

MACERICH CO
Form 10-Q
May 05, 2014

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, 2014

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 NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding twelve (12) months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

YES NO

Number of shares outstanding as of May 2, 2014 of the registrant's common stock, par value \$0.01 per share:

140,692,507 shares

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

	March 31, 2014	December 31, 2013
ASSETS:		
Property, net	\$7,553,979	\$7,621,766
Cash and cash equivalents	64,926	69,715
Restricted cash	15,808	16,843
Tenant and other receivables, net	100,838	99,497
Deferred charges and other assets, net	516,277	533,058
Loans to unconsolidated joint ventures	3,374	2,756
Due from affiliates	28,559	30,132
Investments in unconsolidated joint ventures	724,630	701,483
Total assets	\$9,008,391	\$9,075,250
LIABILITIES AND EQUITY:		
Mortgage notes payable:		
Related parties	\$268,029	\$269,381
Others	4,115,971	4,145,809
Total	4,384,000	4,415,190
Bank and other notes payable	227,132	167,537
Accounts payable and accrued expenses	89,146	76,941
Other accrued liabilities	312,188	363,158
Distributions in excess of investments in unconsolidated joint ventures	254,581	252,192
Co-venture obligation	78,224	81,515
Total liabilities	5,345,271	5,356,533
Commitments and contingencies		
Equity:		
Stockholders' equity:		
Common stock, \$0.01 par value, 250,000,000 shares authorized, 140,879,384 and 140,733,683 shares issued and outstanding at March 31, 2014 and December 31, 2013, 1,409 respectively		1,407
Additional paid-in capital	3,920,704	3,906,148
Accumulated deficit	(618,277)	(548,806)
Total stockholders' equity	3,303,836	3,358,749
Noncontrolling interests	359,284	359,968
Total equity	3,663,120	3,718,717
Total liabilities and equity	\$9,008,391	\$9,075,250

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

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CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended March 31,	
	2014	2013
Revenues:		
Minimum rents	\$ 151,633	\$ 137,027
Percentage rents	2,853	3,982
Tenant recoveries	91,475	78,961
Management Companies	8,121	10,148
Other	10,430	13,186
Total revenues	264,512	243,304
Expenses:		
Shopping center and operating expenses	90,376	78,604
Management Companies' operating expenses	22,772	23,149
REIT general and administrative expenses	6,877	6,024
Depreciation and amortization	88,657	87,018
	208,682	194,795
Interest expense:		
Related parties	3,708	3,780
Other	42,630	45,900
	46,338	49,680
Loss on extinguishment of debt, net	358	—
Total expenses	255,378	244,475
Equity in income of unconsolidated joint ventures	13,769	18,115
Co-venture expense	(1,820)	(2,041)
Income tax benefit	172	243
(Loss) gain on remeasurement, sale or write down of assets, net	(1,611)	4,828
Income from continuing operations	19,644	19,974
Discontinued operations:		
Gain on the disposition of assets, net	—	6
Income from discontinued operations	—	2,550
Total income from discontinued operations	—	2,556
Net income	19,644	22,530
Less net income attributable to noncontrolling interests	1,825	4,438
Net income attributable to the Company	\$ 17,819	\$ 18,092
Earnings per common share attributable to Company—basic:		
Income from continuing operations	\$0.13	\$0.11
Discontinued operations	—	0.02
Net income attributable to common stockholders	\$0.13	\$0.13
Earnings per common share attributable to Company—diluted:		
Income from continuing operations	\$0.13	\$0.11
Discontinued operations	—	0.02
Net income attributable to common stockholders	\$0.13	\$0.13
Weighted average number of common shares outstanding:		
Basic	140,767,000	137,538,000

Diluted

140,817,000 137,616,000

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				Total Stockholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Par Value	Additional Paid-in Capital	Accumulated Deficit			
Balance at January 1, 2014	140,733,683	\$ 1,407	\$ 3,906,148	\$(548,806)	\$ 3,358,749	\$ 359,968	\$ 3,718,717
Net income	—	—	—	17,819	17,819	1,825	19,644
Amortization of share and unit-based compensation plans	82,701	1	20,345	—	20,346	—	20,346
Distributions paid (\$0.62) per share	—	—	—	(87,290)	(87,290)	—	(87,290)
Distributions to noncontrolling interests	—	—	—	—	—	(8,052)	(8,052)
Other	—	—	(42)	—	(42)	—	(42)
Conversion of noncontrolling interests to common shares	63,000	1	626	—	627	(627)	—
Redemption of noncontrolling interests	—	—	(134)	—	(134)	(69)	(203)
Adjustment of noncontrolling interest in Operating Partnership	—	—	(6,239)	—	(6,239)	6,239	—
Balance at March 31, 2014	140,879,384	\$ 1,409	\$ 3,920,704	\$(618,277)	\$ 3,303,836	\$ 359,284	\$ 3,663,120

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,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 19,644	\$ 22,530
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on extinguishment of debt	358	—
Loss (gain) on remeasurement, sale or write down of assets, net	1,611	(4,828)
Gain on the disposition of assets, net from discontinued operations	—	(6)
Depreciation and amortization	90,569	95,465
Amortization of net premium on mortgage notes payable	(1,352)	(2,441)
Amortization of share and unit-based plans	16,505	3,700
Straight-line rent adjustment	(1,491)	(1,561)
Amortization of above and below-market leases	(1,497)	(1,624)
Provision for doubtful accounts	372	756
Income tax benefit	(172)	(243)
Equity in income of unconsolidated joint ventures	(13,769)	(18,115)
Distributions of income from unconsolidated joint ventures	—	8,538
Co-venture expense	1,820	2,041
Changes in assets and liabilities, net of acquisitions and dispositions:		
Tenant and other receivables	8,817	4,782
Other assets	(1,536)	9,092
Due from affiliates	1,573	(799)
Accounts payable and accrued expenses	8,049	15,073
Other accrued liabilities	(31,590)	(24,817)
Net cash provided by operating activities	97,911	107,543
Cash flows from investing activities:		
Acquisitions of property	—	(470,000)
Development, redevelopment, expansion and renovation of properties	(29,578)	(36,741)
Property improvements	(4,792)	(10,901)
Issuance of notes receivable	—	(13,330)
Proceeds from maturities of marketable securities	—	99
Deferred leasing costs	(6,465)	(10,885)
Distributions from unconsolidated joint ventures	43,495	104,708
Contributions to unconsolidated joint ventures	(49,842)	(26,134)
Collection of/loans to unconsolidated joint ventures, net	(618)	(21)
Proceeds from sale of assets	24,514	6,059
Restricted cash	1,035	530
Net cash used in investing activities	(22,251)	(456,616)

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

	For the Three Months Ended March 31,	
	2014	2013
Cash flows from financing activities:		
Proceeds from mortgages, bank and other notes payable	133,982	1,735,123
Payments on mortgages, bank and other notes payable	(104,225)	(1,286,303)
Deferred financing costs	(550)	(4,601)
Redemption of noncontrolling interests	(203)	(1,022)
Contingent consideration paid	(9,000)	—
Dividends and distributions	(95,342)	(86,207)
Distributions to co-venture partner	(5,111)	(4,896)
Net cash (used in) provided by financing activities	(80,449)	352,094
Net (decrease) increase in cash and cash equivalents	(4,789)	3,021
Cash and cash equivalents, beginning of period	69,715	65,793
Cash and cash equivalents, end of period	\$ 64,926	\$ 68,814
Supplemental cash flow information:		
Cash payments for interest, net of amounts capitalized	\$ 47,958	\$ 53,993
Non-cash transactions:		
Accrued development costs included in accounts payable and accrued expenses and other accrued liabilities	\$ 37,852	\$ 25,761
Notes receivable issued in connection with sale of property	\$ 9,603	\$ —
Application of deposit to acquire property	\$ —	\$ 30,000
Conversion of noncontrolling interests to common shares	\$ 627	\$ 974

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, 2014, 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 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 independent public accountants. The accompanying consolidated financial statements include the accounts of the Company and the Operating Partnership. Investments in entities in which the Company has a controlling financial interest or entities that meet the definition of a variable interest entity in which the Company has, as a result of ownership, contractual or other financial interests, both the power to direct activities that most significantly impact the economic performance of the variable interest entity and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the variable interest entity are consolidated; otherwise they are accounted for under the equity method of accounting and are reflected as investments in unconsolidated joint ventures.

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

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, 2013. 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, 2013 has been derived from the audited financial statements, but does not include all disclosures required by GAAP.

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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:

On April 10, 2014, the Financial Accounting Standards Board issued ASU 2014-08, which amends the definition of discontinued operations and requires additional disclosures for disposal transactions that do not meet the revised discontinued operations criteria. ASU 2014-08 is required to be adopted for fiscal years beginning after December 15, 2014, with early adoption permitted. The Company's early adoption of this pronouncement on January 1, 2014 did not have a material impact on the Company's consolidated financial statements.

3. Earnings per Share ("EPS"):

The following table reconciles the numerator and denominator used in the computation of earnings per share for the three months ended March 31, 2014 and 2013 (shares in thousands):

	For the Three Months Ended March 31,	
	2014	2013
Numerator		
Income from continuing operations	\$ 19,644	\$ 19,974
Income from discontinued operations	—	2,556
Net income attributable to noncontrolling interests	(1,825)	(4,438)
Net income attributable to the Company	17,819	18,092
Allocation of earnings to participating securities	(128)	(66)
Numerator for basic and diluted earnings per share—net income attributable to common stockholders	\$ 17,691	\$ 18,026
Denominator		
Denominator for basic earnings per share—weighted average number of common shares outstanding	140,767	137,538
Effect of dilutive securities:(1)		
Share and unit-based compensation plans	50	78
Denominator for diluted earnings per share—weighted average number of common shares outstanding	140,817	137,616
Earnings per common share—basic:		
Income from continuing operations	\$0.13	\$0.11
Discontinued operations	—	0.02
Net income attributable to common stockholders	\$0.13	\$0.13
Earnings per common share—diluted:		
Income from continuing operations	\$0.13	\$0.11
Discontinued operations	—	0.02
Net income attributable to common stockholders	\$0.13	\$0.13

(1) Diluted EPS excludes 184,304 convertible preferred units for the three months ended March 31, 2014 and 2013 as their impact was antidilutive.

Diluted EPS excludes 10,068 of unexercised stock options for the three months ended March 31, 2014 as their impact was antidilutive.

Diluted EPS excludes 9,991,438 and 10,206,924 Operating Partnership Units ("OP Units") for the three months ended March 31, 2014 and 2013, respectively, as their impact was antidilutive.

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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:

During 2013, the Company made the following investments and dispositions relating to its unconsolidated joint ventures:

On May 29, 2013, the Company's joint venture in Pacific Premier Retail LP sold Redmond Town Center Office, a 582,000 square foot office building in Redmond, Washington, for \$185,000, resulting in a gain on the sale of assets of \$89,157 to the joint venture. The Company's share of the gain was \$44,424, which was included in equity in income of unconsolidated joint ventures. The Company used its share of the proceeds from the sale to pay down its line of credit and for general corporate purposes.

On June 12, 2013, the Company's joint venture in Pacific Premier Retail LP sold Kitsap Mall, an 846,000 square foot regional shopping center in Silverdale, Washington, for \$127,000, resulting in a gain on the sale of assets of \$55,150 to the joint venture. The Company's share of the gain was \$28,127, which was included in equity in income of unconsolidated joint ventures. The Company used its share of the proceeds from the sale to pay down its line of credit and for general corporate purposes.

On August 1, 2013, the Company's joint venture in Pacific Premier Retail LP sold Redmond Town Center, a 695,000 square foot community center in Redmond, Washington, for \$127,000, resulting in a gain on the sale of assets of \$38,447 to the joint venture. The Company's share of the gain was \$18,251, which was included in equity in income of unconsolidated joint ventures. The Company used its share of the proceeds from the sale to pay down its line of credit and for general corporate purposes.

On September 17, 2013, the Company's joint venture in Camelback Colonnade, a 619,000 square foot community center in Phoenix, Arizona, was restructured. As a result of the restructuring, the Company's ownership interest in Camelback Colonnade decreased from 73.2% to 67.5%. Prior to the restructuring, the Company had accounted for its investment in Camelback Colonnade under the equity method of accounting due to substantive participation rights held by the outside partners. Upon completion of the restructuring, these substantive participation rights were terminated and the Company obtained voting control of the joint venture. This transaction is referred to herein as the "Camelback Colonnade Restructuring." Since the date of the restructuring, the Company has included Camelback Colonnade in its consolidated financial statements (See Note 13—Acquisitions).

On October 8, 2013, the Company's joint venture in Ridgmar Mall, a 1,273,000 square foot regional shopping center in Fort Worth, Texas, sold the property for \$60,900, resulting in a gain on the sale of assets of \$6,243 to the joint venture. The Company's share of the gain was \$3,121, which was included in equity in income from joint ventures. The cash proceeds from the sale were used to pay off the \$51,657 mortgage loan on the property and the remaining \$9,243, net of closing costs, was distributed to the partners. The Company used its share of the proceeds from the sale to pay down its line of credit and for general corporate purposes.

On October 24, 2013, the Company acquired the remaining 33.3% ownership interest in Superstition Springs Center, a 1,082,000 square foot regional shopping center in Mesa, Arizona, that it did not own for \$46,162. The purchase price was funded by a cash payment of \$23,662 and the assumption of the third party's pro rata share of the mortgage note payable on the property of \$22,500. Prior to the acquisition, the Company had accounted for its investment in Superstition Springs Center under the equity method. Since the date of acquisition, the Company has included Superstition Springs Center in its consolidated financial statements (See Note 13—Acquisitions).

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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 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, 2014	December 31, 2013
Assets(1):		
Properties, net	\$ 3,480,942	\$ 3,435,737
Other assets	281,207	295,719
Total assets	\$ 3,762,149	\$ 3,731,456
Liabilities and partners' capital(1):		
Mortgage notes payable(2)	\$ 3,506,953	\$ 3,518,215
Other liabilities	200,166	202,444
Company's deficit	(3,799) (25,367
Outside partners' capital	58,829	36,164
Total liabilities and partners' capital	\$ 3,762,149	\$ 3,731,456
Investments in unconsolidated joint ventures:		
Company's deficit	\$ (3,799) \$ (25,367
Basis adjustment(3)	473,848	474,658
	\$ 470,049	\$ 449,291
Assets—Investments in unconsolidated joint ventures	\$ 724,630	\$ 701,483
Liabilities—Distributions in excess of investments in unconsolidated joint ventures	(254,581) (252,192
	\$ 470,049	\$ 449,291

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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)

(1) These amounts include the assets and liabilities of the following joint ventures as of March 31, 2014 and December 31, 2013:

	Pacific Premier Retail LP	Tyson's Corner LLC
As of March 31, 2014:		
Total Assets	\$763,917	\$359,088
Total Liabilities	\$809,622	\$879,938
As of December 31, 2013:		
Total Assets	\$775,012	\$356,871
Total Liabilities	\$812,725	\$887,413

(2) Certain mortgage notes payable could become recourse debt to the Company should the joint venture be unable to discharge the obligations of the related debt. As of March 31, 2014 and December 31, 2013, a total of \$33,540 could become recourse debt to the Company. As of March 31, 2014 and December 31, 2013, the Company had an indemnity agreement from a joint venture partner for \$16,770 of the guaranteed amount.

Included in mortgage notes payable are amounts due to affiliates of Northwestern Mutual Life ("NML") of \$709,538 and \$712,455 as of March 31, 2014 and December 31, 2013, 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 \$9,724 and \$6,943 for the three months ended March 31, 2014 and 2013, 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 \$1,424 and \$2,562 for the three months ended March 31, 2014 and 2013, 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:

	Pacific Premier Retail LP	Tysons Corner LLC	Other Joint Ventures	Total
Three Months Ended March 31, 2014				
Revenues:				
Minimum rents	\$ 26,080	\$ 16,278	\$ 55,899	\$ 98,257
Percentage rents	659	424	968	2,051
Tenant recoveries	11,740	11,894	25,111	48,745
Other	1,077	687	7,855	9,619
Total revenues	39,556	29,283	89,833	158,672
Expenses:				
Shopping center and operating expenses	11,131	10,159	33,880	55,170
Interest expense	10,098	7,830	19,571	37,499
Depreciation and amortization	8,798	4,602	21,523	34,923
Total operating expenses	30,027	22,591	74,974	127,592
Loss on remeasurement, sale or write down of assets, net	(86) —	(18) (104
Net income	\$ 9,443	\$ 6,692	\$ 14,841	\$ 30,976
Company's equity in net income	\$ 4,268	\$ 1,758	\$ 7,743	\$ 13,769
Three Months Ended March 31, 2013				
Revenues:				
Minimum rents	\$ 33,132	\$ 15,497	\$ 60,961	\$ 109,590
Percentage rents	989	566	1,302	2,857
Tenant recoveries	13,954	11,024	27,212	52,190
Other	1,251	918	7,413	9,582
Total revenues	49,326	28,005	96,888	174,219
Expenses:				
Shopping center and operating expenses	14,448	8,482	36,171	59,101
Interest expense	11,574	2,240	24,117	37,931
Depreciation and amortization	10,910	4,430	21,821	37,161
Total operating expenses	36,932	15,152	82,109	134,193
Loss on remeasurement, sale or write down of assets, net	—	—	(190) (190
Net income	\$ 12,394	\$ 12,853	\$ 14,589	\$ 39,836
Company's equity in net income	\$ 5,691	\$ 4,877	\$ 7,547	\$ 18,115

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

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THE MACERICH COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

5. Property:

Property consists of the following:

	March 31, 2014	December 31, 2013
Land	\$ 1,697,973	\$ 1,707,005
Buildings and improvements	6,499,863	6,555,212
Tenant improvements	533,650	537,754
Equipment and furnishings	153,177	152,198
Construction in progress	253,113	229,169
	9,137,776	9,181,338
Less accumulated depreciation	(1,583,797)	(1,559,572)
	\$ 7,553,979	\$ 7,621,766

Depreciation expense was \$68,478 and \$65,896 for the three months ended March 31, 2014 and 2013, respectively.

The loss on remeasurement, sale or write down of assets, net, of \$1,611 for the three months ended March 31, 2014 is due to the loss on the sales of Rotterdam Square, a 585,000 square foot regional shopping center in Schenectady, New York; Somersville Towne Center, a 348,000 square foot regional shopping center in Antioch, California; and Lake Square Mall, a 559,000 square foot regional shopping center in Leesburg, Florida.

The gain on the remeasurement, sale or write down of assets, net, of \$4,828 for the three months ended March 31, 2013 consists of the gain on the sales of land of \$5,419 offset in part by the loss on the write off of development costs of \$591.

6. Tenant and Other Receivables, net:

Included in tenant and other receivables, net, is an allowance for doubtful accounts of \$2,941 and \$2,878 at March 31, 2014 and December 31, 2013, respectively. Also included in tenant and other receivables, net, are accrued percentage rents of \$2,723 and \$9,824 at March 31, 2014 and December 31, 2013, respectively, and a deferred rent receivable due to straight-line rent adjustments of \$54,303 and \$53,380 at March 31, 2014 and December 31, 2013, respectively.

On March 17, 2014, in connection with the sale of Lake Square Mall (See Note 5—Property), the Company issued a note receivable for \$6,500 that bears interest at an effective rate of 6.5% and matures on March 17, 2018 and a note receivable for \$3,103 that bears interest at 5.0% and matures on December 31, 2014. The notes are collateralized by a trust deed on Lake Square Mall.

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THE MACERICH COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

7. Deferred Charges and Other Assets, net:

Deferred charges and other assets, net, consist of the following:

	March 31, 2014	December 31, 2013
Leasing	\$213,741	\$223,038
Financing	50,427	51,695
Intangible assets:		
In-place lease values	188,083	205,651
Leasing commissions and legal costs	47,504	50,594
Above-market leases	115,035	118,770
Deferred tax assets	31,528	31,356
Deferred compensation plan assets	31,148	30,932
Other assets	67,206	65,793
	744,672	777,829
Less accumulated amortization(1)	(228,395)	(244,771)
	\$516,277	\$533,058

Accumulated amortization includes \$81,496 and \$89,141 relating to in-place lease values, leasing commissions and legal costs at March 31, 2014 and December 31, 2013, respectively. Amortization expense of in-place lease values, (1) leasing commissions and legal costs was \$12,739 and \$13,665 for the three months ended March 31, 2014 and 2013, respectively.

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

	March 31, 2014	December 31, 2013
Above-Market Leases		
Original allocated value	\$115,035	\$118,770
Less accumulated amortization	(48,461)	(46,912)
	\$66,574	\$71,858
Below-Market Leases(1)		
Original allocated value	\$182,005	\$187,537
Less accumulated amortization	(80,583)	(79,271)
	\$101,422	\$108,266

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

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THE MACERICH COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, except per share amounts)

(Unaudited)

8. Mortgage Notes Payable:

Mortgage notes payable at March 31, 2014 and December 31, 2013 consist of the following:

Property Pledged as Collateral	Carrying Amount of Mortgage Notes(1)				Effective Interest Rate(2)	Monthly Debt Service(3)	Maturity Date(4)
	March 31, 2014		December 31, 2013				
	Related Party	Other	Related Party	Other			
Arrowhead Towne Center	\$—	\$234,214	\$—	\$236,028	2.76 %	\$1,131	2018
Camelback Colonnade	—	48,824	—	49,120	2.16 %	178	2015
Chandler Fashion Center(5)	—	200,000	—	200,000	3.77 %	625	2019
Danbury Fair Mall	116,421	116,421	117,120	117,120	5.53 %	1,538	2020
Deptford Mall	—	200,658	—	201,622	3.76 %	947	2023
Deptford Mall	—	14,482	—	14,551	6.46 %	101	2016
Eastland Mall	—	168,000	—	168,000	5.79 %	811	2016
Fashion Outlets of Chicago(6)	—	105,367	—	91,383	2.95 %	233	2017
Fashion Outlets of Niagara Falls USA	—						