
Other assets	11,743	(6,100)
Due from affiliates	(13,004)	14,729
Accounts payable and accrued expenses	11,263	(6,459)
Other accrued liabilities	(23,094)	(17,983)
Net cash provided by operating activities	299,850	331,087
Cash flows from investing activities:		
Development, redevelopment, expansion and renovation of properties	(90,758)	(153,131)
Property improvements	(34,425)	(24,638)
Proceeds from repayment of notes receivable	628	3,361
Deferred leasing costs	(25,045)	(21,326)
Distributions from unconsolidated joint ventures	226,152	411,405
Contributions to unconsolidated joint ventures	(80,332)	(404,283)
Proceeds from sale of assets	168,471	696,716
Restricted cash	(785)	(13,978)
Net cash provided by investing activities	163,906	494,126

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

	For the Nine Months Ended September 30,	
	2017	2016
Cash flows from financing activities:		
Proceeds from mortgages, bank and other notes payable	510,000	2,716,138
Payments on mortgages, bank and other notes payable	(424,439)	(2,024,965)
Deferred financing costs	(2,586)	(8,822)
Payment of finance deposits	(8,600)	(7,200)
Proceeds from share and unit-based plans	986	834
Payment of debt extinguishment costs	—	(12,028)
Stock repurchases	(221,428)	(800,018)
Redemption of noncontrolling interests	(909)	(30)
Settlement of contingent consideration	—	(10,012)
Dividends and distributions	(328,733)	(667,785)
Distributions to co-venture partner	(11,005)	(13,654)
Net cash used in financing activities	(486,714)	(827,542)
Net decrease in cash and cash equivalents	(22,958)	(2,329)
Cash and cash equivalents, beginning of period	94,046	86,510
Cash and cash equivalents, end of period	$71,088	$84,181
Supplemental cash flow information:		
Cash payments for interest, net of amounts capitalized	$124,686	$113,187
Non-cash investing and financing transactions:		
Accrued development costs included in accounts payable and accrued expenses and other accrued liabilities	$30,706	$29,777
Mortgage notes payable assumed in exchange for investments in unconsolidated joint ventures	$—	$997,695
Mortgage note payable settled by deed-in-lieu of foreclosure	$—	$37,000
Conversion of Operating Partnership Units to common stock	$15,195	$10,720

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 September 30, 2017, 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:

	September 30, 2017	December 31, 2016
Assets:		
Property, net	$ 300,149	$ 307,582
Other assets	70,881	68,863
Total assets	$ 371,030	$ 376,445
Liabilities:		
Mortgage notes payable	$ 130,403	$ 133,245
Other liabilities	77,272	75,913
Total liabilities	$ 207,675	$ 209,158

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, 2016. 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, 2016 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,” which outlines a comprehensive model for entities to use in accounting for revenue arising from contracts with customers. ASU 2014-09 states that “an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.” While ASU 2014-09 specifically references contracts with customers, it may apply to certain other transactions such as the sale of real estate or equipment. ASU 2014-09 is effective for the Company beginning January 1, 2018, with early adoption permitted beginning January 1, 2017. The Company has evaluated each of its revenue streams and related accounting policies under the standard. The standard will initially apply to the Company's recognition of management companies and other revenues. This standard will not apply to the Company's recognition of tenant recoveries until January 1, 2019, when it adopts ASU 2016-02, "Leases (Topic 842)", as discussed below. Upon adoption of the standard, the Company has determined that the pattern of revenue recognition for management companies and other revenues will not change. Additionally, the Company will account for its joint venture in Chandler Fashion Center and Freehold Raceway Mall (See Note 10—Co-Venture Arrangement) as a financing arrangement. As a result, the Company will replace the co-venture obligation on its consolidated balance sheet with a financing arrangement liability. The financing arrangement liability will be recorded at fair value upon adoption with any subsequent changes in fair value recognized as interest expense in its consolidated statements of operations.

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. Additionally, under the standard, certain common area maintenance recoveries must be accounted for as a non-lease component. The Company will evaluate whether bifurcating common area maintenance will affect the timing or recognition of such revenues.

Under ASU 2016-02, 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. ASU 2016-02 will impact the accounting and disclosure requirements for these leases. ASU 2016-02 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.

In March 2016, the FASB issued ASU 2016-09, "Compensation-Stock Compensation (Topic 718)," which amended the accounting for share-based payments, including the income tax consequences, classification of awards and classification on the statement of cash flows. The Company's adoption of this standard on January 1, 2017 under the modified retrospective method resulted in the recognition of excess tax benefits of $6,484 as a cumulative effect adjustment, which reduced its accumulated deficit and increased its deferred tax assets by the same amount.

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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)

Recent Accounting Pronouncements: (Continued)
In August 2016, the FASB issued ASU 2016-15, "Statement of Cash flows (Topic 230)," which amended the accounting for the statement of cash flows by providing guidance on how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The Company's adoption of this standard on January 1, 2017 resulted in the reclassification of $12,028 of debt extinguishment costs from operating activities to financing activities on its consolidated statement of cash flows for the nine months ended September 30, 2016.
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. ASU 2016-18 is effective for the Company beginning January 1, 2018 with early adoption permitted. The Company does not believe that the adoption of ASU 2016-18 will have a significant impact on its consolidated statements of cash flows.
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. The guidance also requires a business to include at least one substantive process and narrows the definition of outputs. ASU 2017-01 is effective for the Company beginning January 1, 2018 with early adoption permitted using a prospective transition method. The Company does not believe that the adoption of 2017-01 will 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 is required to adopt ASU 2017-05 beginning January 1, 2018 with early adoption permitted. The Company does not believe that the adoption of ASU No. 2017-05 will 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 and nine months ended September 30, 2017 and 2016 (shares in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Numerator				
Net income	$19,228	$13,196	$123,089	$514,005
Net income attributable to noncontrolling interests	(1,730)	534	(9,710)	(34,138)
Net income attributable to the Company	17,498	13,730	113,379	479,867
Allocation of earnings to participating securities	(193)	(170)	(567)	(586)
Numerator for basic and diluted EPS—net income attributable to common stockholders	$17,305	$13,560	$112,812	$479,281
Denominator				
Denominator for basic EPS—weighted average number of common shares outstanding	141,299	143,923	142,188	147,504
Effect of dilutive securities(1):				
Share and unit-based compensation plans	11	113	35	126
Denominator for diluted EPS—weighted average number of common shares outstanding	141,310	144,036	142,223	147,630
Earnings per common share—net income attributable to common stockholders:				
Basic	$0.12	$0.09	$0.79	$3.25
Diluted	$0.12	$0.09	$0.79	$3.25

(1) Diluted EPS excludes 90,619 and 138,759 convertible preferred partnership units for the three months ended September 30, 2017 and 2016, respectively, and 90,619 and 138,759 convertible preferred partnership units for the nine months ended September 30, 2017 and 2016, respectively, as their impact was antidilutive.
Diluted EPS excludes 10,324,376 and 10,666,565 Operating Partnership units ("OP Units") for the three months ended September 30, 2017 and 2016, respectively, and 10,479,806 and 10,773,029 OP Units for the nine months ended September 30, 2017 and 2016, 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 January 6, 2016, the Company sold a 40% ownership interest in Arrowhead Towne Center, a 1,197,000 square foot regional shopping center in Glendale, Arizona, for $289,496, resulting in a gain on the sale of assets of $101,629. The sales price was funded by a cash payment of $129,496 and the assumption of a pro rata share of the mortgage note payable on the property of $160,000. The Company used the cash proceeds from the sale to pay down its line of credit and for general corporate purposes, which included funding the Special Dividend (See Note 12—Stockholders' Equity). Upon completion of the sale of the ownership interest, the Company no longer has a controlling interest in the joint venture due to the substantive participation rights of the outside partner. Accordingly, the Company accounts for its investment in Arrowhead Towne Center under the equity method of accounting.

On January 14, 2016, the Company formed a joint venture, whereby the Company sold a 49% ownership interest in Deptford Mall, a 1,040,000 square foot regional shopping center in Deptford, New Jersey; FlatIron Crossing, a 1,432,000 square foot regional shopping center in Broomfield, Colorado; and Twenty Ninth Street, an 847,000 square foot regional shopping center in Boulder, Colorado (the "MAC Heitman Portfolio"), for $771,478, resulting in a gain on the sale of assets of $340,734. The sales price was funded by a cash payment of $478,608 and the assumption of a pro rata share of the mortgage notes payable on the properties of $292,870. The Company used the cash proceeds from the sale to pay down its line of credit and for general corporate purposes. Upon completion of the sale of the ownership interest, the Company no longer has a controlling interest in the joint venture due to the substantive participation rights of the outside partner. Accordingly, the Company accounts for its investment in the MAC Heitman Portfolio under the equity method of accounting.

On March 1, 2016, the Company, through a 50/50 joint venture, acquired Country Club Plaza, a 1,001,000 square foot regional shopping center in Kansas City, Missouri, for a purchase price of $660,000. The Company funded its pro rata share of the purchase price of $330,000 from borrowings under its line of credit. On March 28, 2016, the joint venture placed a $320,000 loan on the property that bears interest at an effective rate of 3.88% and matures on April 1, 2026. The Company used its pro rata share of the proceeds to pay down its line of credit and for general corporate purposes.

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 joint ventures. The Company used its share of the proceeds to fund repurchases under the 2017 Stock Buyback Program (See Note 12—Stockholders' Equity).

On September 18, 2017, the Company's joint venture in Fashion District Philadelphia sold an office building for $61,500, resulting in a gain on sale of assets of $13,426. The Company's pro rata share of the gain on the sale of assets of $6,713 was included in equity in income from joint ventures. The Company used its share of the proceeds to fund repurchases under the 2017 Stock Buyback Program (See Note 12—Stockholders' Equity).

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 balance sheets and statements of operations are presented below for all unconsolidated joint ventures.

Combined and Condensed Balance Sheets of Unconsolidated Joint Ventures:

	September 30, 2017	December 31, 2016
Assets(1):		
Property, net	$ 9,058,868	$ 9,176,642
Other assets	655,905	614,607
Total assets	$ 9,714,773	$ 9,791,249
Liabilities and partners' capital(1):		
Mortgage and other notes payable(2)	$ 5,311,238	$ 5,224,713
Other liabilities	438,235	403,369
Company's capital	2,166,954	2,279,819
Outside partners' capital	1,798,346	1,883,348
Total liabilities and partners' capital	$ 9,714,773	$ 9,791,249
Investments in unconsolidated joint ventures:		
Company's capital	$ 2,166,954	$ 2,279,819
Basis adjustment(3)	(566,917)	(584,887)
	$ 1,600,037	$ 1,694,932
Assets—Investments in unconsolidated joint ventures	$ 1,688,606	$ 1,773,558
Liabilities—Distributions in excess of investments in unconsolidated joint ventures	(88,569)	(78,626)
	$ 1,600,037	$ 1,694,932

(1) These amounts include the assets of $3,120,534 and $3,179,255 of Pacific Premier Retail LLC (the "PPR Portfolio") as of September 30, 2017 and December 31, 2016, respectively, and liabilities of $1,878,719 and $1,887,952 of the PPR Portfolio as of September 30, 2017 and December 31, 2016, respectively.

(2) Included in mortgage and other notes payable are amounts due to an affiliate of Northwestern Mutual Life ("NML") of $484,716 and $265,863 as of September 30, 2017 and December 31, 2016, 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 $4,903 and $2,775 for the three months ended September 30, 2017 and 2016, respectively, and $12,992 and $14,133 for the nine months ended September 30, 2017 and 2016, 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 $4,227 and $4,988 for the three months ended September 30, 2017 and 2016, respectively, and $12,451 and $14,114 for the nine months ended September 30, 2017 and 2016, 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 September 30, 2017			
Revenues:			
Minimum rents	$ 35,052	$ 123,663	$ 158,715
Percentage rents	903	3,953	4,856
Tenant recoveries	12,015	47,841	59,856
Other	1,713	12,329	14,042
Total revenues	49,683	187,786	237,469
Expenses:			
Shopping center and operating expenses	10,591	60,394	70,985
Interest expense	16,890	33,214	50,104
Depreciation and amortization	25,449	62,958	88,407