FEDERAL REALTY INVESTMENT TRUST
Form 10-Q
May 02, 2019

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2019

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number: 1-07533

FEDERAL REALTY INVESTMENT TRUST

(Exact Name of Registrant as Specified in its Declaration of Trust)

Maryland	**52-0782497**
(State of Organization)	**(IRS Employer Identification No.)**
1626 East Jefferson Street, Rockville, Maryland	**20852**
(Address of Principal Executive Offices)	**(Zip Code)**

(301) 998-8100

(Registrant’s Telephone Number, Including Area Code)

Title of Each Class

	Trading Symbol	Name of Each Exchange On Which Registered
Common Shares of Beneficial Interest, $.01 par value per share, with associated Common Share Purchase Rights	FRT	New York Stock Exchange
Depositary Shares, each representing 1/1000 of a share of 5.00% Series C Cumulative Redeemable Preferred Stock, $.01 par value per share	FRT-C	New York Stock Exchange

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. ý Yes ¨ No

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ý Yes ¨ No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ý	Accelerated filer	¨
Non-Accelerated Filer o	Smaller reporting company	¨
	Emerging growth company	¨

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

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

The number of Registrant’s common shares outstanding onApril 29, 2019 was 74,905,997.

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FEDERAL REALTY INVESTMENT TRUST
QUARTERLY REPORT ON FORM 10-Q
QUARTER ENDED MARCH 31, 2019

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Federal Realty Investment Trust
Consolidated Balance Sheets

	March 31, 2019	December 31, 2018
	(In thousands, except share and per share data)	
	(Unaudited)	
ASSETS		
Real estate, at cost		
Operating (including $1,699,440 and $1,701,804 of consolidated variable interest entities, respectively)	$7,293,205	$7,307,622
Construction-in-progress (including $62,037 and $51,313 of consolidated variable interest entities, respectively)	540,192	495,274
Assets held for sale	10,771	16,576
	7,844,168	7,819,472
Less accumulated depreciation and amortization (including $301,029 and $292,374 of consolidated variable interest entities, respectively)	(2,105,159)	(2,059,143)
Net real estate	5,739,009	5,760,329
Cash and cash equivalents	43,003	64,087
Accounts and notes receivable, net	137,779	142,237
Mortgage notes receivable, net	30,429	30,429
Investment in partnerships	30,530	26,859
Operating lease right of use assets	95,402	—
Finance lease right of use assets	53,365	—
Prepaid expenses and other assets	221,849	265,703
TOTAL ASSETS	$6,351,366	$6,289,644
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Mortgages payable, net (including $441,107 and $444,388 of consolidated variable interest entities, respectively)	$452,466	$474,379
Capital lease obligations	—	71,519
Notes payable, net	299,106	279,027
Senior notes and debentures, net	2,404,987	2,404,279
Accounts payable and accrued expenses	156,029	177,922
Dividends payable	78,547	78,207
Security deposits payable	19,381	17,875
Operating lease liabilities	75,057	—
Finance lease liabilities	72,071	—
Other liabilities and deferred credits	157,451	182,898
Total liabilities	3,715,095	3,686,106
Commitments and contingencies (Note 6)		
Redeemable noncontrolling interests	134,708	136,208
Shareholders' equity		
Preferred shares, authorized 15,000,000 shares, $.01 par:		
5.0% Series C Cumulative Redeemable Preferred Shares, (stated at liquidation preference $25,000 per share), 6,000 shares issued and outstanding	150,000	150,000
5.417% Series 1 Cumulative Convertible Preferred Shares, (stated at liquidation preference $25 per share), 399,896 shares issued and outstanding	9,997	9,997

Common shares of beneficial interest, $.01 par, 100,000,000 shares authorized, 74,836,984 and 74,249,633 shares issued and outstanding, respectively	752	745
Additional paid-in capital	3,071,981	3,004,442
Accumulated dividends in excess of net income	(843,947)	(818,877)
Accumulated other comprehensive loss	(625)	(416)
Total shareholders' equity of the Trust	2,388,158	2,345,891
Noncontrolling interests	113,405	121,439
Total shareholders' equity	2,501,563	2,467,330
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$6,351,366	$6,289,644

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

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Federal Realty Investment Trust
Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended March 31,	
	2019	2018
	(In thousands, except per share data)	
REVENUE		
Rental income	$ 231,492	$ 224,648
Mortgage interest income	735	757
Total revenue	232,227	225,405
EXPENSES		
Rental expenses	44,260	44,773
Real estate taxes	27,687	28,448
General and administrative	9,565	7,929
Depreciation and amortization	59,622	58,110
Total operating expenses	141,134	139,260
Gain on sale of real estate, net of tax	—	3,316
OPERATING INCOME	91,093	89,461
OTHER INCOME/(EXPENSE)		
Other interest income	177	179
Interest expense	(28,033)	(26,184)
Loss from partnerships	(1,434)	(525)
NET INCOME	61,803	62,931
Net income attributable to noncontrolling interests	(1,659)	(1,684)
NET INCOME ATTRIBUTABLE TO THE TRUST	60,144	61,247
Dividends on preferred shares	(2,010)	(2,010)
NET INCOME AVAILABLE FOR COMMON SHAREHOLDERS	$ 58,134	$ 59,237
EARNINGS PER COMMON SHARE, BASIC:		
Net income available for common shareholders	$ 0.78	$ 0.81
Weighted average number of common shares	74,200	72,905
EARNINGS PER COMMON SHARE, DILUTED:		
Net income available for common shareholders	$ 0.78	$ 0.81
Weighted average number of common shares	74,200	72,968
COMPREHENSIVE INCOME	$ 61,594	$ 63,398
COMPREHENSIVE INCOME ATTRIBUTABLE TO THE TRUST	$ 59,935	$ 61,714

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

Federal Realty Investment Trust
Consolidated Statements of Shareholders' Equity
For the Three Months Ended March 31, 2019 and 2018
(Unaudited)

	Shareholders' Equity of the Trust								
	Preferred Shares		Common Shares		Additional Paid-in Capital	Accumulated Dividends in Excess of Net Income	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total Shareholders' Equity
	Shares	Amount	Shares	Amount					
	(In thousands, except share data)								
BALANCE AT DECEMBER 31, 2018	405,896	$ 159,997	74,249,633	$ 745	$ 3,004,442	$ (818,877)	$ (416)	$ 121,439	$ 2,467,330
January 1, 2019 adoption of new accounting standard - See Note 2	—	—	—	—	—	(7,098)	—	—	(7,098)
Net income, excluding $876 attributable to redeemable noncontrolling interests	—	—	—	—	—	60,144	—	783	60,927
Other comprehensive loss - change in fair value of interest rate swaps	—	—	—	—	—	—	(209)	—	(209)
Dividends declared to common shareholders ($1.02 per share)	—	—	—	—	—	(76,106)	—	—	(76,106)
Dividends declared to preferred shareholders	—	—	—	—	—	(2,010)	—	—	(2,010)
Distributions declared to noncontrolling interests	—	—	—	—	—	—	—	(1,266)	(1,266)
Common shares issued, net	—	—	446,132	5	59,348	—	—	—	59,353
Shares issued under dividend reinvestment plan	—	—	4,273	—	528	—	—	—	528
Share-based compensation expense, net of forfeitures	—	—	100,586	1	3,860	—	—	—	3,861
Shares withheld for employee taxes	—	—	(32,686)	—	(4,414)	—	—	—	(4,414)
Conversion and redemption of OP units	—	—	69,046	1	7,550	—	—	(7,551)	—
Adjustment to redeemable noncontrolling interests	—	—	—	—	667	—	—	—	667
BALANCE AT MARCH 31, 2019	405,896	$ 159,997	74,836,984	$ 752	$ 3,071,981	$ (843,947)	$ (625)	$ 113,405	$ 2,501,563
BALANCE AT DECEMBER 31, 2017	405,896	$ 159,997	73,090,877	$ 733	$ 2,855,321	$ (749,367)	$ 22	$ 124,808	2,391,514
January 1, 2018 adoption of new accounting standard - See Note 2	—	—	—	—	—	(6,028)	—	—	(6,028)
Net income, excluding $1,015 attributable to redeemable noncontrolling interests	—	—	—	—	—	61,247	—	669	61,916
Other comprehensive income - change in fair value of interest rate swaps	—	—	—	—	—	—	467	—	467
Dividends declared to common shareholders ($1.00 per share)	—	—	—	—	—	(73,153)	—	—	(73,153)
Dividends declared to preferred shareholders	—	—	—	—	—	(2,010)	—	—	(2,010)
Distributions declared to noncontrolling interests	—	—	—	—	—	—	—	(1,348)	(1,348)
Common shares issued, net	—	—	30	—	4	—	—	—	4
Exercise of stock options	—	—	30,000	1	1,261	—	—	—	1,262
Shares issued under dividend reinvestment plan	—	—	4,440	—	547	—	—	—	547
Share-based compensation expense, net of forfeitures	—	—	97,968	1	3,869	—	—	—	3,870
Shares withheld for employee taxes	—	—	(6,795)	—	(753)	—	—	—	(753)
Conversion and redemption of OP units	—	—	—	—	(532)	—	—	(2,646)	(3,178)
BALANCE AT MARCH 31, 2018	405,896	$ 159,997	73,216,520	$ 735	$ 2,859,717	$ (769,311)	$ 489	$ 121,483	$ 2,373,110

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

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Federal Realty Investment Trust
Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31,	
	2019	2018
	(In thousands)	
OPERATING ACTIVITIES		
Net income	$61,803	$62,931
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	59,622	58,110
Gain on sale of real estate, net	—	(3,316)
Loss from partnerships	1,434	525
Other, net	2,230	1,737
Changes in assets and liabilities, net of effects of acquisitions and dispositions:		
(Increase) decrease in accounts receivable, net	(1,245)	2,322
Decrease in prepaid expenses and other assets	1,168	4,088
Decrease in accounts payable and accrued expenses	(6,815)	(5,380)
(Decrease) increase in security deposits and other liabilities	(13,278)	3,163
Net cash provided by operating activities	104,919	124,180
INVESTING ACTIVITIES		
Acquisition of real estate	(25,176)	—
Capital expenditures - development and redevelopment	(63,380)	(69,119)
Capital expenditures - other	(14,061)	(20,194)
Proceeds from sale of real estate	6,106	51,459
Investment in partnerships	(300)	(180)
Distribution from partnerships in excess of earnings	983	93
Leasing costs	(8,259)	(8,057)
Repayment (issuance) of mortgage and other notes receivable, net	50	(180)
Net cash used in investing activities	(104,037)	(46,178)
FINANCING ACTIVITIES		
Net borrowings under revolving credit facility, net of costs	20,000	62,000
Repayment of mortgages and finance leases	(21,718)	(11,978)
Issuance of common shares, net of costs	59,427	1,336
Dividends paid to common and preferred shareholders	(77,296)	(74,925)
Shares withheld for employee taxes	(4,414)	(753)
Contributions from noncontrolling interests	106	69
Distributions to and redemptions of noncontrolling interests	(3,107)	(5,251)
Net cash used in financing activities	(27,002)	(29,502)
(Decrease) increase in cash, cash equivalents and restricted cash	(26,120)	48,500
Cash, cash equivalents, and restricted cash at beginning of year	108,332	25,200
Cash, cash equivalents, and restricted cash at end of period	$82,212	$73,700

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

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Federal Realty Investment Trust
Notes to Consolidated Financial Statements
March 31, 2019
(Unaudited)

NOTE 1—BUSINESS AND ORGANIZATION

Federal Realty Investment Trust (the “Trust”) is an equity real estate investment trust (“REIT”) specializing in the ownership, management, and redevelopment of retail and mixed-use properties. Our properties are located primarily in densely populated and affluent communities in strategically selected metropolitan markets in the Mid-Atlantic and Northeast regions of the United States, California, and South Florida. As of March 31, 2019, we owned or had a majority interest in community and neighborhood shopping centers and mixed-use properties which are operated as 105 predominantly retail real estate projects.

We operate in a manner intended to enable us to qualify as a REIT for federal income tax purposes. A REIT that distributes at least 90% of its taxable income to its shareholders each year and meets certain other conditions is not taxed on that portion of its taxable income which is distributed to its shareholders. Therefore, federal income taxes on our taxable income have been and are generally expected to be immaterial. We are obligated to pay state taxes, generally consisting of franchise or gross receipts taxes in certain states. Such state taxes also have not been material.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying consolidated balance sheet as of December 31, 2018, which has been derived from audited financial statements, and unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been omitted pursuant to those rules and regulations, although we believe that the disclosures made are adequate to make the information not misleading. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the Trust’s latest Annual Report on Form 10-K. In the opinion of management, all adjustments (consisting of normal, recurring adjustments) necessary for a fair presentation for the periods presented have been included. The results of operations for the three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the full year.

Principles of Consolidation

Our consolidated financial statements include the accounts of the Trust, its corporate subsidiaries, and all entities in which the Trust has a controlling interest or has been determined to be the primary beneficiary of a variable interest entity (“VIE”). The equity interests of other investors are reflected as noncontrolling interests or redeemable noncontrolling interests. All significant intercompany transactions and balances are eliminated in consolidation. We account for our interests in joint ventures, which we do not control, using the equity method of accounting. Certain 2018 amounts have been reclassified to conform to current period presentation, which includes the presentation of rental income on our Consolidated Statements of Comprehensive Income.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, referred to as “GAAP,” requires management to make estimates and assumptions that in certain circumstances affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and revenues and expenses. These estimates are prepared using management’s best judgment, after considering past, current and expected events and economic conditions. Actual results could differ from these estimates.

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Recently Adopted Accounting Pronouncements

Standard	Description	Effect on the financial statements or significant matters
Adopted on January 1, 2019:		
Leases (Topic 842) and related updates: ASU 2016-02, February 2016, Leases (Topic 842) ASU 2018-10, July 2018, Codification improvements to Topic 842, Leases ASU 2018-11, July 2018, Leases (Topic 842) ASU 2019-01, March 2019, Leases (Topic 842), Codification Improvements	ASC 842 significantly changes the accounting for leases by requiring lessees to recognize assets and liabilities for leases greater than 12 months on their balance sheet. The larger changes to the lessor model include: a change in the definition of initial direct costs of leases (resulting in the upfront expensing of more leasing related costs), the requirement to make an upfront and ongoing assessment of whether collection of substantially all of the lease payments required for the term of each lease is probable (if not probable, lease revenue is effectively recognized when cash is collected), certain presentation changes, and the elimination of real estate specific guidance. ASU 2018-10 and ASU 2019-01 provide narrow amendments that clarify how to apply certain aspects of the guidance in ASU 2016-02. ASU 2018-11 provides the option of an additional transition method, by allowing entities to initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. It also provides lessors an option to not separate lease and non-lease components when certain criteria are met.	We have elected to apply the transition provisions of ASC Topic 842 at the beginning of the period of adoption (i.e., January 1, 2019), and therefore, did not retrospectively adjust prior periods presented. We have also elected to apply certain adoption related practical expedients for all leases that commenced prior to the effective date. These practical expedients include not reassessing whether any expired or existing contracts are or contain leases; not reassessing the lease classification for any expired or existing leases; and not reassessing initial direct costs for any existing leases. We have also elected the practical expedient allowing lessors to combine non-lease and lease components (primarily impacts common area maintenance recoveries). From a lessee perspective, the primary impact of adoption on January 1, 2019 was to record a lease obligation liability and right of use asset for operating leases where we are the lessee. The most significant of these operating leases are ground leases at 14 properties. The operating lease right of use assets and related liabilities are shown separately on the face of our consolidated balance sheet. Additionally, amounts previously recorded as capital lease assets and included in real estate have been reclassified in the March 31, 2019 balance sheet as finance lease right of use assets and the related capital lease obligations have been reclassified in the March 31, 2019 balance sheet as finance lease liabilities. Income statement presentation is not impacted for our existing operating and finance leases. From a lessor perspective, adoption of ASC 842 results in a charge to opening accumulated dividends in excess of net income of $7.1 million. This charge is attributable to the write off of certain direct leasing costs recorded as of December 31, 2018 under the previous lease accounting rules for leases which had not commenced and the write off of December 31, 2018 unreserved receivables (including straight-line receivables) for leases where we have determined that the collection of substantially all of the lease payments required for the term of the lease is not

probable. Income statement presentation changes incorporated into our March 31, 2019 financial statements include: no longer recording a gross up of revenue and expense for costs (such as real estate taxes) paid directly by lessees on our behalf and recording collectability adjustments against revenue rather than as bad debt within rental expenses.

The allowance for doubtful accounts recorded against lease receivables as of December 31, 2018 has been carried forward to the January 1, 2019 adoption date consolidated balance sheet.

As a result of the change in the definition of initial direct costs of leases, capitalized leasing costs excluding external commissions decreased to $0.4 million for the three months ended March 31, 2019 from $1.6 million for the three months ended March 31, 2018.

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The following table provides additional information on our operating and finance leases where we are the lessee:

	Three Months Ended March 31, 2019 (In thousands)	
LEASE COST:		
Finance lease cost:		
Amortization of right-of-use assets	$321	
Interest on lease liabilities	1,456	
Operating lease cost	1,504	
Variable lease cost	91	
Total lease cost	$3,372	
OTHER INFORMATION:		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows for finance leases	$1,460	
Operating cash flows for operating leases	$1,511	
Financing cash flows for finance leases	$25	
Weighted-average remaining lease term - finance leases	18.9 years	
Weighted-average remaining lease term - operating leases	53.7 years	
Weighted-average discount rate - finance leases	8.0	%
Weighted-average discount rate - operating leases	4.5	%

Consolidated Statements of Cash Flows—Supplemental Disclosures

The following tables provide supplemental disclosures related to the Consolidated Statements of Cash Flows:

	Three Months Ended March 31,	
	2019	2018
	(In thousands)	
SUPPLEMENTAL DISCLOSURES:		
Total interest costs incurred	$32,580	$32,276
Interest capitalized	(4,547)	(6,092)
Interest expense	$28,033	$26,184
Cash paid for interest, net of amounts capitalized	$32,485	$31,832
Cash paid for income taxes	$7	$57
NON-CASH INVESTING AND FINANCING TRANSACTIONS:		
DownREIT operating partnership units redeemed for common shares	$7,551	$—
Shares issued under dividend reinvestment plan	$455	$477

See additional disclosures in the "Recently Adopted Accounting Pronouncements" section of this footnote relating to operating lease right of use assets and lease liabilities recorded in connection with our adoption of ASC Topic 842.

	March 31,	December 31,

	2019	2018
	(In thousands)	
RECONCILIATION OF CASH, CASH EQUIVALENTS, AND RESTRICTED CASH:		
Cash and cash equivalents	$43,003	$64,087
Restricted cash (1)	39,209	44,245
Total cash, cash equivalents, and restricted cash	$82,212	$108,332

(1) Restricted cash balances are included in "prepaid expenses and other assets" on our consolidated balance sheets.

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NOTE 3—REAL ESTATE

On February 8, 2019, we acquired the fee interest in Fairfax Junction, a 75,000 square foot shopping center in Fairfax, Virginia for $22.5 million. Approximately $0.6 million and $0.4 million of net assets acquired were allocated to other assets for "above market leases," and other liabilities for "below market leases," respectively.

NOTE 4—DEBT

On January 31, 2019, we repaid the $20.3 million mortgage loan on Rollingwood Apartments, at par, prior to its original
maturity date.

During the three months ended March 31, 2019, the maximum amount of borrowings outstanding under our $800.0 million revolving credit facility was $116.5 million, the weighted average borrowings outstanding was $63.4 million, and the weighted average interest rate, before amortization of debt fees, was 3.2%. At March 31, 2019, the outstanding balance was $20.0 million. Our revolving credit facility, term loan and certain notes require us to comply with various financial covenants, including the maintenance of minimum shareholders' equity and debt coverage ratios and a maximum ratio of debt to net worth. As of March 31, 2019, we were in compliance with all default related debt covenants.

NOTE 5—FAIR VALUE OF FINANCIAL INSTRUMENTS

Except as disclosed below, the carrying amount of our financial instruments approximates their fair value. The fair value of our mortgages payable, notes payable and senior notes and debentures is sensitive to fluctuations in interest rates. Quoted market prices (Level 1) were used to estimate the fair value of our marketable senior notes and debentures and discounted cash flow analysis (Level 2) is generally used to estimate the fair value of our mortgages and notes payable. Considerable judgment is necessary to estimate the fair value of financial instruments. The estimates of fair value presented herein are not necessarily indicative of the amounts that could be realized upon disposition of the financial instruments. A summary of the carrying amount and fair value of our mortgages payable, notes payable and senior notes and debentures is as follows:

	March 31, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands)			
Mortgages and notes payable	$751,572	$751,170	$753,406	$751,361
Senior notes and debentures	$2,404,987	$2,443,338	$2,404,279	$2,371,392

One of our equity method investees has two interest rate swaps which qualify for cash flow hedge accounting. During the three months ended March 31, 2019, our share of the change in fair value of the related swaps included in "accumulated other comprehensive income" was $0.2 million.

NOTE 6—COMMITMENTS AND CONTINGENCIES

We are sometimes involved in lawsuits, warranty claims, and environmental matters arising in the ordinary course of business. Management makes assumptions and estimates concerning the likelihood and amount of any potential loss relating to these matters.

We are currently a party to various legal proceedings. We accrue a liability for litigation if an unfavorable outcome is probable and the amount of loss can be reasonably estimated. If an unfavorable outcome is probable and a reasonable estimate of the loss is a range, we accrue the best estimate within the range; however, if no amount within the range is a better estimate than any other amount, the minimum within the range is accrued. Legal fees related to litigation are expensed as incurred. We do not believe that the ultimate outcome of these matters, either individually or in the aggregate, could have a material adverse effect on our financial position or overall trends in results of operations;

however, litigation is subject to inherent uncertainties. Also under our leases, tenants are typically obligated to indemnify us from and against all liabilities, costs and expenses imposed upon or asserted against us (1) as owner of the properties due to certain matters relating to the operation of the properties by the tenant, and (2) where appropriate, due to certain matters relating to the ownership of the properties prior to their acquisition by us.

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Under the terms of certain partnership agreements, the partners have the right to exchange their operating partnership units for cash or common shares, at our option. A total of 669,377 downREIT operating partnership units are outstanding which have a total fair value of $92.3 million, based on our closing stock price on March 31, 2019.

NOTE 7—