FEDERAL REALTY INVESTMENT TRUST
Form 10-K
February 13, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
ý ANNUAL REPORT PURSUANT TO THE SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017
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)
Securities registered pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ý Yes ¨ No
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ Yes ý No
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 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 12 months (or for such shorter period that the registrant was required to submit and post such files). ý Yes ¨ No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

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 (Do not check if a smaller reporting company)	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 aggregate market value of the Registrant's common shares held by non-affiliates of the Registrant, based upon the closing sales price of the Registrant's common shares on June 30, 2017 was $9.1 billion.

The number of Registrant’s common shares outstanding on February 8, 2018 was 73,192,726.

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FEDERAL REALTY INVESTMENT TRUST
ANNUAL REPORT ON FORM 10-K
FISCAL YEAR ENDED DECEMBER 31, 2017

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s Proxy Statement to be filed with the Securities and Exchange Commission for the Registrant’s 2017 annual meeting of shareholders to be held in May 2018 will be incorporated by reference into Part III hereof.

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PART I

ITEM 1. BUSINESS

References to “we,” “us,” “our” or the “Trust” refer to Federal Realty Investment Trust and our business and operations conducted through our directly or indirectly owned subsidiaries.

General

We are an equity real estate investment trust (“REIT”) specializing in the ownership, management, and redevelopment of high quality retail and mixed-use properties located primarily in densely populated and affluent communities in strategically selected metropolitan markets in the Northeast and Mid-Atlantic regions of the United States, as well as in California and South Florida. As of December 31, 2017, we owned or had a majority interest in community and neighborhood shopping centers and mixed-use properties which are operated as 104 predominantly retail real estate projects comprising approximately 24.2 million square feet. In total, the real estate projects were 95.3% leased and 93.9% occupied at December 31, 2017. We have paid quarterly dividends to our shareholders continuously since our founding in 1962 and have increased our dividends per common share for 50 consecutive years.

We were founded in 1962 as a REIT under the laws of the District of Columbia and re-formed as a REIT in the state of Maryland in 1999. We operate in a manner intended to qualify as a REIT for tax purposes pursuant to provisions of the Internal Revenue Code of 1986, as amended (the “Code”). Our principal executive offices are located at 1626 East Jefferson Street, Rockville, Maryland 20852. Our telephone number is (301) 998-8100. Our website address is www.federalrealty.com. The information contained on our website is not a part of this report and is not incorporated herein by reference.

Business Objectives and Strategies

Our primary business objective is to own, manage, acquire and redevelop a portfolio of high quality retail focused properties that will:

- provide increasing cash flow for distribution to shareholders;
- generate higher internal growth than the shopping center industry over the long term;
- provide potential for capital appreciation; and
- protect investor capital.

Our portfolio includes, and we continue to acquire and redevelop, high quality retail in many formats ranging from regional, community and neighborhood shopping centers that often are anchored by grocery stores to mixed-use properties that are typically centered around a retail component but also include office, residential and/or hotel components.

Operating Strategies

Our core operating strategy is to actively manage our properties to maximize rents and maintain occupancy levels by attracting and retaining a strong and diverse base of tenants and replacing less relevant, weaker, underperforming tenants with stronger ones. Our properties are generally located in some of the most densely populated and affluent areas of the country. These strong demographics help our tenants generate higher sales, which has enabled us to maintain higher occupancy rates, charge higher rental rates, and maintain steady rent growth, all of which increase the value of our portfolio. Our operating strategies also include:

- increasing rental rates through the renewal of expiring leases or the leasing of space to new tenants at higher rental rates while limiting vacancy and down-time;
- maintaining a diversified tenant base, thereby limiting exposure to any one tenant’s financial or operating difficulties;
- monitoring the merchandising mix of our tenant base to achieve a balance of strong national and regional tenants with local specialty tenants;
- minimizing overhead and operating costs;
- monitoring the physical appearance of our properties and the construction quality, condition and design of the buildings and other improvements located on our properties to maximize our ability to attract customers and thereby

generate higher rents and occupancy rates;

- developing local and regional market expertise in order to capitalize on market and retailing trends;
- leveraging the contacts and experience of our management team to build and maintain long-term relationships with tenants;

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- providing exceptional customer service; and
- creating an experience at many of our properties that is identifiable, unique and serves the surrounding communities to help insulate these properties and the tenants at these properties from the impact of on-line retailing.

Investing Strategies

Our investment strategy is to deploy capital at risk-adjusted rates of return that exceed our long-term weighted average cost of capital in projects that have potential for future income growth and increased value. Our investments primarily fall into one of the following four categories:

- renovating, expanding, reconfiguring and/or retenanting our existing properties to take advantage of under-utilized land or existing square footage to increase revenue;
- renovating or expanding tenant spaces for tenants capable of producing higher sales, and therefore, paying higher rents;
- acquiring quality retail and mixed-use properties located in densely populated and/or affluent areas where barriers to entry for further development are high, and that have possibilities for enhancing operating performance and creating value through renovation, expansion, reconfiguration and/or retenanting; and
- developing the retail portions of mixed-use properties and developing or otherwise investing in non-retail portions of mixed-use properties we already own in order to capitalize on the overall value created in these properties.

Investment Criteria

When we evaluate potential redevelopment, retenanting, expansion, acquisition and development opportunities, we consider such factors as:

- the expected returns in relation to our short and long-term cost of capital as well as the anticipated risk we will face in achieving the expected returns;
- the anticipated growth rate of operating income generated by the property;
- the ability to increase the long-term value of the property through redevelopment and retenanting;
- the tenant mix at the property, tenant sales performance and the creditworthiness of those tenants;
- the geographic area in which the property is located, including the population density, household incomes, education levels, as well as the population and income trends in that geographic area;
- competitive conditions in the vicinity of the property, including gross leasable area (GLA) per capita, competition for tenants and the ability of others to create competing properties through redevelopment, new construction or renovation;
- access to and visibility of the property from existing roadways and the potential for new, widened or realigned, roadways within the property’s trade area, which may affect access and commuting and shopping patterns;
- the level and success of our existing investments in the market area;
- the current market value of the land, buildings and other improvements and the potential for increasing those market values; and
- the physical condition of the land, buildings and other improvements, including the structural and environmental condition.

Financing Strategies

Our financing strategies are designed to enable us to maintain an investment grade balance sheet while retaining sufficient flexibility to fund our operating and investing activities in the most cost-efficient way possible. Our financing strategies include:

- maintaining a prudent level of overall leverage and an appropriate pool of unencumbered properties that is sufficient to support our unsecured borrowings;
- managing our exposure to variable-rate debt;
- maintaining an available line of credit to fund operating and investing needs on a short-term basis;
- taking advantage of market opportunities to refinance existing debt, reduce interest costs and manage our debt maturity schedule so that a significant portion of our debt relative to our size does not mature in any one year;
- selling properties that have limited growth potential or are not a strategic fit within our overall portfolio and redeploying the proceeds to redevelop, renovate, retenant and/or expand our existing properties, acquire new properties or reduce debt; and

- utilizing the most advantageous long-term source of capital available to us to finance redevelopment and acquisition opportunities, which may include:

the sale of our equity or debt securities through public offerings, including our at-the-market ("ATM") equity program in which we may from time to time offer and sell common shares, or private placements,

the incurrence of indebtedness through unsecured or secured borrowings,

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the issuance of operating partnership units in a new or existing "downREIT partnership" that is controlled and consolidated by us (generally operating partnership units in a "downREIT" partnership are issued in exchange for a tax deferred contribution of property; these units receive the same distributions as our common shares and the holders of these units have the right to exchange their units for cash or the same number of our common shares, at our option), or the use of joint venture arrangements.

Employees

At February 8, 2018, we had 311 full-time employees and 15 part-time employees. None of our employees are represented by a collective bargaining unit. We believe that our relationship with our employees is good.

Tax Status

We elected to be taxed as a REIT under the federal income tax laws when we filed our 1962 tax return. As a REIT, we are generally not subject to federal income tax on taxable income that we distribute to our shareholders. Under the Code, REITs are subject to numerous organizational and operational requirements, including the requirement to generally distribute at least 90% of taxable income each year. We will be subject to federal income tax on our taxable income (including any applicable alternative minimum tax) at regular corporate rates if we fail to qualify as a REIT for tax purposes in any taxable year, or to the extent we distribute less than 100% of our taxable income. We will also generally not qualify for treatment as a REIT for federal income tax purposes for four years following the year during which qualification is lost. Even if we qualify as a REIT for federal income tax purposes, we may be subject to certain state and local income and franchise taxes and to federal income and excise taxes on our undistributed taxable income.
We have elected to treat certain of our subsidiaries as taxable REIT subsidiaries, which we refer to as a TRS. In general, a TRS may engage in any real estate business and certain non-real estate businesses, subject to certain limitations under the Code. A TRS is subject to federal and state income taxes. Our TRS activities have not been material.

Governmental Regulations Affecting Our Properties

We and our properties are subject to a variety of federal, state and local environmental, health, safety and similar laws, including without limitation:

- the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, which we refer to as CERCLA;
- the Resource Conservation & Recovery Act;
- the Federal Clean Water Act;
- the Federal Clean Air Act;
- the Toxic Substances Control Act;
- the Occupational Safety & Health Act; and
- the Americans with Disabilities Act.

The application of these laws to a specific property that we own depends on a variety of property-specific circumstances, including the current and former uses of the property, the building materials used at the property and the physical layout of the property. Under certain environmental laws, principally CERCLA, we, as the owner or operator of properties currently or previously owned, may be required to investigate and clean up certain hazardous or toxic substances, asbestos-containing materials, or petroleum product releases at the property. We may also be held liable to a governmental entity or third parties for property damage and for investigation and clean up costs incurred in connection with the contamination, whether or not we knew of, or were responsible for, such contamination. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs it incurs in connection with the contamination. As the owner or operator of real estate, we also may be liable under common law to third parties for damages and injuries resulting from environmental contamination emanating from the real estate. Such costs or liabilities could exceed the value of the affected real estate. The presence of contamination or the failure to remediate contamination may adversely affect our ability to sell or lease real estate or to borrow using the real estate as collateral.

Neither existing environmental, health, safety and similar laws nor the costs of our compliance with these laws has had a material adverse effect on our financial condition or results of operations, and management does not believe they will in the future. In addition, we have not incurred, and do not expect to incur, any material costs or liabilities due to environmental contamination at properties we currently own or have owned in the past. However, we cannot predict the impact of new or changed laws or regulations on properties we currently own or may acquire in the future. We have no current plans for substantial capital expenditures with respect to compliance with environmental, health, safety and similar laws and we carry environmental insurance which covers a number of environmental risks for most of our properties.

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Competition

Numerous commercial developers and real estate companies compete with us with respect to the leasing and the acquisition of properties. Some of these competitors may possess greater capital resources than we do, although we do not believe that any single competitor or group of competitors in any of the primary markets where our properties are located are dominant in that market. This competition may:

- reduce the number of properties available for acquisition;
- increase the cost of properties available for acquisition;
- interfere with our ability to attract and retain tenants, leading to increased vacancy rates and/or reduced rents; and
- adversely affect our ability to minimize expenses of operation.

Retailers at our properties also face increasing competition from online retailers, outlet stores, discount shopping clubs, superstores, and other forms of sales and marketing of goods and services, such as direct mail. This competition could contribute to lease defaults and insolvency of tenants.

Available Information

Copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the “Exchange Act”) are available free of charge through the Investors section of our website at www.federalrealty.com as soon as reasonably practicable after we electronically file the material with, or furnish the material to, the Securities and Exchange Commission, or the SEC.

Our Corporate Governance Guidelines, Code of Business Conduct, Code of Ethics applicable to our Chief Executive Officer and senior financial officers, Whistleblower Policy, organizational documents and the charters of our audit committee, compensation committee and nominating and corporate governance committee are all available in the Corporate Governance section of the Investors section of our website.

Amendments to the Code of Ethics or Code of Business Conduct or waivers that apply to any of our executive officers or our senior financial officers will be disclosed in that section of our website as well.

You may obtain a printed copy of any of the foregoing materials from us by writing to us at Investor Relations, Federal Realty Investment Trust, 1626 East Jefferson Street, Rockville, Maryland 20852.

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ITEM 1A. RISK FACTORS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Exchange Act and the Private Securities Litigation Reform Act of 1995. Also, documents that we “incorporate by reference” into this Annual Report on Form 10-K, including documents that we subsequently file with the SEC will contain forward-looking statements. When we refer to forward-looking statements or information, sometimes we use words such as “may,” “will,” “could,” “should,” “plans,” “intends,” “expects,” “b “estimates,” “anticipates” and “continues.” In particular, the below risk factors describe forward-looking information. The risk factors describe risks that may affect these statements but are not all-inclusive, particularly with respect to possible future events. Many things can happen that can cause actual results to be different from those we describe. These factors include, but are not limited to the following:

Revenue from our properties may be reduced or limited if the retail operations of our tenants are not successful.

Revenue from our properties depends primarily on the ability of our tenants to pay the full amount of rent and other charges due under their leases on a timely basis. Some of our leases provide for the payment, in addition to base rent, of additional rent above the base amount according to a specified percentage of the gross sales generated by the tenants and generally provide for reimbursement of real estate taxes and expenses of operating the property. Economic and/or competitive conditions may impact the success of our tenants’ retail operations and therefore the amount of rent and expense reimbursements we receive from our tenants. While demand for our retail spaces has been sufficient to increase occupancy, there can be no assurance that this will continue. Any reduction in our tenants' abilities to pay base rent, percentage rent, or other charges on a timely basis, including the filing by any of our tenants for bankruptcy protection, will adversely affect our financial condition and results of operations. In the event of default by a tenant, we may experience delays and unexpected costs in enforcing our rights as landlord under lease terms, which may also adversely affect our financial condition and results of operations.

Our net income depends on the success and continued presence of our “anchor” tenants.

Our net income could be adversely affected in the event of a downturn in the business, or the bankruptcy or insolvency, of any anchor store or anchor tenant. Anchor tenants generally occupy large amounts of square footage, pay a significant portion of the total rents at a property and contribute to the success of other tenants by drawing significant numbers of customers to a property. The closing of one or more anchor stores at a property could adversely affect that property and result in lease terminations by, or reductions in rent from, other tenants whose leases may permit termination or rent reduction in those circumstances or whose own operations may suffer as a result. We have been experiencing higher levels of anchor vacancy and expect this will persist over the next few years while we are actively releasing vacant space, and in some cases, redeveloping the shopping center. As of December 31, 2017, our anchor tenant space is 98.1% leased and 96.5% occupied. We also have seen an overall decrease in the number of tenants available to fill anchor spaces. Therefore, tenant demand for certain of our anchor spaces may decrease and as a result, we may see an increase in vacancy and/or a decrease in rents for those spaces that could have a negative impact to our net income.

We may be unable to collect balances due from tenants that file for bankruptcy protection.

If a tenant or lease guarantor files for bankruptcy, we may not be able to collect all pre-petition amounts owed by that party. In addition, a tenant that files for bankruptcy protection may terminate our lease in which event we would have a general unsecured claim that would likely be for less than the full amount owed to us for the remainder of the lease term, which could adversely affect our financial condition and results of operations.

We may experience difficulty or delay in renewing leases or re-leasing space.

We derive most of our revenue directly or indirectly from rent received from our tenants. We are subject to the risks that, upon expiration or termination of leases, whether by their terms, as a result of a tenant bankruptcy, general economic conditions or otherwise, leases for space in our properties may not be renewed, space may not be re-leased, or the terms of renewal or re-lease, including the cost of required renovations or concessions to tenants, may be less favorable than current lease terms and may include decreases in rental rates. As a result, our net income could be reduced.

The amount of debt we have and the restrictions imposed by that debt could adversely affect our business and financial condition.

As of December 31, 2017, we had approximately $3.3 billion of debt outstanding. Of that outstanding debt, approximately $491.6 million was secured by all or a portion of 13 of our real estate projects and approximately $71.6 million represented capital lease obligations on four of our properties. As of December 31, 2017, 98.8% of our debt is fixed rate, which includes all of our property secured debt, our unsecured senior notes, our capital lease obligations, and our $275.0 million term loan, as the rate is effectively fixed by two interest rate swap agreements. Our organizational documents do not limit the level or amount of

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debt that we may incur. The amount of our debt outstanding from time to time could have important consequences to our shareholders. For example, it could:

- require us to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby reducing funds available for operations, property acquisitions, redevelopments and other appropriate business opportunities that may arise in the future;
- limit our ability to make distributions on our outstanding common shares and preferred shares;
- make it difficult to satisfy our debt service requirements;
- require us to dedicate increased amounts of our cash flow from operations to payments on debt upon refinancing or on our variable rate, unhedged debt, if interest rates rise;
- limit our flexibility in planning for, or reacting to, changes in our business and the factors that affect the profitability of our business;
- limit our ability to obtain any additional debt or equity financing we may need in the future for working capital, debt refinancing, capital expenditures, acquisitions, redevelopments or other general corporate purposes or to obtain such financing on favorable terms; and/or
- limit our flexibility in conducting our business, which may place us at a disadvantage compared to competitors with less debt or debt with less restrictive terms.

Our ability to make scheduled principal payments of, to pay interest on, or to refinance our indebtedness will depend primarily on our future performance, which to a certain extent is subject to economic, financial, competitive and other factors beyond our control. There can be no assurance that our business will continue to generate sufficient cash flow from operations in the future to service our debt or meet our other cash needs. If we are unable to generate this cash flow from our business, we may be required to refinance all or a portion of our existing debt, sell assets or obtain additional financing to meet our debt obligations and other cash needs, including the payment of dividends required to maintain our status as a real estate investment trust. We cannot assure you that any such refinancing, sale of assets or additional financing would be possible on terms that we would find acceptable.

We are obligated to comply with financial and other covenants pursuant to our debt obligations that could restrict our operating activities, and the failure to comply with such covenants could result in defaults that accelerate payment under our debt agreements.

Our revolving credit facility, term loan and certain series of notes include financial covenants that may limit our operating activities in the future. We are also required to comply with additional covenants that include, among other things, provisions:

- relating to the maintenance of property securing a mortgage;
- restricting our ability to pledge assets or create liens;
- restricting our ability to incur additional debt;
- restricting our ability to amend or modify existing leases at properties securing a mortgage;
- restricting our ability to enter into transactions with affiliates; and
- restricting our ability to consolidate, merge or sell all or substantially all of our assets.

As of December 31, 2017, we were in compliance with all of our default related financial covenants. If we were to breach any of our default related debt covenants, including the covenants listed above, and did not cure the breach within any applicable cure period, our lenders could require us to repay the debt immediately, and, if the debt is secured, could immediately begin proceedings to take possession of the property securing the loan. Many of our debt arrangements, including our public notes, term loan and our revolving credit facility, are cross-defaulted, which means that the lenders under those debt arrangements can put us in default and require immediate repayment of their debt if we breach and fail to cure a default under certain of our other debt obligations. As a result, any default under our debt covenants could have an adverse effect on our financial condition, our results of operations, our ability to meet our obligations and the market value of our shares.

Adverse changes in our credit rating could affect our borrowing capacity and borrowing terms

Our credit worthiness is rated by nationally recognized credit rating agencies. The credit ratings assigned are based on our operating performance, liquidity and leverage ratios, financial condition and prospects, and other factors viewed by the credit rating agencies as relevant to our industry and the economic outlook in general. Our credit rating can affect the amount of capital we access, as well as the terms of certain existing and future financing we obtain. Since we depend on debt financing to fund the growth of our business, an adverse change in our credit rating, including actual changes in outlook, or even the initiation of review of our credit rating that could result in an adverse change, could have a material adverse effect on us.

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Our development activities have inherent risks.

The ground-up development of improvements on real property, as opposed to the renovation and redevelopment of existing improvements, presents substantial risks. We generally do not look to acquire raw land for future development; however, we do intend to complete the development and construction of future phases of projects we already own, such as Assembly Row in Somerville, Massachusetts and Pike & Rose in North Bethesda, Maryland. We may undertake development of these and other projects on our own or bring in third parties if it is justifiable on a risk-adjusted return basis. We may also choose to delay completion of a project if market conditions do not allow an appropriate return. If conditions arise and we are not able or decide not to complete a project or if the expected cash flows of our project do not exceed the book value, an impairment of the project may be required. If additional phases of any of our existing projects or if any new projects are not successful, it may adversely affect our financial condition and results of operations.

During 2017, construction continued on the development of Phase II at both Assembly Row and Pike & Rose, with portions of both projects opening during 2017. At Santana Row, we continue our on-going redevelopment efforts, including construction of an eight story 284,000 square foot office building, which will include an additional 29,000 square feet of retail space and 1,300 parking spaces. A further discussion of these projects, expected costs, and current status can be found in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in the "Outlook" subsection.

In addition to the risks associated with real estate investment in general, as described elsewhere and the specific risks above, the risks associated with our remaining development activities include:

- contractor changes may delay the completion of development projects and increase overall costs;
- significant time lag between commencement and stabilization subjects us to greater risks due to fluctuations in the general economy;
- delivery of residential product (both rental units and for sale condominium units) into uncertain residential environments may result in lower rents or sale prices than underwritten or longer time periods to reach economic stabilization;
- substantial amount of our investment is related to infrastructure, the value of which may be negatively impacted if we do not complete subsequent phases;
- failure or inability to obtain construction or permanent financing on favorable terms;
- failure or inability to obtain public funding from governmental agencies to fund infrastructure projects, including public funding in connection with our development at Assembly Row;
- expenditure of money and time on projects that may never be completed;
- failure or inability of partners to perform on hotel joint ventures;
- the third-party developer of office or other buildings may not deliver or may encounter delays in delivering space as planned;
- difficulty securing key anchor or other tenants may impact occupancy rates and projected revenue;
- inability to achieve projected rental rates or anticipated pace of lease-up;
- higher than estimated construction or operating costs, including labor and material costs; and
- possible delay in completion of a project because of a number of factors, including weather, labor disruptions, construction delays or delays in receipt of zoning or other regulatory approvals, acts of terror or other acts of violence, or acts of God (such as fires, earthquakes or floods).

Redevelopments and acquisitions may fail to perform as expected.

Our investment strategy includes the redevelopment and acquisition of high quality, retail focused properties in densely populated areas with high average household incomes and significant barriers to adding competitive retail supply. The redevelopment and acquisition of properties entail risks that include the following, any of which could adversely affect our results of operations and our ability to meet our obligations:

- our estimate of the costs to improve, reposition or redevelop a property may prove to be too low, or the time we estimate to complete the improvement, repositioning or redevelopment may be too short. As a result, the property may fail to achieve the returns we have projected, either temporarily or for a longer time;
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- we may not be able to identify suitable properties to acquire or may be unable to complete the acquisition of the properties we identify;
- we may not be able to integrate an acquisition into our existing operations successfully;
- properties we redevelop or acquire may fail to achieve the occupancy or rental rates we project, within the time frames we project, at the time we make the decision to invest, which may result in the properties' failure to achieve the returns we projected;
- our pre-acquisition evaluation of the physical condition of each new investment may not detect certain defects or identify necessary repairs until after the property is acquired, which could significantly increase our total acquisition costs or decrease cash flow from the property; and

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- our investigation of a property or building prior to our acquisition, and any representations we may receive from the seller of such building or property, may fail to reveal various liabilities, which could reduce the cash flow from the property or increase our acquisition cost.

Our ability to grow will be limited if we cannot obtain additional capital.

Our growth strategy is focused on the redevelopment of properties we already own and the acquisition of additional properties. We believe that it will be difficult to fund our expected growth with cash from operating activities because, in addition to other requirements, we are generally required to distribute to our shareholders at least 90% of our taxable income each year to continue to qualify as a REIT for federal income tax purposes. As a result, we must rely primarily upon the availability of debt or equity capital, which may or may not be available on favorable terms or at all. Debt could include the sale of debt securities and mortgage loans from third parties. If economic conditions and conditions in the capital markets are not favorable at the time we need to raise capital, we may need to obtain capital on less favorable terms. Additionally, we cannot guarantee that additional financing, refinancing or other capital will be available in the amounts we desire or on favorable terms. Our access to debt or equity capital depends on a number of factors, including the market's perception of our growth potential and risk profile, our ability to pay dividends, and our current and potential future earnings. Depending on the outcome of these factors as well as the impact of the economic environment, we could experience delay or difficulty in implementing our growth strategy on satisfactory terms, or be unable to implement this strategy.

Rising interest rates could adversely affect our cash flow and the market price of our outstanding debt and preferred shares.

Of our approximately $3.3 billion of debt outstanding as of December 31, 2017, approximately $316.0 million bears interest at variable rates, of which $275.0 million is effectively fixed at 2.62% through two interest rate swap agreements. We have an $800.0 million revolving credit facility, on which $41.0 million is outstanding at December 31, 2017, that bears interest at LIBOR plus 82.5 basis points. We may borrow additional funds at variable interest rates in the future. Increases in interest rates would increase the interest expense on our variable rate debt and reduce our cash flow, which could adversely affect our ability to service our debt and meet our other obligations and also could reduce the amount we are able to distribute to our shareholders. We may enter into hedging arrangements or other transactions for all or a portion of our variable rate debt to limit our exposure to rising interest rates. However, the amounts we are required to pay under the term loan and any other variable rate debt to which hedging or similar arrangements relate may increase in the event of non-performance by the counterparties to any of our hedging arrangements. In addition, an increase in market interest rates may lead purchasers of our debt securities and preferred shares to demand a higher annual yield, which could adversely affect the market price of our outstanding debt securities and preferred shares and the cost and/or timing of refinancing or issuing additional debt securities or preferred shares.

The market value of our debt and equity securities is subject to various factors that may cause significant fluctuations or volatility.

As with other publicly traded securities, the market price of our debt and equity securities depends on various factors, which may change from time to time and/or may be unrelated to our financial condition, operating performance or prospects that may cause significant fluctuations or volatility in such prices. These factors include, among others:

- general economic and financial market conditions;
- level and trend of interest rates;
- our ability to access the capital markets to raise additional capital;
- the issuance of additional equity or debt securities;
- changes in our funds from operations ("FFO") or earnings estimates;
- changes in our debt or analyst ratings;
- our financial condition and performance;
- market perception of our business compared to other REITs; and
- market perception of REITs, in general, compared to other investment alternatives.

Loss of our key management could adversely affect performance and the value of our common shares.

We are dependent on the efforts of our key management. Although we believe qualified replacements could be found for any departures of key executives, the loss of their services could adversely affect our performance and the value of our common shares.

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Our performance and value are subject to general risks associated with the real estate industry.

Our economic performance and the value of our real estate assets, and, consequently, the value of our investments, are subject to the risk that if our properties do not generate revenues sufficient to meet our operating expenses, including debt service and capital expenditures, our cash flow and ability to pay distributions to our shareholders will be adversely affected. As a real estate company, we are susceptible to the following real estate industry risks:

- economic downturns in general, or in the areas where our properties are located;
- adverse changes in local real estate market conditions, such as an oversupply or reduction in demand;
- changes in tenant preferences that reduce the attractiveness of our properties to tenants;
- zoning or regulatory restrictions;
- decreases in market rental rates;
- weather conditions that may increase or decrease energy costs and other weather-related expenses;
- costs associated with the need to periodically repair, renovate and re-lease space; and
- increases in the cost of adequate maintenance, insurance and other operating costs, including real estate taxes, associated with one or more properties, which may occur even when circumstances such as market factors and competition cause a reduction in revenues from one or more properties, although real estate taxes typically do not increase upon a reduction in such revenues.

Each of these risks could result in decreases in market rental rates and increases in vacancy rates, which could adversely affect our financial condition and results of operation.

Many real estate costs are fixed, even if income from our properties decreases.

Our financial results depend primarily on leasing space in our properties to tenants on terms favorable to us. Costs associated with real estate investment, such as real estate taxes, insurance and maintenance costs, generally are not reduced even when a property is not fully occupied, rental rates decrease, or other circumstances cause a reduction in income from the property. As a result, cash flow from the operations of our properties may be reduced if a tenant does not pay its rent or we are unable to rent our properties on favorable terms. Under those circumstances, we might not be able to enforce our rights as landlord without delays and may incur substantial legal costs. Additionally, new properties that we may acquire or redevelop may not produce any significant revenue immediately, and the cash flow from existing operations may be insufficient to pay the operating expenses and debt service associated with such new properties until they are fully occupied.

Competition may limit our ability to purchase new properties and generate sufficient income from tenants.

Numerous commercial developers and real estate companies compete with us in seeking tenants for our existing properties and properties for acquisition. This competition may:

- reduce properties available for acquisition;
- increase the cost of properties available for acquisition;
- reduce rents payable to us;
- interfere with our ability to attract and retain tenants;
- lead to increased vacancy rates at our properties; and
- adversely affect our ability to minimize expenses of operation.

Retailers at our properties also face increasing competition from online retailers, outlet stores, discount shopping clubs and other forms of sales and marketing of goods, such as direct mail. This competition could contribute to lease defaults and insolvency of tenants. If we are unable to continue to attract appropriate retail tenants to our properties, or to purchase new properties in our geographic markets, it could materially affect our ability to generate net income, service our debt and make distributions to our shareholders.

We may be unable to sell properties when appropriate because real estate investments are illiquid.

Real estate investments generally cannot be sold quickly. In addition, there are some limitations under federal income tax laws applicable to real estate and to REITs in particular that may limit our ability to sell our assets. We may not be able to alter our portfolio promptly in response to changes in economic or other conditions including being unable to sell a property at a return we believe is appropriate due to the economic environment. Our inability to respond quickly to adverse changes in the performance of our investments could have an adverse effect on our ability to meet our obligations and make distributions to our shareholders.

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Our insurance coverage on our properties may be inadequate.

We currently carry comprehensive insurance on all of our properties, including insurance for liability, fire, flood, earthquake, environmental matters, rental loss and acts of terrorism. All of these policies contain coverage limitations. We believe these coverages are of the types and amounts customarily obtained for or by an owner of similar types of real property assets located in the areas where our properties are located. We intend to obtain similar insurance coverage on subsequently acquired properties.

The availability of insurance coverage may decrease and the prices for insurance may increase as a consequence of significant losses incurred by the insurance industry and other factors outside our control. As a result, we may be unable to renew or duplicate our current insurance coverage in adequate amounts or at reasonable prices. In addition, insurance companies may no longer offer coverage against certain types of losses, such as losses due to terrorist acts and toxic mold, or, if offered, the expense of obtaining these types of insurance may not be justified. We therefore may cease to have insurance coverage against certain types of losses and/or there may be decreases in the limits of insurance available. If an uninsured loss or a loss in excess of our insured limits occurs, we could lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenue from the property, but still remain obligated for any mortgage debt or other financial obligations related to the property. We cannot guarantee that material losses in excess of insurance proceeds will not occur in the future. If any of our properties were to experience a catastrophic loss, it could seriously disrupt our operations, delay revenue and result in large expenses to repair or rebuild the property. Also, due to inflation, changes in codes and ordinances, environmental considerations and other factors, it may not be feasible to use insurance proceeds to replace a building after it has been damaged or destroyed. Further, we may be unable to collect insurance proceeds if our insurers are unable to pay or contest a claim. Events such as these could adversely affect our results of operations and our ability to meet our obligations, including distributions to our shareholders.

We may have limited flexibility in dealing with our jointly owned investments.

Our organizational documents do not limit the amount of funds that we may invest in properties and assets owned jointly with other persons or entities. As of December 31, 2017, we held 16 predominantly retail real estate projects jointly with other persons in addition to properties owned in a “downREIT” structure. Additionally, we have entered into joint venture agreements related to the hotel component of Phase II of our Pike & Rose and Assembly Row development projects. We may make additional joint investments in the future. Our existing and future joint investments may subject us to special risks, including the possibility that our partners or co-investors might become bankrupt, that those partners or co-investors might have economic or other business interests or goals which are unlike or incompatible with our business interests or goals, that those partners or co-investors might be in a position to take action contrary to our suggestions or instructions, or in opposition to our policies or objectives, and that disputes may develop with our joint venture partners over decisions affecting the property or the joint venture, which may result in litigation or arbitration or some other form of dispute resolution. Although as of December 31, 2017, we held the controlling interests in all of our existing co-investments (except the hotel investments discussed above and the investment in the La Alameda shopping center acquired in 2017), we generally must obtain the consent of the co-investor or meet defined criteria to sell or to finance these properties. Joint ownership gives a third party the opportunity to influence the return we can achieve on some of our investments and may adversely affect our ability to make distributions to our shareholders. We may also be liable for the actions of our co-investors.

Environmental laws and regulations could reduce the value or profitability of our properties.

All real property and the operations conducted on real property are subject to federal, state and local laws, ordinances and regulations relating to hazardous materials, environmental protection and human health and safety. Under various federal, state and local laws, ordinances and regulations, we and our tenants may be required to investigate and clean up certain hazardous or toxic substances released on or in properties we own or operate, and also may be required to pay other costs relating to hazardous or toxic substances. This liability may be imposed without regard to whether we or our tenants knew about the release of these types of substances or were responsible for their release. The presence of contamination or the failure to properly remediate contamination at any of our properties may adversely affect our ability to sell or lease those properties or to borrow funds by using those properties as collateral. The costs or liabilities could exceed the value of the affected real estate. We are not aware of any environmental condition with respect to any of our properties that management believes would have a material adverse effect on our business, assets or results of operations taken as a whole. The uses of any of our properties prior to our acquisition of the property and the building materials used at the property are among the property-specific factors that will affect how the environmental laws are applied to our properties. If we are subject to any material environmental liabilities, the liabilities could adversely affect our results of operations and our ability to meet our obligations.

We cannot predict what other environmental legislation or regulations will be enacted in the future, how existing or future laws or regulations will be administered or interpreted or what environmental conditions may be found to exist on the properties in the future. Compliance with existing and new laws and regulations may require us or our tenants to spend funds to remedy environmental problems. Our tenants, like many of their competitors, have incurred, and will continue to incur, capital and operating expenditures and other costs associated with complying with these laws and regulations, which will adversely affect their potential profitability.

Generally, our tenants must comply with environmental laws and meet remediation requirements. Our leases typically impose obligations on our tenants to indemnify us from any compliance costs we may incur as a result of the environmental conditions on the property caused by the tenant. If a lease does not require compliance or if a tenant fails to or cannot comply, we could be forced to pay these costs. If not addressed, environmental conditions could impair our ability to sell or re-lease the affected properties in the future or result in lower sales prices or rent payments.

The Americans with Disabilities Act of 1990 could require us to take remedial steps with respect to existing or newly acquired properties.

Our existing properties, as well as properties we may acquire, as commercial facilities, are required to comply with Title III of the Americans with Disabilities Act of 1990. Investigation of a property may reveal non-compliance with this Act. The requirements of this Act, or of other federal, state or local laws or regulations, also may change in the future and restrict further renovations of our properties with respect to access for disabled persons. Future compliance with this Act may require expensive changes to the properties.

The revenues generated by our tenants could be negatively affected by various federal, state and local laws to which they are subject.

We and our tenants are subject to a wide range of federal, state and local laws and regulations, such as local licensing requirements, consumer protection laws and state and local fire, life-safety and similar requirements that affect the use of the properties. The leases typically require that each tenant comply with all laws and regulations. Failure to comply could result in fines by governmental authorities, awards of damages to private litigants, or restrictions on the ability to conduct business on such properties. Non-compliance of this sort could reduce our revenues from a tenant, could require us to pay penalties or fines relating to any non-compliance, and could adversely affect our ability to sell or lease a property.

Failure to qualify as a REIT for federal income tax purposes would cause us to be taxed as a corporation, which would substantially reduce funds available for payment of distributions.

We believe that we are organized and qualified as a REIT for federal income tax purposes and currently intend to operate in a manner that will allow us to continue to qualify as a REIT under the Code. However, we cannot assure you that we will remain qualified as such in the future.

Qualification as a REIT involves the application of highly technical and complex Code provisions and applicable income tax regulations that have been issued under the Code. Certain facts and circumstances not entirely within our control may affect our ability to qualify as a REIT. For example, in order to qualify as a REIT, at least 95% of our gross income in any year must be derived from qualifying rents and certain other income. Satisfying this requirement could be difficult, for example, if defaults by tenants were to reduce the amount of income from qualifying rents. As a REIT, we must generally make annual distributions to shareholders of at least 90% of our taxable income. In addition, new legislation, new regulations, new administrative interpretations or new court decisions may significantly change the tax laws with respect to qualification as a REIT or the federal income tax consequences of such qualification. Any modification in the tax treatment of REITs could have a significant adverse impact to our net income.

If we fail to qualify as a REIT:

- we would not be allowed a deduction for distributions to shareholders in computing taxable income;
- we would be subject to federal income tax at regular corporate rates;
- we could be subject to the federal alternative minimum tax;
- unless we are entitled to relief under specific statutory provisions, we could not elect to be taxed as a REIT for four taxable years following the year during which we were disqualified;
- we could be required to pay significant income taxes, which would substantially reduce the funds available for investment or for distribution to our shareholders for each year in which we failed or were not permitted to qualify; and
- we would no longer be required by law to make any distributions to our shareholders.

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We may be required to incur additional debt to qualify as a REIT.

As a REIT, we must generally make annual distributions to shareholders of at least 90% of our taxable income. We are subject to income tax on amounts of undistributed taxable income and net capital gain. In addition, we would be subject to a 4% excise tax if we fail to distribute sufficient income to meet a minimum distribution test based on our ordinary income, capital gain and aggregate undistributed income from prior years. We intend to make distributions to shareholders to comply with the Code’s distribution provisions and to avoid federal income and excise tax. We may need to borrow funds to meet our distribution requirements because:

- our income may not be matched by our related expenses at the time the income is considered received for purposes of determining taxable income; and
- non-deductible capital expenditures, creation of reserves, or debt service requirements may reduce available cash but not taxable income.

In these circumstances, we might have to borrow funds on terms we might otherwise find unfavorable and we may have to borrow funds even if our management believes the market conditions make borrowing financially unattractive. Current tax law also allows us to pay a portion of our distributions in shares instead of cash.

To maintain our status as a REIT, we limit the amount of shares any one shareholder can own.

The Code imposes certain limitations on the ownership of the stock of a REIT. For example, not more than 50% in value of our outstanding shares of capital stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code) during the last half of any taxable year. To protect our REIT status, our declaration of trust prohibits any one shareholder from owning (actually or constructively) more than 9.8% in value of the outstanding common shares or of any class or series of outstanding preferred shares. The constructive ownership rules are complex. Shares of our capital stock owned, actually or constructively, by a group of related individuals and/or entities may be treated as constructively owned by one of those individuals or entities. As a result, the acquisition of less than 9.8% in value of the outstanding common shares and/or a class or series of preferred shares (or the acquisition of an interest in an entity that owns common shares or preferred shares) by an individual or entity could cause that individual or entity (or another) to own constructively more than 9.8% in value of the outstanding capital stock. If that happened, either the transfer of ownership would be void or the shares would be transferred to a charitable trust and then sold to someone who can own those shares without violating the 9.8% ownership limit.

The Board of Trustees may waive these restrictions on a case-by-case basis. In addition, the Board of Trustees and two-thirds of our shareholders eligible to vote at a shareholder meeting may remove these restrictions if they determine it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT. The 9.8% ownership restrictions may delay, defer or prevent a transaction or a change of our control that might involve a premium price for the common shares or otherwise be in the shareholders’ best interest.

U.S. federal tax reform legislation now and in the future could affect REITs, both positively and negatively, in ways that are difficult to anticipate.

The Tax Cuts and Jobs Act of 2017 (the “2017 Tax Act”), signed into law on December 22, 2017, represents sweeping tax reform legislation that makes significant changes to corporate and individual tax rates and the calculation of taxes. While we currently do not expect the 2017 Tax Act will have a significant direct impact on us, it may impact us indirectly as our tenants and the jurisdictions in which we do business as well as the overall investment thesis for REITs may be impacted both positively and negatively in ways that are difficult to predict. Additionally, the overall impact of the 2017 Tax Act depends on future interpretations and regulations that may be issued by federal tax authorities, as well as changes in state and local taxation in response to the 2017 Tax Act, and it is possible that such future interpretations, regulations and other changes could adversely impact us.

We cannot assure you we will continue to pay dividends at historical rates.

Our ability to continue to pay dividends on our common shares at historical rates or to increase our common share dividend rate, and our ability to pay preferred share dividends and service our debt securities, will depend on a number of factors, including, among others, the following:

- our financial condition and results of future operations;
- the performance of lease terms by tenants;
- the terms of our loan covenants; and

- our ability to acquire, finance, develop or redevelop and lease additional properties at attractive rates.

If we do not maintain or increase the dividend on our common shares, it could have an adverse effect on the market price of our common shares and other securities. Any preferred shares we may offer in the future may have a fixed dividend rate that would

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not increase with any increases in the dividend rate of our common shares. Conversely, payment of dividends on our common shares may be subject to payment in full of the dividends on any preferred shares and payment of interest on any debt securities we may offer.

Certain tax and anti-takeover provisions of our declaration of trust and bylaws may inhibit a change of our control.

Certain provisions contained in our declaration of trust and bylaws and the Maryland General Corporation Law, as applicable to Maryland REITs, may discourage a third party from making a tender offer or acquisition proposal to us. If this were to happen, it could delay, deter or prevent a change in control or the removal of existing management. These provisions also may delay or prevent the shareholders from receiving a premium for their common shares over then-prevailing market prices. These provisions include:

- the REIT ownership limit described above;
- authorization of the issuance of our preferred shares with powers, preferences or rights to be determined by the Board of Trustees;
- special meetings of our shareholders may be called only by the chairman of the board, the chief executive officer, the president, by one-third of the trustees or by shareholders possessing no less than 25% of all the votes entitled to be cast at the meeting;
- the Board of Trustees, without a shareholder vote, can classify or reclassify unissued shares of beneficial interest, including the reclassification of common shares into preferred shares and vice-versa;
- a two-thirds shareholder vote is required to approve some amendments to the declaration of trust; and
- advance-notice requirements for proposals to be presented at shareholder meetings.

In addition, if we elect to be governed by it in the future, the Maryland Control Share Acquisition Law could delay or prevent a change in control. Under Maryland law, unless a REIT elects not to be subject to this law, “control shares” acquired in a “control share acquisition” have no voting rights except to the extent approved by shareholders by a vote of two-thirds of the votes entitled to be cast on the matter, excluding shares owned by the acquirer and by officers or trustees who are employees of the REIT. “Control shares” are voting shares that would entitle the acquirer to exercise voting power in electing trustees within specified ranges of voting power. A “control share acquisition” means the acquisition of control shares, with some exceptions.

Our bylaws state that the Maryland control share acquisition law will not apply to any acquisition by any person of our common shares. This bylaw provision may be repealed, in whole or in part, at any time, whether before or after an acquisition of control shares, by a vote of a majority of the shareholders entitled to vote, and, upon such repeal, may, to the extent provided by any successor bylaw, apply to any prior or subsequent control share acquisition.

We may amend or revise our business policies without your approval.

Our Board of Trustees may amend or revise our operating policies without shareholder approval. Our investment, financing and borrowing policies and policies with respect to all other activities, such as growth, debt, capitalization and operations, are determined by the Board of Trustees. The Board of Trustees may amend or revise these policies at any time and from time to time at its discretion. A change in these policies could adversely affect our financial condition and results of operations, and the market price of our securities.

The current business plan adopted by our Board of Trustees focuses on our investment in high quality retail based properties that are typically neighborhood and community shopping centers or mixed-use properties, principally through redevelopments and acquisitions. If this business plan is not successful, it could have a material adverse effect on our financial condition and results of operations.

Given these uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements that we make, including those in this Annual Report on Form 10-K. Except as may be required by law, we make no promise to update any of the forward-looking statements as a result of new information, future events or otherwise. You should carefully review the above risks and the risk factors.

Natural disasters and severe weather conditions could have an adverse impact on our cash flow and operating results.

Changing weather patterns and climatic conditions, such as global warming, may have added to the unpredictability and frequency of natural disasters and severe weather conditions and created additional uncertainty as to future trends and exposures. Our operations are located in areas that are subject to natural disasters and severe weather conditions such as hurricanes, earthquakes, droughts, snow storms, floods and fires. The occurrence of natural disasters or severe weather conditions can delay new development projects, increase investment costs to repair or replace damaged properties, increase operation costs, increase future property insurance costs, and negatively impact the tenant demand for lease space. If insurance

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is unavailable to us or is unavailable on acceptable terms, or if our insurance is not adequate to cover business interruption or losses from these events, our earnings, liquidity or capital resources could be adversely affected.

We face risks relating to cybersecurity attacks that could cause loss of confidential information and other business disruptions.

We rely extensively on computer systems to process transactions and manage our business, and our business is at risk from and may be impacted by cybersecurity attacks. These could include attempts to gain unauthorized access to our data and computer systems. Attacks can be both individual and/or highly organized attempts organized by very sophisticated hacking organizations. We employ a number of measures to prevent, detect and mitigate these threats, which include password encryption, frequent password change events, firewall detection systems, anti-virus software in-place, frequent backups, a redundant data system for core applications and annual penetration testing; however, there is no guarantee such efforts will be successful in preventing a cyber attack. A cybersecurity attack could compromise the confidential information of our employees, tenants and vendors. A successful attack could disrupt and otherwise adversely affect our business operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

General

As of December 31, 2017, we owned or had a majority ownership interest in community and neighborhood shopping centers and mixed-used properties which are operated as 104 predominantly retail real estate projects comprising approximately 24.2 million square feet. These properties are located primarily in densely populated and affluent communities in strategic metropolitan markets in the Northeast and Mid-Atlantic regions of the United States, California, and South Florida. No single property accounted for over 10% of our 2017 total revenue. We believe that our properties are adequately covered by commercial general liability, fire, flood, earthquake, terrorism and business interruption insurance provided by reputable companies, with commercially reasonable exclusions, deductibles and limits.

Tenant Diversification

As of December 31, 2017, we had approximately 3,000 leases, with tenants ranging from sole proprietors to major national and international retailers. No one tenant or affiliated group of tenants accounted for more than 2.9% of our annualized base rent as of December 31, 2017. As a result of our tenant diversification, we believe our exposure to any one bankruptcy filing in the retail sector has not been and will not be significant, however, multiple filings by a number of retailers could have a significant impact.

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Geographic Diversification

Our 104 real estate projects are located in 12 states and the District of Columbia. The following table shows the number of projects, the gross leasable area ("GLA") of commercial space and the percentage of total portfolio gross leasable area of commercial space in each state as of December 31, 2017.

State	Number of Projects	Gross Leasable Area	Percentage of Gross Leasable Area	
		(In square feet)		
California	21	5,442,000	22.5	%
Maryland	21	4,562,000	18.8	%
Virginia	16	3,738,000	15.4	%
Pennsylvania(1)	10	2,316,000	9.6	%
Massachusetts	9	2,101,000	8.7	%
New Jersey	6	1,722,000	7.1	%
Florida	4	1,339,000	5.5	%
New York	6	1,248,000	5.2	%
Illinois	4	797,000	3.3	%
Connecticut	3	397,000	1.6	%
Michigan	1	217,000	0.9	%
District of Columbia	2	168,000	0.7	%
North Carolina	1	159,000	0.7	%
Total	104	24,206,000	100.0	%

(1) Additionally, we own two participating mortgages totaling approximately $30.4 million secured by multiple buildings in Manayunk, Pennsylvania.

Leases, Lease Terms and Lease Expirations

Our leases are classified as operating leases and typically are structured to require the monthly payment of minimum rents in advance, subject to periodic increases during the term of the lease, percentage rents based on the level of sales achieved by tenants, and reimbursement of a majority of on-site operating expenses and real estate taxes. These features in our leases generally reduce our exposure to higher costs and allow us to participate in improved tenant sales.

Commercial property leases generally range from three to ten years; however, certain leases, primarily with anchor tenants, may be longer. Many of our leases contain tenant options that enable the tenant to extend the term of the lease at expiration at pre-established rental rates that often include fixed rent increases, consumer price index adjustments or other market rate adjustments from the prior base rent. Leases on residential units are generally for a period of one year or less and, in 2017, represented approximately 6.9% of total rental income.

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The following table sets forth the schedule of lease expirations for our commercial leases in place as of December 31, 2017 for each of the 10 years beginning with 2018 and after 2027 in the aggregate assuming that none of the tenants exercise future renewal options. Annualized base rents reflect in-place contractual rents as of December 31, 2017.

Year of Lease Expiration	Leased Square Footage Expiring	Percentage of Leased Square Footage Expiring		Annualized Base Rent Represented by Expiring Leases	Percentage of Annualized Base Rent Represented by Expiring Leases	
2018	1,849,000	8	%	$ 47,382,000	8	%
2019	3,042,000	13	%	73,854,000	12	%
2020	2,339,000	10	%	62,409,000	10	%
2021	2,601,000	12	%	76,900,000	13	%
2022	3,045,000	13	%	77,417,000	13	%
2023	1,958,000	9	%	54,840,000	9	%
2024	1,523,000	7	%	40,296,000	7	%
2025	1,346,000	6	%	39,245,000	6	%
2026	921,000	4	%	30,520,000	5	%
2027	1,183,000	5	%	44,532,000	7	%
Thereafter	2,861,000	13	%	62,388,000	10	%
Total	22,668,000	100	%	$ 609,783,000	100	%

During 2017, we signed leases for a total of 1,793,000 square feet of retail space including 1,622,000 square feet of comparable space leases (leases for which there was a prior tenant) at an average rental increase of 13% on a cash basis and 26% on a straight-line basis. New leases for comparable spaces were signed for 773,000 square feet at an average rental increase of 19% on a cash basis and 32% on a straight-line basis. Renewals for comparable spaces were signed for 848,000 square feet at an average rental increase of 9% on a cash basis and 21% on a straight-line basis. Tenant improvements and incentives for comparable spaces were $36.00 per square foot, of which, $62.11 per square foot was for new leases and $12.18 per square foot was for renewals in 2017.

During 2016, we signed leases for a total of 1,688,000 square feet of retail space including 1,473,000 square feet of comparable space leases (leases for which there was a prior tenant) at an average rental increase of 13% on a cash basis and 26% on a straight-line basis. New leases for comparable spaces were signed for 543,000 square feet at an average rental increase of 24% on a cash basis and 40% on a straight-line basis. Renewals for comparable spaces were signed for 930,000 square feet at an average rental increase of 7% on a cash basis and 17% on a straight-line basis. Tenant improvements and incentives for comparable spaces were $31.00 per square foot, of which, $66.47 per square foot was for new leases and $10.28 was for renewal leases in 2016.

The rental increases associated with comparable spaces generally include all leases signed in arms-length transactions reflecting market leverage between landlords and tenants during the period. The comparison between average rent for expiring leases and new leases is determined by including minimum rent and percentage rent paid on the expiring lease and minimum rent and in some instances, projections of first lease year percentage rent, to be paid on the new lease. In atypical circumstances, management may exercise judgment as to how to most effectively reflect the comparability of spaces reported in this calculation. The change in rental income on comparable space leases is impacted by numerous factors including current market rates, location, individual tenant creditworthiness, use of space, market conditions when the expiring lease was signed, capital investment made in the space and the specific lease structure.

The leases signed in 2017 generally become effective over the following two years though some may not become effective until 2020 and beyond. Further, there is risk that some new tenants will not ultimately take possession of their space and that tenants for both new and renewal leases may not pay all of their contractual rent due to operating, financing or other matters. However, these increases do provide information about the tenant/landlord relationship and

the potential increase we may achieve in rental income over time.
Historically, we have executed comparable space leases for 1.2 to 1.6 million square feet of retail space each year and expect the volume for 2018 will be in line with our historical averages with overall positive increases in rental income. However, changes in rental income associated with individual signed leases on comparable spaces may be positive or negative, and we can provide no assurance that the rents on new leases will continue to increase at the above disclosed levels, if at all.

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Retail and Residential Properties

The following table sets forth information concerning all real estate projects in which we owned an equity interest, had a leasehold interest, or otherwise controlled and are consolidated as of December 31, 2017. Except as otherwise noted, we are the sole owner of our retail real estate projects. Principal tenants are the largest tenants in the project based on square feet leased or are tenants important to a project's success due to their ability to attract retail customers.

Property, City, State, Zip Code	Year Completed	Year Acquired	Square Feet(1) /Apartment Units	Average Rent Per Square Foot(2)	Percentage Leased(3)	Principal Tenant(s)
California						
Azalea South Gate, CA 90280(5)(8)	2014	2017	222,000	$27.43	100%	Marshalls Ross Dress for Less Ulta CVS
Bell Gardens Bell Gardens, CA 90201(4)(5)(8)	1990, 2003, 2006	2017	330,000	$20.37	100%	Food4Less Marshalls Ross Dress for Less Petco
Colorado Blvd Pasadena, CA 91103(4)	1905-1988	1996/1998	69,000	$45.04	100%	Pottery Barn Banana Republic
Crow Canyon Commons San Ramon, CA 94583	1980, 1998, 2006	2005/2007	241,000	$28.16	94%	Sprouts Orchard Supply Hardware Rite Aid Total Wine & More
East Bay Bridge Emeryville & Oakland, CA 94608	1994-2001, 2011, 2012	2012	439,000	$18.42	100%	Pak-N-Save Home Depot Target Nordstrom Rack
Escondido Promenade Escondido, CA 92029(5)	1987	1996/2010	299,000	$25.29	99%	TJ Maxx Dick's Sporting Goods Ross Dress For Less Toys R Us
Fourth Street Berkeley, CA 94710(5)	1948, 1975	2017	71,000	$28.14	55%	CB2 Ingram Book Group
Hastings Ranch Plaza Pasadena, CA 91107(4)	1958, 1984, 2006, 2007	2017	273,000	$7.21	98%	Marshalls HomeGoods CVS Sears
Hermosa Avenue Hermosa Beach, CA 90254	1922	1997	23,000	$49.18	81%	
	1929, 1991	1999	180,000	$30.01	91%	

Hollywood Blvd Hollywood, CA 90028						Marshalls DSW L.A. Fitness La La Land
Kings Court Los Gatos, CA 95032(4)(6)	1960	1998	80,000	$32.55	100%	Lunardi's Supermarket CVS
La Alameda Walnut Park, CA 90255(4)(7)(8)	2008	2017	245,000	$24.96	94%	Marshalls Ross Dress For Less CVS Petco
Old Town Center Los Gatos, CA 95030	1962, 1998	1997	98,000	$41.40	99%	Anthropologie Banana Republic GAP
Olivo at Mission Hills Mission Hills, CA 91345(5)	2017	2017	105,000	$30.05	100%	Target 24 Hour Fitness Fallas Stores
Plaza Del Sol South El Monte, CA 91733(5)(8)	2009	2017	48,000	$23.01	100%	Marshalls
Plaza El Segundo / The Point El Segundo, CA 90245(5)(8)	2006-2007, 2016	2011/2013	495,000	$44.71	95%	Whole Foods Anthropologie Home Goods Dick's Sporting Goods Multiple Restaurants
Plaza Pacoima Pacoima, CA 91331(5)	2010	2017	204,000	$14.33	99%	Costco Best Buy
San Antonio Center Mountain View, CA 94040(4)(6)	1958, 1964-1965, 1974-1975, 1995-1997	2015	376,000	$13.74	97%	Trader Joe's Wal-mart Kohl's 24 Hour Fitness

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Property, City, State, Zip Code	Year Completed	Year Acquired	Square Feet(1) /Apartment Units	Average Rent Per Square Foot(2)	Percentage Leased(3)	Principal Tenant(s)
Santana Row San Jose, CA 95128(4)	2002, 2009, 2016	1997	885,000	$52.42	98%	Crate & Barrel H&M Container Store Multiple Restaurants
Santana Row Residential San Jose, CA 95128	2003-2006, 2011, 2014	1997/2012	662 units	N/A	97%	
Sylmar Towne Center Sylmar, CA 91342(5)(8)	1973	2017	148,000	$14.56	91%	Food4Less CVS
Third Street Promenade Santa Monica, CA 90401	1888-2000	1996-2000	209,000	$79.66	98%	Banana Republic Old Navy J. Crew Abercrombie & Fitch
Westgate Center San Jose, CA 95129	1960-1966	2004	647,000	$17.78	99%	Walmart Neighborhood Market Target Nordstrom Rack Nike Factory Burlington
Connecticut						
Bristol Plaza Bristol, CT 06010	1959	1995	266,000	$13.97	97%	Stop & Shop TJ Maxx
Darien Darien, CT 06820	1920-2009	2013	95,000	$28.47	96%	Stop & Shop Equinox
Greenwich Avenue Greenwich Avenue, CT 06830	1968	1995	36,000	$70.15	100%	Saks Fifth Avenue
District of Columbia						
Friendship Center Washington, DC 20015	1998	2001	119,000	$29.71	100%	Marshalls Nordstrom Rack DSW Maggiano's
Sam's Park & Shop Washington, DC 20008	1930	1995	49,000	$45.02	88%	Petco
Florida						
CocoWalk Coconut Grove, FL 33133(5)(11)	1990/1994, 1922-1973	2015-2017	194,000	$32.78	74%	Gap Cinepolis Theaters Youfit Health Club
		2008/2014	196,000	$16.43	91%	

Del Mar Village Boca Raton, FL 33433	1982, 1994 & 2007					Winn Dixie CVS
The Shops at Sunset Place South Miami, FL 33143(5)(8)	1999	2015	523,000	$20.17	77%	AMC L.A. Fitness Barnes & Noble Restoration Hardware Outlet
Tower Shops Davie, FL 33324	1989, 2017	2011/2014	426,000	$23.45	98%	Trader Joe's TJ Maxx Ross Dress for Less Best Buy DSW
Illinois						
Crossroads Highland Park, IL 60035	1959	1993	168,000	$23.12	99%	L.A. Fitness Binny's Guitar Center
Finley Square Downers Grove, IL 60515	1974	1995	278,000	$15.70	87%	Bed, Bath & Beyond Buy Buy Baby Petsmart Portillo's
Garden Market Western Springs, IL 60558	1958	1994	140,000	$13.26	100%	Mariano's Fresh Market Walgreens
Riverpoint Center Chicago, IL 60614	1989, 2012	2017	211,000	$22.38	96%	Jewel Osco Marshalls Old Navy
Maryland						
Bethesda Row Bethesda, MD 20814(4)	1945-1991 2001, 2008	1993-2006/ 2008/2010	534,000	$51.05	96%	Giant Food Apple Equinox Multiple Restaurants
Bethesda Row Residential Bethesda, MD 20814	2008	1993	180 units	N/A	97%	

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Property, City, State, Zip Code	Year Completed	Year Acquired	Square Feet(1) /Apartment Units	Average Rent Per Square Foot(2)	Percentage Leased(3)	Principal Tenant(s)
Congressional Plaza Rockville, MD 20852(5)	1965	1965	325,000	$41.07	98%	The Fresh Market Buy Buy Baby Saks Fifth Avenue Off 5th Container Store Last Call Studio by Neiman Marcus
Congressional Plaza Residential Rockville, MD 20852(5)	2003, 2016	1965	194 units	N/A	99%	
Courthouse Center Rockville, MD 20852	1975	1997	36,000	$23.08	66%	
Federal Plaza Rockville, MD 20852	1970	1989	249,000	$36.50	99%	Trader Joe's TJ Maxx Micro Center Ross Dress for Less
Free State Shopping Center Bowie, MD 20715	1970	2007	264,000	$17.57	92%	Giant Food TJ Maxx Ross Dress For Less Office Depot
Gaithersburg Square Gaithersburg, MD 20878	1966	1993	207,000	$27.98	96%	Bed, Bath & Beyond Ross Dress For Less Ashley Furniture HomeStore
Governor Plaza Glen Burnie, MD 21961	1963	1985	242,000	$19.44	98%	Aldi Dick's Sporting Goods A.C. Moore
Laurel Laurel, MD 20707	1956	1986	389,000	$22.54	87%	Giant Food Marshalls L.A. Fitness
Montrose Crossing Rockville, MD 20852(5)(8)	1960-1979, 1996, 2011	2011/2013	364,000	$30.33	94%	Giant Food Marshalls Old Navy Barnes & Noble Bob's Discount Furniture
Perring Plaza Baltimore, MD 21134	1963	1985	396,000	$14.63	100%	Shoppers Food Warehouse Home Depot

Pike & Rose North Bethesda, MD 20852(10)	1963, 2014	1982/2007/ 2012	402,000	$36.81	98%	Micro Center Burlington iPic Theater Porsche H&M REI Pinstripes Multiple Restaurants
Pike & Rose Residential North Bethesda, MD 20852(10)	2014, 2016	1982/2007	690 units	N/A	93%	
Plaza Del Mercado Silver Spring, MD 20906	1969	2004	117,000	$30.30	93%	Aldi CVS L.A. Fitness
Quince Orchard Gaithersburg, MD 20877(4)	1975	1993	267,000	$23.21	96%	Aldi HomeGoods L.A. Fitness Staples
Rockville Town Square Rockville, MD 20852(4)	2006-2007	2006/2007	187,000	$27.93	94%	Dawson's Market CVS Gold's Gym Multiple Restaurants
Rollingwood Apartments Silver Spring, MD 20910(8)	1960	1971	282 units	N/A	96%	
THE AVENUE at White Marsh Baltimore, MD 21236(6)(8)	1997	2007	315,000	$23.87	100%	AMC Ulta Old Navy Barnes & Noble
The Shoppes at Nottingham Square Baltimore, MD 21236	2005-2006	2007	32,000	$50.29	100%	
Towson Residential (Flats @703) Baltimore, MD 21236	2017	2007	4,000 105 units	$71.41 N/A	100% 55%	
White Marsh Other Baltimore, MD 21236	1985	2007	69,000	$30.32	97%	
White Marsh Plaza Baltimore, MD 21236	1987	2007	80,000	$22.31	98%	Giant Food
Wildwood Bethesda, MD 20814	1958	1969	83,000	$99.04	98%	Balducci's CVS

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Property, City, State, Zip Code	Year Completed	Year Acquired	Square Feet(1) /Apartment Units	Average Rent Per Square Foot(2)	Percentage Leased(3)	Principal Tenant(s)
Massachusetts						
Assembly Row/ Assembly Square Marketplace Somerville, MA 02145(10)	2005, 2014	2005-2011/ 2013	810,000	$24.97	99%	Trader Joe's TJ Maxx AMC LEGOLAND Discovery Center Multiple Restaurants & Outlets
Assembly Row Residential Somerville, MA 02145(10)	2017	2005-2011	141 units	N/A	94%	
Atlantic Plaza North Reading, MA 01864	1960	2004	123,000	$16.43	96%	Stop & Shop
Campus Plaza Bridgewater, MA 02324	1970	2004	116,000	$16.13	98%	Roche Bros. Burlington
Chelsea Commons Chelsea, MA 02150(8)	1962-1969, 2008	2006-2008	222,000	$12.32	99%	Home Depot Planet Fitness
Chelsea Commons Residential Chelsea, MA 02150	2013	2008	56 units	N/A	91%	
Dedham Plaza Dedham, MA 02026	1959	1993/2016	241,000	$16.75	96%	Star Market Planet Fitness
Linden Square Wellesley, MA 02481	1960, 2008	2006	223,000	$48.82	96%	Roche Bros. CVS
North Dartmouth North Dartmouth, MA 02747	2004	2006	48,000	$15.31	100%	Stop & Shop
Queen Anne Plaza Norwell, MA 02061	1967	1994	149,000	$17.77	100%	Big Y Foods TJ Maxx HomeGoods
Saugus Plaza Saugus, MA 01906	1976	1996	169,000	$12.24	100%	Super Stop & Shop Kmart
Michigan						
Gratiot Plaza Roseville, MI 48066	1964	1973	217,000	$12.15	100%	Kroger Bed, Bath & Beyond Best Buy DSW
New Jersey						
Brick Plaza Brick Township, NJ	1958	1989	422,000	$21.40	77%	AMC Barnes & Noble

08723(4)						Ulta DSW
Brook 35 Sea Grit, NJ 08750(5)(6)(8)	1986, 2004	2014	98,000	$36.09	99%	Banana Republic Gap Coach Williams-Sonoma
Ellisburg Cherry Hill, NJ 08034	1959	1992	268,000	$16.35	93%	Whole Foods Buy Buy Baby Stein Mart
Mercer Mall Lawrenceville, NJ 08648(4)	1975	2003/2017	530,000	$24.71	98%	Shop Rite TJ Maxx Nordstrom Rack Bed, Bath & Beyond REI
The Grove at Shrewsbury Shrewsbury, NJ 07702(5)(6)(8)	1988, 1993 & 2007	2014	193,000	$46.49	98%	Lululemon Anthropologie Pottery Barn Williams-Sonoma
Troy Parsippany-Troy, NJ 07054	1966	1980	211,000	$22.45	99%	L.A. Fitness Michaels
New York						
Fresh Meadows Queens, NY 11365	1949	1997	404,000	$32.35	99%	Island of Gold AMC Kohl's Michaels
Greenlawn Plaza Greenlawn, NY 11743	1975, 2004	2006	106,000	$18.07	96%	Greenlawn Farms Tuesday Morning
Hauppauge Hauppauge, NY 11788	1963	1998	134,000	$28.72	100%	Shop Rite A.C. Moore

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Property, City, State, Zip Code	Year Completed	Year Acquired	Square Feet(1) /Apartment Units	Average Rent Per Square Foot(2)	Percentage Leased(3)	Principal Tenant(s)
Huntington Huntington, NY 11746	1962	1988/2007/ 2015	279,000	$25.36	99%	Nordstrom Rack Bed, Bath & Beyond Buy Buy Baby Michaels
Huntington Square East Northport, NY 11731(4)	1980, 2007	2010	74,000	$27.96	85%	Barnes & Noble
Melville Mall Huntington, NY 11747(4)	1974	2006	251,000	$26.14	95%	Uncle Giuseppe's Marketplace Marshalls Dick's Sporting Goods Field & Stream Macy's Backstage
North Carolina						
Eastgate Crossing Chapel Hill, NC 27514	1963	1986	159,000	$26.94	95%	Trader Joe's Ulta Stein Mart Petco
Pennsylvania						
Andorra Philadelphia, PA 19128	1953	1988	264,000	$14.82	89%	Acme Markets Kohl's L.A. Fitness Staples
Bala Cynwyd Bala Cynwyd, PA 19004	1955	1993	294,000	$24.84	100%	Acme Markets Lord & Taylor Michaels L.A. Fitness
Flourtown Flourtown, PA 19031	1957	1980	156,000	$22.05	99%	Giant Food Movie Tavern
Lancaster Lancaster, PA 17601(4)	1958	1980	127,000	$18.41	98%	Giant Food Michaels
Langhorne Square Levittown, PA 19056	1966	1985	227,000	$16.90	98%	Redner's Warehouse Mkts. Marshalls Planet Fitness
Lawrence Park Broomall, PA 19008	1972	1980	374,000	$20.85	97%	Acme Markets TJ Maxx HomeGoods Barnes & Noble
Northeast Philadelphia, PA 19114	1959	1983	288,000	$13.68	85%	Marshalls Burlington Ulta

Town Center of New Britain New Britain, PA 18901	1969	2006	124,000	$10.07	90%	A.C. Moore Giant Food Rite Aid Dollar Tree
Willow Grove Willow Grove, PA 19090	1953	1984	211,000	$19.28	96%	Marshalls HomeGoods Barnes & Noble
Wynnewood Wynnewood, PA 19096	1948	1996	251,000	$27.83	100%	Giant Food Bed, Bath & Beyond Old Navy DSW
Virginia						
29th Place Charlottesville, VA 22091(8)	1975-2001	2007	169,000	$18.25	97%	HomeGoods DSW Stein Mart Staples
Barcoft Plaza Falls Church, VA 22041	1963, 1972, 1990, & 2000	2006/2007/ 2016	115,000	$24.18	90%	Harris Teeter
Barracks Road Charlottesville, VA 22905	1958	1985	498,000	$27.37	98%	Harris Teeter Kroger Anthropologie Nike Bed, Bath & Beyond Old Navy
Falls Plaza Falls Church, VA 22046	1960-1962	1967/1972	144,000	$35.09	94%	Giant Food CVS Staples
Graham Park Plaza Fairfax, VA 22042	1971	1983	260,000	$26.40	89%	Giant Food CVS Stein Mart

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Property, City, State, Zip Code	Year Completed	Year Acquired	Square Feet(1) /Apartment Units	Average Rent Per Square Foot(2)	Percentage Leased(3)	Principal Tenant(s)
Idylwood Plaza Falls Church, VA 22030	1991	1994	73,000	$47.24	95%	Whole Foods
Leesburg Plaza Leesburg, VA 20176	1967	1998	236,000	$22.80	93%	Giant Food Petsmart Gold's Gym
Mount Vernon/South Valley/ 7770 Richmond Hwy Alexandria, VA 22306(4)(6)	1966, 1972,1987 & 2001	2003/2006	570,000	$17.91	95%	Office Depot Shoppers Food Warehouse TJ Maxx Home Depot Bed, Bath & Beyond Results Fitness
Old Keene Mill Springfield, VA 22152	1968	1976	92,000	$39.08	97%	Whole Foods Walgreens Planet Fitness
Pan Am Fairfax, VA 22031	1979	1993	227,000	$25.37	100%	Safeway Micro Center CVS Michaels
Pentagon Row Arlington, VA 22202	2001-2002	1998/2010	299,000	$36.25	87%	Harris Teeter TJ Maxx Bed, Bath & Beyond DSW
Pike 7 Plaza Vienna, VA 22180	1968	1997/2015	164,000	$46.10	100%	TJ Maxx DSW Crunch Fitness Staples
Tower Shopping Center Springfield, VA 22150	1960	1998	112,000	$25.73	88%	L.A. Mart Talbots Total Wine & More
Tyson's Station Falls Church, VA 22043	1954	1978	50,000	$46.32	87%	Trader Joe's
Village at Shirlington Arlington, VA 22206(4)	1940, 2006-2009	1995	266,000	$38.57	90%	Harris Teeter AMC Carlyle Grand Café
Willow Lawn Richmond, VA 23230	1957	1983	463,000	$19.61	99%	Kroger Old Navy Ross Dress For Less Gold's Gym DSW
Total All Regions—Retail(9)			24,206,000	$26.90	95%	

Total All Regions—Residential	2,310 units	94%

(1) Represents the GLA of the commercial portion of the property. Some of our properties include office space which is included in this square footage.
(2) Average base rent is calculated as the aggregate, annualized in-place contractual (defined as cash basis excluding rent abatements) minimum rent for all occupied spaces divided by the aggregate GLA of all occupied spaces.
(3) Percentage leased is expressed as a percentage of rentable commercial square feet occupied or subject to a lease. Residential percentage leased is expressed as a percentage of units occupied or subject to a lease.
(4) All or a portion of this property is owned pursuant to a ground lease.
(5) We own the controlling interest in this center.
(6) We own all or a portion of this property in a “downREIT” partnership, of which a wholly owned subsidiary of the Trust is the sole general partner, with third party partners holding operating partnership units.
(7) We own a noncontrolling interest in this property.
(8) All or a portion of this property is encumbered by a mortgage loan.
(9) Aggregate information is calculated on a GLA weighted-average basis, excluding our La Alameda property, which is unconsolidated.
(10) Portion of property is currently under development. See further discussion in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.
(11) This property includes partial interests in five buildings in addition to our initial acquisition.

ITEM 3. LEGAL PROCEEDINGS

In November 2016, we were included as a defendant in a class action lawsuit, in the circuit court for Montgomery County, Maryland, related to predatory towing by a third party company we had retained to provide towing services at several of our properties in Montgomery County, Maryland. We, individually and collectively with other members of the more than 500 property owner defendant class, have undertaken numerous legal actions to challenge property owner liability in this case, including challenging the certification of the class as a matter of law; however, all of these legal actions have been unsuccessful. Given the costs and risks of continuing litigation on this matter, we elected to participate in a settlement for which our share is approximately $0.4 million. We expect that this settlement amount will be reimbursed by insurance. The

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settlement did not cover liability for certain tows that were included in the lawsuit that the defendant class believes cannot be pursued because of the statute of limitations. Accordingly, we do not believe we should have any additional liability for these remaining tows; however, if we are unsuccessful in dismissing these tows from the litigation, our liability would be approximately $0.2 million, assuming payment on the same terms as the settlement.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR OUR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common shares trade on the New York Stock Exchange under the symbol "FRT." Listed below are the high and low sales prices of our common shares as reported on the New York Stock Exchange and the dividends declared for each of the periods indicated.

	Price Per Share		Dividends Declared Per Share
	High	Low	
2017			
Fourth quarter	$134.52	$119.37	$ 1.000
Third quarter	$135.59	$122.60	$ 1.000
Second quarter	$138.12	$120.50	$ 0.980
First quarter	$145.80	$126.02	$ 0.980
2016			
Fourth quarter	$148.74	$136.98	$ 0.980
Third quarter	$170.35	$153.93	$ 0.980
Second quarter	$165.55	$149.75	$ 0.940
First quarter	$158.96	$144.82	$ 0.940

On February 8, 2018, there were 2,568 holders of record of our common shares.

Our ongoing operations generally will not be subject to federal income taxes as long as we maintain our REIT status and distribute to shareholders at least 100% of our taxable income. Under the Code, REITs are subject to numerous organizational and operational requirements, including the requirement to generally distribute at least 90% of taxable income.

Future distributions will be at the discretion of our Board of Trustees and will depend on our actual net income available for common shareholders, financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Code and such other factors as the Board of Trustees deems relevant. We have paid quarterly dividends to our shareholders continuously since our founding in 1962 and have increased our regular annual dividend rate for 50 consecutive years.

Our total annual dividends paid per common share for 2017 and 2016 were $3.94 per share and $3.80 per share, respectively. The annual dividend amounts are different from dividends as calculated for federal income tax purposes. Distributions to the extent of our current and accumulated earnings and profits for federal income tax purposes generally will be taxable to a shareholder as ordinary dividend income. Distributions in excess of current and accumulated earnings and profits will be treated as a nontaxable reduction of the shareholder's basis in such shareholder's shares, to the extent thereof, and thereafter as taxable capital gain. Distributions that are treated as a reduction of the shareholder's basis in its shares will have the effect of increasing the amount of gain, or reducing the amount of loss, recognized upon the sale of the shareholder's shares. No assurances can be given regarding what portion, if any, of distributions in 2018 or subsequent years will constitute a return of capital for federal income tax purposes. During a year in which a REIT earns a net long-term capital gain, the REIT can elect under Section 857(b)(3) of the Code to designate a portion of dividends paid to shareholders as capital gain dividends. If this election is made, then the capital gain dividends are generally taxable to the shareholder as long-term capital gains.

The following table reflects the income tax status of distributions per share paid to common shareholders:

	Year Ended December 31,	
	2017	2016
Ordinary dividend	$3.940	$3.800
Capital gain	—	—

$3.940	$3.800

Distributions on our 5.417% Series 1 Cumulative Convertible Preferred Shares were paid at the rate of $1.354 per share per annum commencing on the issuance date of March 8, 2007. Distributions on our 5.0% Series C Cumulative Redeemable Preferred Shares (which were issued September 29, 2017) were declared at the rate of $1.25 per depository share per annum,

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and the first payment date was January 16, 2018. We do not believe that the preferential rights available to the holders of our preferred shares or the financial covenants contained in our debt agreements had or will have an adverse effect on our ability to pay dividends in the normal course of business to our common shareholders or to distribute amounts necessary to maintain our qualification as a REIT.

Total Stockholder Return Performance

The following performance graph compares the cumulative total shareholder return on Federal Realty's common shares with the S&P 500 Index and the index of equity real estate investment trusts prepared by the National Association of Real Estate Investment Trusts ("NAREIT") for the five fiscal years commencing December 31, 2012, and ending December 31, 2017, assuming an investment of $100 and the reinvestment of all dividends into additional common shares during the holding period. Equity real estate investment trusts are defined as those that derive more than 75% of their income from equity investments in real estate assets. The FTSE NAREIT Equity REIT Total Return Index includes all tax qualified real estate investment trusts listed on the NYSE, NYSE MKT, or the NASDAQ National Market. Stock performance for the past five years is not necessarily indicative of future results.

Recent Sales of Unregistered Shares

Under the terms of various operating partnership agreements of certain of our affiliated limited partnerships, the interest of limited partners in those limited partnerships may be redeemed, subject to certain conditions, for cash or an equivalent number of our common shares, at our option. During the three months ended December 31, 2017, there were no redemptions of operating partnership units. Any other equity securities sold by us during 2017 that were not registered have been previously reported in a Quarterly Report on Form 10-Q.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

During 2017, 2,293 restricted common shares were forfeited by former employees.

From time to time, we could be deemed to have repurchased shares as a result of shares withheld for tax purposes upon a stock compensation related vesting event.

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ITEM 6. SELECTED FINANCIAL DATA

The following table includes certain financial information on a consolidated historical basis. You should read this section in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8. Financial Statements and Supplementary Data."

	Year Ended December 31,				
	2017	2016	2015	2014	2013
	(In thousands, except per share data and ratios)				
Operating Data:					
Rental income	$841,461	$786,583	$727,812	$666,322	$620,089
Property operating income(1)	$584,619	$547,979	$510,595	$474,167	$446,959
Operating income	$332,288	$320,995	$300,154	$271,037	$254,161
Income from continuing operations	$219,948	$226,425	$190,094	$167,888	$137,811
Gain on sale of real estate and change in control of interests, net	$77,922	$32,458	$28,330	$4,401	$28,855
Net income	$297,870	$258,883	$218,424	$172,289	$167,608
Net income available for common shareholders	$287,456	$249,369	$209,678	$163,994	$162,140
Net cash provided by operating activities	$459,177	$423,705	$369,046	$349,465	$316,340
Net cash used in investing activities	$(836,802)	$(590,221)	$(353,763)	$(396,150)	$(345,198)
Net cash provided by (used in) financing activities	$369,445	$168,838	$(42,188)	$5,709	$80,797
Earnings per common share, basic:					
Net income available to common shareholders	$3.97	$3.51	$3.04	$2.42	$2.47
Weighted average number of common shares, basic	72,117	70,877	68,797	67,322	65,331
Earnings per common share, diluted:					
Net income available to common shareholders	$3.97	$3.50	$3.03	$2.41	$2.46
Weighted average number of common shares, diluted	72,233	71,049	68,981	67,492	65,483
Dividends declared per common share	$3.96	$3.84	$3.62	$3.30	$3.02
Other Data:					
Funds from operations available to common shareholders(2)	$419,977	$406,359	$352,857	$327,597	$289,938
EBITDA(3)	$627,656	$547,088	$504,696	$447,495	$446,555
Adjusted EBITDA(3)	$548,311	$514,630	$476,366	$443,094	$417,700
Ratio of EBITDA to combined fixed charges and preferred share dividends(3)(4)	4.4 x	4.8 x	3.9 x	3.5 x	3.3
Ratio of Adjusted EBITDA to combined fixed charges and preferred share dividends(3)(4)	3.9 x	4.5 x	3.6 x	3.5 x	3.1

	As of December 31,				
	2017	2016	2015	2014	2013
	(In thousands)				
Balance Sheet Data:					
Real estate, at cost	$7,635,061	$6,759,073	$6,064,406	$5,608,998	$5,149,463
Total assets	$6,275,755	$5,423,279	$4,896,559	$4,534,237	$4,208,727
Total debt	$3,284,766	$2,798,452	$2,627,216	$2,397,043	$2,311,294
Total shareholders' equity	$2,391,514	$2,075,835	$1,781,931	$1,692,556	$1,471,297
Number of common shares outstanding	73,091	71,996	69,493	68,606	66,701

(1) Property operating income is a non-GAAP measure that consists of rental income, other property income and mortgage interest income, less rental expenses and real estate taxes. This measure is used internally to evaluate the performance of property operations and we consider it to be a significant measure. Property operating income should not be considered an alternative measure of operating results or cash flow from operations as determined in accordance with GAAP.

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The reconciliation of operating income to property operating income is as follows:

	2017	2016	2015	2014	2013
	(In thousands)				
Operating income	$332,288	$320,995	$300,154	$271,037	$254,161
General and administrative	36,281	33,399	35,645	32,316	31,970
Depreciation and amortization	216,050	193,585	174,796	170,814	160,828
Property operating income	$584,619	$547,979	$510,595	$474,167	$446,959

(2) Funds from operations ("FFO") is a supplemental non-GAAP financial measure of real estate companies' operating performances. The National Association of Real Estate Investment Trusts ("NAREIT") defines FFO as follows: net income, computed in accordance with GAAP, plus real estate related depreciation and amortization and excluding extraordinary items and gains on the sale of real estate. We compute FFO in accordance with the NAREIT definition, and we have historically reported our FFO available for common shareholders in addition to our net income.

We consider FFO available for common shareholders a meaningful, additional measure of operating performance primarily because it excludes the assumption that the value of the real estate assets diminishes predictably over time, as implied by the historical cost convention of GAAP and the recording of depreciation. We use FFO primarily as one of several means of assessing our operating performance in comparison with other REITs. Comparison of our presentation of FFO to similarly titled measures for other REITs may not necessarily be meaningful due to possible differences in the application of the NAREIT definition used by such REITs. Additional information regarding our calculation of FFO is contained in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

The reconciliation of net income to FFO available for common shareholders is as follows:

	2017	2016	2015		2014	2013
	(In thousands)					
Net income	$297,870	$258,883	$218,424		$172,289	$167,608
Net income attributable to noncontrolling interests	(7,956)	(8,973)	(8,205)		(7,754)	(4,927)
Gain on sale of real estate and change in control of interests, net	(77,632)	(31,133)	(28,330)		(4,401)	(28,855)
Depreciation and amortization of real estate assets	188,719	169,198	154,232		154,060	146,377
Amortization of initial direct costs of leases	19,124	16,875	15,026		12,391	10,694
Funds from operations	420,125	404,850	351,147		326,585	290,897
Dividends on preferred shares	(1,917)	(541)	(541)		(541)	(541)
Income attributable to operating partnership units	3,143	3,145	3,398	3,398	3,027	888
Income attributable to unvested shares	(1,374)	(1,095)	(1,147)		(1,474)	(1,306)
Funds from operations available for common shareholders	$419,977	$406,359	$352,857		$327,597	$289,938

(3) EBITDA is a non-GAAP measure as calculated in the table below. Adjusted EBITDA is a non-GAAP measure that means net income or loss plus net interest expense, income taxes, depreciation and amortization, gain or loss on sale of real estate and impairments of real estate if any. Adjusted EBITDA is presented because it approximates a key performance measure in our debt covenants, but it should not be considered an alternative measure of operating results or cash flow from operations as determined in accordance with GAAP. Adjusted EBITDA as presented may not be comparable to other similarly titled measures used by other REITs.

The reconciliation of net income to EBITDA and adjusted EBITDA for the periods presented is as follows:

	2017	2016	2015	2014	2013
	(In thousands)				
Net income	$297,870	$258,883	$218,424	$172,289	$167,608
Depreciation and amortization	216,050	193,585	174,796	170,814	161,099
Interest expense	100,125	94,994	92,553	93,941	104,977
Early extinguishment of debt	12,273	—	19,072	10,545	13,304
Provision for income tax	1,813	—	—	—	—
Other interest income	(475)	(374)	(149)	(94)	(433)
EBITDA	627,656	547,088	504,696	447,495	446,555
Gain on sale of real estate and change in control of interests	(79,345)	(32,458)	(28,330)	(4,401)	(28,855)
Adjusted EBITDA	$548,311	$514,630	$476,366	$443,094	$417,700

(4) Fixed charges consist of interest on borrowed funds (including capitalized interest), amortization of debt discount/premiums and debt costs, costs related to the early extinguishment of debt, and the portion of rent expense representing an interest factor. Excluding the $12.3 million, $19.1 million, $10.5 million, and $13.3 million early extinguishment of debt charge from fixed charges in 2017, 2015, 2014, and 2013, respectively, the ratio of EBITDA and adjusted EBITDA to combined fixed charges and preferred share dividends is 4.8x and 4.2x, respectively, for 2017, 4.5x and 4.3x, respectively, for 2015, 3.9x and 3.8x, respectively, for 2014, and 3.7x and 3.4x, respectively for 2013.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

Certain statements in this section or elsewhere in this report may be deemed “forward-looking statements”. See “Item 1A. Risk Factors” in this report for important information regarding these forward-looking statements and certain risk and uncertainties that may affect us. The following discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing in “Item 8. Financial Statements and Supplementary Data” of this report.

Overview

We are an equity real estate investment trust (“REIT”) specializing in the ownership, management, and redevelopment of high quality retail and mixed-use properties located primarily in densely populated and affluent communities in strategically selected metropolitan markets in the Northeast and Mid-Atlantic regions of the United States, California, and South Florida. As of December 31, 2017, we owned or had a majority interest in community and neighborhood shopping centers and mixed-use properties which are operated as 104 predominantly retail real estate projects comprising approximately 24.2 million square feet. In total, the real estate projects were 95.3% leased and 93.9% occupied at December 31, 2017. We have paid quarterly dividends to our shareholders continuously since our founding in 1962 and have increased our dividends per common share for 50 consecutive years.

Critical Accounting Policies

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 and current events and economic conditions. In addition, information relied upon by management in preparing such estimates includes internally generated financial and operating information, external market information, when available, and when necessary, information obtained from consultations with third party experts. Actual results could differ from these estimates. A discussion of possible risks which may affect these estimates is included in “Item 1A. Risk Factors” of this report. Management considers an accounting estimate to be critical if changes in the estimate could have a material impact on our consolidated results of operations or financial condition.

Our significant accounting policies are more fully described in Note 2 to the consolidated financial statements; however, the most critical accounting policies, which involve the use of estimates and assumptions as to future uncertainties and, therefore, may result in actual amounts that differ from estimates, are as follows:

Revenue Recognition and Accounts Receivable

Our leases with tenants are classified as operating leases. Substantially all such leases contain fixed escalations which occur at specified times during the term of the lease. Base rents are recognized on a straight-line basis from when the tenant controls the space through the term of the related lease, net of valuation adjustments, based on management's assessment of credit, collection and other business risk. Percentage rents, which represent additional rents based upon the level of sales achieved by certain tenants, are recognized at the end of the lease year or earlier if we have determined the required sales level is achieved and the percentage rents are collectible. Real estate tax and other cost reimbursements are recognized on an accrual basis over the periods in which the related expenditures are incurred. For a tenant to terminate its lease agreement prior to the end of the agreed term, we may require that they pay a fee to cancel the lease agreement. Lease termination fees for which the tenant has relinquished control of the space are generally recognized on the termination date. When a lease is terminated early but the tenant continues to control the space under a modified lease agreement, the lease termination fee is generally recognized evenly over the remaining term of the modified lease agreement.

Current accounts receivable from tenants primarily relate to contractual minimum rent and percentage rent as well as real estate tax and other cost reimbursements. Accounts receivable from straight-line rent is typically longer term in nature and relates to the cumulative amount by which straight-line rental income recorded to date exceeds cash rents billed to date under the contractual lease agreement.

We make estimates of the collectability of our current accounts receivable and straight-line rents receivable which requires significant judgment by management. The collectability of receivables is affected by numerous factors including current economic conditions, bankruptcies, and the ability of the tenant to perform under the terms of their lease agreement. While we make estimates of potentially uncollectible amounts and provide an allowance for them through bad debt expense, actual collectability could differ from those estimates which could affect our net income.

With respect to the allowance for current uncollectible tenant receivables, we assess the collectability of outstanding receivables by evaluating such factors as nature and age of the receivable, past history and current financial condition of the specific tenant including our assessment of the tenant's ability to meet its contractual lease obligations, and the status of any pending disputes or lease negotiations with the tenant. At December 31, 2017 and 2016, our allowance for doubtful accounts was $11.8 million and $11.9 million, respectively. Historically, we have recognized bad debt expense between 0.3% and 1.3% of rental income and it was 0.3% in 2017. A change in the estimate of collectability of a receivable would result in a change to our allowance for doubtful accounts and correspondingly bad debt expense and net income. For example, in the event our estimates were not accurate and we were required to increase our allowance by 1% of rental income, our bad debt expense would have increased and our net income would have decreased by $8.4 million.

Due to the nature of the accounts receivable from straight-line rents, the collection period of these amounts typically extends beyond one year. Our experience relative to unbilled straight-line rents is that a portion of the amounts otherwise recognizable as revenue is never billed to or collected from tenants due to early lease terminations, lease modifications, bankruptcies and other factors. Accordingly, the extended collection period for straight-line rents along with our evaluation of tenant credit risk may result in the nonrecognition of a portion of straight-line rental income until the collection of such income is reasonably assured. If our evaluation of tenant credit risk changes indicating more straight-line revenue is reasonably collectible than previously estimated and realized, the additional straight-line rental income is recognized as revenue. If our evaluation of tenant credit risk changes indicating a portion of realized straight-line rental income is no longer collectible, a reserve and bad debt expense is recorded. At December 31, 2017 and 2016, accounts receivable includes approximately $93.1 million and $80.6 million, respectively, related to straight-line rents. Correspondingly, these estimates of collectability have a direct impact on our net income.

We are currently under construction on 221 condominium units at our Assembly Row and Pike & Rose properties. Gains or losses on the sale of these condominium units are recognized in accordance with the provisions of ASC Topic 360-20, "Property, Plant and Equipment – Real Estate Sales." We account for contracted condominium sales under the percentage-of completion method, based on an evaluation of the criteria specified in ASC Topic 360-20 including: the legal commitment of the purchaser in the real estate contract, whether the construction of the project is beyond a preliminary phase, whether sufficient units have been contracted to ensure the project will not revert to a rental project, the ability to reasonably estimate the aggregate project sale proceeds and aggregate project costs, and the determination that the buyer has made an adequate initial and continuing cash investment under the contract. When the percentage-of-completion criteria have not been met, no profit is recognized. The application of these criteria can be complex and requires us to make assumptions. The timing of revenue recognition related to these condominium sales will be impacted by the January 1, 2018 adoption of ASU 2014-09 "Revenue from Contracts with Customers." See "Recent Accounting Pronouncements," in Note 2 to the consolidated financial statements for further discussion regarding the changes.

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Real Estate

The nature of our business as an owner, redeveloper and operator of retail shopping centers and mixed-use properties means that we invest significant amounts of capital. Depreciation and maintenance costs relating to our properties constitute substantial costs for us as well as the industry as a whole. We capitalize real estate investments and depreciate them on a straight-line basis in accordance with GAAP and consistent with industry standards based on our best estimates of the assets' physical and economic useful lives. We periodically review the estimated lives of our assets and implement changes, as necessary, to these estimates and, therefore, to our depreciation rates. These reviews may take into account such factors as the historical retirement and replacement of our assets, expected redevelopments, and general economic and real estate factors. Certain events, such as unforeseen competition or changes in customer shopping habits, could substantially alter our assumptions regarding our ability to realize the expected return on investment in the property and therefore reduce the economic life of the asset and affect the amount of depreciation expense to be charged against both the current and future revenues. These assessments have a direct impact on our net income. The longer the economic useful life, the lower the depreciation expense will be for that asset in a fiscal period, which in turn will increase our net income. Similarly, having a shorter economic useful life would increase the depreciation for a fiscal period and decrease our net income.

Land, buildings and real estate under development are recorded at cost. We calculate depreciation using the straight-line method with useful lives ranging generally from 35 years to a maximum of 50 years on buildings and major improvements. Maintenance and repair costs are charged to operations as incurred. Tenant work and other major improvements, which improve or extend the life of the asset, are capitalized and depreciated over the life of the lease or the estimated useful life of the improvements, whichever is shorter. Minor improvements, furniture and equipment are capitalized and depreciated over useful lives ranging from 2 to 20 years.

Capitalized costs associated with leases are depreciated or amortized over the base term of the lease. Unamortized leasing costs are charged to expense if the applicable tenant vacates before the expiration of its lease. Undepreciated tenant work is written-off if the applicable tenant vacates and the tenant work is replaced or has no future value. Additionally, we make estimates as to the probability of certain development and redevelopment projects being completed. If we determine the redevelopment is no longer probable of completion, we immediately expense all capitalized costs which are not recoverable.

Interest costs on developments and major redevelopments are capitalized as part of developments and redevelopments not yet placed in service. Capitalization of interest commences when development activities and expenditures begin and end upon completion, which is when the asset is ready for its intended use. Generally, rental property is considered substantially complete and ready for its intended use upon completion of tenant improvements, but no later than one year from completion of major construction activity. We make judgments as to the time period over which to capitalize such costs and these assumptions have a direct impact on net income because capitalized costs are not subtracted in calculating net income. If the time period for capitalizing interest is extended, more interest is capitalized, thereby decreasing interest expense and increasing net income during that period.

Certain external and internal costs directly related to the development, redevelopment and leasing of real estate, including pre-construction costs, real estate taxes, insurance, construction costs and salaries and related costs of personnel directly involved, are capitalized. We capitalized external and internal costs related to both development and redevelopment activities of $410 million and $8 million, respectively, for 2017 and $420 million and $9 million, respectively, for 2016. We capitalized external and internal costs related to other property improvements of $74 million and $3 million, respectively, for 2017 and $61 million and $3 million, respectively, for 2016. We capitalized external and internal costs related to leasing activities of $11 million and $6 million, respectively, for 2017 and $13 million and $6 million, respectively, for 2016. The amount of capitalized internal costs for salaries and related benefits for development and redevelopment activities, other property improvements, and leasing activities were $7 million, $3 million, and $6 million, for 2017 and $8 million, $2 million, and $6 million for 2016. Total capitalized costs were $512 million and $511 million for 2017 and 2016, respectively.

When applicable, as lessee, we classify our leases of land and building as operating or capital leases. We are required to use judgment and make estimates in determining the lease term, the estimated economic life of the property and the interest rate to be used in determining whether or not the lease meets the qualification of a capital lease and is recorded as an asset.

Real Estate Acquisitions

Upon acquisition of operating real estate properties, we estimate the fair value of assets and liabilities acquired including land, building, improvements, leasing costs, intangibles such as in-place leases, assumed debt, and current assets and liabilities, if any. Based on these estimates, we allocate the purchase price to the applicable assets and liabilities. We utilize methods similar to those used by independent appraisers in estimating the fair value of acquired assets and liabilities. The value allocated to in-place leases is amortized over the related lease term and reflected as rental income in the statement of operations. We consider qualitative and quantitative factors in evaluating the likelihood of a tenant exercising a below market renewal option and include such renewal options in the calculation of in-place lease value when we consider these to be bargain renewal options. If the value of below market lease intangibles includes renewal option periods, we include such renewal periods in the amortization period utilized. If a tenant vacates its space prior to contractual termination of its lease, the unamortized balance of any in-place lease value is written off to rental income.

Long-Lived Assets and Impairment

There are estimates and assumptions made by management in preparing the consolidated financial statements for which the actual results will be determined over long periods of time. This includes the recoverability of long-lived assets, including our properties that have been acquired or redeveloped and our investment in certain joint ventures. Management's evaluation of impairment includes review for possible indicators of impairment as well as, in certain circumstances, undiscounted and discounted cash flow analysis. Since most of our investments in real estate are wholly-owned or controlled assets which are held for use, a property with impairment indicators is first tested for impairment by comparing the undiscounted cash flows, including residual value, to the current net book value of the property. If the undiscounted cash flows are less than the net book value, the property is written down to expected fair value.

The calculation of both discounted and undiscounted cash flows requires management to make estimates of future cash flows including revenues, operating expenses, required maintenance and development expenditures, market conditions, demand for space by tenants and rental rates over long periods. Because our properties typically have a long life, the assumptions used to estimate the future recoverability of book value requires significant management judgment. Actual results could be significantly different from the estimates. These estimates have a direct impact on net income, because recording an impairment charge results in a negative adjustment to net income.

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 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. Any difference between our estimate of a potential loss and the actual outcome would result in an increase or decrease to net income.

Self-Insurance

We are self-insured for general liability costs up to predetermined retained amounts per claim, and we believe that we maintain adequate accruals to cover our retained liability. We currently do not maintain third party stop-loss insurance policies to cover liability costs in excess of predetermined retained amounts. Our accrual for self-insurance liability is determined by management and is based on claims filed and an estimate of claims projected to be incurred but not yet reported. Management considers a number of factors, including third-party actuarial analysis, previous experience in our portfolio, and future increases in costs of claims, when making these determinations. If our liability costs differ from these accruals, it will increase or decrease our net income.

Recently Adopted and Recently Issued Accounting Pronouncements

See Note 2 to the consolidated financial statements.

2017 Property Acquisitions and Dispositions

On February 1, 2017, we acquired a leasehold interest in Hastings Ranch Plaza, a 274,000 square foot shopping center in Pasadena, California for $29.5 million. The land is subject to a long-term ground lease that expires on April 30, 2054. Approximately $21.5 million of assets acquired were allocated to lease intangibles and included within other assets. Approximately $15.2 million of net assets acquired were allocated to lease liabilities and included in other liabilities.

On March 31, 2017, we acquired the fee interest in Riverpoint Center, a 211,000 square foot shopping center in the Lincoln Park neighborhood of Chicago, Illinois for $107.0 million. Approximately $1.0 million and $12.3 million of net assets acquired were allocated to other assets for "above market leases," and other liabilities for "below market leases," respectively.

We leased three parcels of land at our Assembly Row property to two ground lessees. Both lessees exercised purchase options under the related ground leases. The sale transaction related to the purchase option on one of our ground leases was completed on April 4, 2017 for a sales price of $36.0 million. On June 28, 2017, the sale transactions related to the purchase options on our other two ground lease parcels were completed for a total sales price of $17.3 million. The net gain recognized in

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connection with these transactions was approximately $15.4 million. At December 31, 2016, the total cost basis of the related land was $33.9 million and is included in "assets held for sale" on our consolidated balance sheet.
On May 19, 2017, we acquired the fee interest in a 71,000 square foot, mixed-use property located in Berkeley, California based on a gross value of $23.9 million. The acquisition was completed through a newly formed entity for which we own a 90% controlling interest. Approximately $0.8 million and $0.3 million of net assets acquired were allocated to other assets for "above market leases," and other liabilities for "below market leases," respectively. Additionally, approximately $2.4 million was allocated to noncontrolling interests.
On August 2, 2017, we acquired an approximately 90% interest in a joint venture that owns six shopping centers in Los Angeles County, California based on a gross value of $357 million, including the assumption of $79.4 million of mortgage debt. Approximately $7.8 million of assets acquired were allocated to lease intangibles and included within other assets. Approximately $36.2 million of net assets acquired were allocated to lease liabilities and included in other liabilities. Additionally, approximately $30.6 million was allocated to noncontrolling interests. That joint venture also acquired a 24.5% interest in La Alameda, a shopping center in Walnut Park, California for $19.8 million. The property has $41.0 million of mortgage debt, of which the joint venture's share is approximately $10 million.
Additional information on the properties is listed below:

Property	City/State	GLA (in square feet)
Azalea	South Gate, CA	222,000
Bell Gardens	Bell Gardens, CA	330,000
La Alameda	Walnut Park, CA	245,000
Olivo at Mission Hills (1)	Mission Hills, CA	155,000
Plaza Del Sol	South El Monte, CA	48,000
Plaza Pacoima	Pacoima, CA	204,000
Sylmar Towne Center	Sylmar, CA	148,000
		1,352,000

(1) Property is currently being redeveloped. GLA reflects approximate square footage once the property is open and operating.
On August 25, 2017, we sold our property located at 150 Post Street in San Francisco, California for a sales price of $69.3 million, resulting in a gain of $45.2 million.
On September 25, 2017, we sold our North Lake Commons property in Lake Zurich, Illinois for a sales price of $15.6 million, resulting in a gain of $4.9 million.
On December 28, 2017, we sold a parcel of land at our Bethesda Row property in Bethesda, Maryland for a sales price of $8.5 million, resulting in a gain of $6.5 million.
For the year ended December 31, 2017, we recognized a $5.4 million gain, net of $1.4 million of income taxes, related to the sale of condominiums at our Assembly Row property based on the percentage-of-completion method. In connection with recording the gain, we recognized a receivable of $67.1 million as of December 31, 2017. The closing of the Assembly Row condominium sales is expected to commence in 2018. As of December 31, 2017, no gain has been recognized for contracted condominium sales at Pike & Rose, as not all of the criteria necessary for profit recognition have been met.
2017 Significant Debt and Equity Transactions
On June 5, 2017 we refinanced the $175.0 million mortgage loan on Plaza El Segundo at a face amount of $125.0 million and repaid the remaining $50.0 million at par. The new mortgage loan bears interest at 3.83% and matures on June 5, 2027.
On June 23, 2017, we issued $400.0 million aggregate principal amount of fixed rate senior unsecured notes in two separate series. We issued $300.0 million of 3.25% notes that mature on July 15, 2027, which were offered at 99.083% of the principal amount, with a yield to maturity of 3.358%. Additionally, we issued $100.0 million of 4.50%

notes due December 1, 2044. The 4.50% notes were offered at 105.760% of the principal amount, with a yield to maturity of 4.143%, and have the same terms and are of the same series as the senior notes first issued on November 14, 2014. Our net proceeds from the June note offering after net issuance premium, underwriting fees and other costs was approximately $399.5 million.

In connection with the acquisition of six shopping centers in Los Angeles County, California on August 2, 2017 (as further discussed in Note 3), we assumed mortgage loans with a face amount of $79.4 million and a fair value of $80.1 million. The mortgage loans are secured by the individual properties with the following contractual terms:

	Principal (in millions)	Stated Interest Rate	Maturity Date
Sylmar Towne Center	$ 17.5	5.39 %	June 6, 2021
Plaza Del Sol	8.6	5.23 %	December 1, 2021
Azalea	40.0	3.73 %	November 1, 2025
Bell Gardens	13.3	4.06 %	August 1, 2026

On August 31, 2017, we refinanced the $41.8 million mortgage loan on The Grove at Shrewsbury (East) at a face amount of $43.6 million. The new mortgage loan bears interest at 3.77% and matures on September 1, 2027.

On September 29, 2017, we issued 6,000,000 Depository Shares, each representing 1/1000th of a 5.0% Series C Cumulative Redeemable Preferred Share, par value $0.01 per share ("Series C Preferred Shares"), at the liquidation preference of $25.00 per depository share (or $25,000 per Series C Preferred share) in an underwritten public offering. The Series C Preferred Shares accrue dividends at a rate of 5.0% of the $25,000 liquidation preference per year and are redeemable at our option on or after September 29, 2022. Additionally, they are not convertible and holders of these shares generally have no voting rights, unless we fail to pay dividends for six or more quarters. The net proceeds after underwriting fees and other costs were approximately $145.0 million.

On December 21, 2017, we issued $175.0 million aggregate principal amount of 3.25% senior unsecured notes due July 15, 2027. The notes have the same terms and are of the same series as the $300.0 million senior notes issued on June 23, 2017. The notes were offered at 99.404% of the principal amount, with a yield to maturity of 3.323%. Our net proceeds from the December note offering after net issuance premium, underwriting fees and other costs were approximately $172.5 million. The proceeds were used on December 31, 2017 to repay our $150.0 million 5.90% notes prior to the original maturity date of April 1, 2020. The redemption price of $164.1 million included a make-whole premium of $11.9 million and accrued but unpaid interest of $2.2 million. The make-whole premium is included in "early extinguishment of debt" in 2017.

On November 4, 2016, we replaced our existing at-the-market (“ATM”) equity program with a new ATM equity program in which we may from time to time offer and sell common shares having an aggregate offering price of up to $400.0 million. We intend to use the net proceeds to fund potential acquisition opportunities, fund our development and redevelopment pipeline, repay amounts outstanding under our revolving credit facility and/or for general corporate purposes. For the three months ended December 31, 2017, we issued 501,120 common shares at a weighted average price per share of $132.22 for net cash proceeds of $65.6 million and paid $0.7 million in commissions and less than $0.1 million in additional offering expenses related to the sales of these common shares. For the year ended December 31, 2017, we issued 826,517 common shares at a weighted average price per share of $132.56 for net cash proceeds of $108.3 million and paid $1.1 million in commissions and $0.2 million in additional offering expenses related to the sales of these common shares. As of December 31, 2017, we had the capacity to issue up to $261.3 million in common shares under our ATM equity program.

Outlook

We seek growth in earnings, funds from operations, and cash flows primarily through a combination of the following:

- growth in our same-center portfolio,
- growth in our portfolio from property development and redevelopments, and
- expansion of our portfolio through property acquisitions.

Our same-center growth is primarily driven by increases in rental rates on new leases and lease renewals, changes in portfolio occupancy, and the redevelopment of those assets. Over the long-term, the infill nature and strong demographics of our properties provide a strategic advantage allowing us to maintain relatively high occupancy and generally increase rental rates. We continue to see strong levels of interest from prospective tenants for our retail spaces; however, the time it takes to complete new lease deals is longer, as tenants have become more selective and more deliberate in their decision-making process. We have also experienced extended periods of time for some government agencies to process permits and inspections further delaying rent commencement on newly leased spaces.

Additionally, we have seen an overall decrease in the number of tenants available to fill anchor spaces, and have seen an uptick in the number of retail tenants closing early and/or filing for bankruptcy. We believe the locations and nature of our centers and diverse tenant base partially mitigates any potential negative changes in the economic environment. However, any significant reduction in our tenants' abilities to pay base rent, percentage rent or other charges, will adversely affect our financial condition and results of operations. We seek to maintain a mix of strong national, regional, and local retailers. At December 31, 2017, no single tenant accounted for more than 2.9% of annualized base rent.

Our properties are located primarily in densely populated and/or affluent areas with high barriers to entry which allow us to take advantage of redevelopment opportunities that enhance our operating performance through renovation, expansion, reconfiguration, and/or retenanting. We evaluate our properties on an ongoing basis to identify these types of opportunities. We currently have redevelopment projects underway with a projected cost of approximately $155 million that we expect to stabilize in the next several years.

We continue our ongoing redevelopment efforts at Santana Row and are under construction on an eight story 284,000 square foot office building which will include an additional 29,000 square feet of retail space and 1,300 parking spaces. The building is expected to cost between $205 and $215 million and to be delivered in 2019. After current phases, we have approximately 4 acres remaining for further redevelopment and entitlements in place for an additional 395 residential units and 321,000 square feet of commercial space. Additionally, we control 12 acres of land adjacent to Santana Row.

We continue to invest in our long-term multi-phased mixed-use development projects at Assembly Row in Somerville, Massachusetts and Pike & Rose in North Bethesda, Maryland which we expect to be involved in over the coming years.

Construction of Phase II of Assembly Row which will include 161,000 square feet of retail space, 447 residential units, and a 158 room boutique hotel (which will be owned and operated by a joint venture in which we are a partner) is underway. Total expected costs range from $280 million to $295 million and remaining delivery is expected in 2018. Approximately 49,000 square feet of retail space in Phase II has opened in 2017, and in September, the first tenants moved into the new residential building. Phase II will also include 122 for-sale condominium units with an expected total cost of $74 million to $79 million. Additionally, as part of the second phase, we entered into a ground lease agreement with Partners HealthCare to bring 741,500 square feet of office space to Assembly Row. The ground lease agreement included a purchase option, which was exercised and the related sale closed on April 4, 2017.

Construction of Phase II of Pike & Rose is also underway. Phase II will include approximately 216,000 square feet of retail space, 272 residential units, and a 177 room boutique hotel. Approximately 151,000 square feet of retail space in Phase II has opened in 2017, and in August, the first tenants moved into the new residential building. Total expected costs range from $200 million to $207 million and remaining delivery is expected in 2018. The hotel will be owned and operated by a joint venture in which we are a partner. Phase II will also include 99 for-sale condominium units with an expected cost of $53 million to $58 million.

We invested $273 million in Assembly Row and Pike & Rose in 2017 and expect to invest between $75 million and $100 million in Assembly Row and Pike & Rose in 2018.

The development of future phases of Assembly Row, Pike & Rose and Santana Row will be pursued opportunistically based on, among other things, market conditions, tenant demand, and our evaluation of whether those phases will generate an appropriate financial return.

We continue to review acquisition opportunities in our primary markets that complement our portfolio and provide long-term growth opportunities. Initially, some of our acquisitions do not contribute significantly to earnings growth; however, we believe they provide long-term re-leasing growth, redevelopment opportunities, and other strategic opportunities. Any growth from acquisitions is contingent on our ability to find properties that meet our qualitative standards at prices that meet our financial hurdles. Changes in interest rates may affect our success in achieving earnings growth through acquisitions by affecting both the price that must be paid to acquire a property, as well as our ability to economically finance the property acquisition. Generally, our acquisitions are initially financed by available cash and/or borrowings under our revolving credit facility which may be repaid later with funds raised through the issuance of new equity or new long-term debt. We may also finance our acquisitions through the issuance of common shares, preferred shares, or downREIT units as well as through assumed mortgages.

At December 31, 2017, the leasable square feet in our properties was 95.3% leased and 93.9% occupied. The leased rate is higher than the occupied rate due to leased spaces that are being redeveloped or improved or that are awaiting permits and, therefore, are not yet ready to be occupied. Our occupancy and leased rates are subject to variability over time due to factors including acquisitions, the timing of the start and stabilization of our redevelopment projects, lease expirations and tenant closings and bankruptcies.

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Same-Center

Throughout this section, we have provided certain information on a "same-center" basis. Information provided on a same-center basis includes the results of properties that we owned and operated for the entirety of both periods being compared except for properties for which significant redevelopment or expansion occurred during either of the periods being compared. For the year ended December 31, 2017 and the comparison of 2017 and 2016, all or a portion of 78 properties were considered same-center and 15 properties were considered redevelopment or expansion. For the year ended December 31, 2017, one property was moved from acquisition to same-center, two properties were removed from same-center as they were sold during 2017, and four properties or portions of properties were moved from redevelopment to same-center, compared to the designations as of December 31, 2016. For the year ended December 31, 2016 and the comparison of 2016 and 2015, all or a portion of 76 properties were considered same-center and 17 properties were considered redevelopment or expansion. For the year ended December 31, 2016, three properties or portions of properties were moved from same-center to redevelopment and one property was moved from redevelopment to same-center, compared to the designations as of December 31, 2015. While there is judgment surrounding changes in designations, we typically move redevelopment properties to same-center once they have stabilized, which is typically considered 95% occupancy or when the growth expected from the redevelopment has been included in the comparable periods. We typically remove properties from same center when the redevelopment has or is expected to have a significant impact to property operating income within the calendar year. Acquisitions are moved to same-center once we have owned the property for the entirety of comparable periods and the property is not under significant redevelopment or expansion.

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YEAR ENDED DECEMBER 31, 2017 COMPARED TO YEAR ENDED DECEMBER 31, 2016

	2017	2016	Change Dollars	%
	(Dollar amounts in thousands)			
Rental income	$841,461	$786,583	$54,878	7.0 %
Other property income	12,825	11,015	1,810	16.4 %
Mortgage interest income	3,062	3,993	(931)	(23.3)%
Total property revenue	857,348	801,591	55,757	7.0 %
Rental expenses	164,890	158,326	6,564	4.1 %
Real estate taxes	107,839	95,286	12,553	13.2 %
Total property expenses	272,729	253,612	19,117	7.5 %
Property operating income (1)	584,619	547,979	36,640	6.7 %
General and administrative expense	(36,281)	(33,399)	(2,882)	8.6 %
Depreciation and amortization	(216,050)	(193,585)	(22,465)	11.6 %
Operating income	332,288	320,995	11,293	3.5 %
Other interest income	475	374	101	27.0 %
(Loss) income from real estate partnerships	(417)	50	(467)	(934.0)%
Interest expense	(100,125)	(94,994)	(5,131)	5.4 %
Early extinguishment of debt	(12,273)	—	(12,273)	100.0 %
Total other, net	(112,340)	(94,570)	(17,770)	18.8 %
Income from continuing operations	219,948	226,425	(6,477)	(2.9)%
Gain on sale of real estate and change in control of interests, net	77,922	32,458	45,464	140.1 %
Net income	297,870	258,883	38,987	15.1 %
Net income attributable to noncontrolling interests	(7,956)	(8,973)	1,017	(11.3)%
Net income attributable to the Trust	$289,914	$249,910	$40,004	16.0 %

(1) Property operating income is a non-GAAP financial measure. See Item 6. Selected Financial Data for further discussion.

Property Revenues

Total property revenue increased $55.8 million, or 7.0%, to $857.3 million in 2017 compared to $801.6 million in 2016. The percentage occupied at our shopping centers was 93.9% at December 31, 2017 compared to 93.3% at December 31, 2016. Changes in the components of property revenue are discussed below.

Rental Income

Rental income consists primarily of minimum rent, cost reimbursements from tenants and percentage rent. Rental income increased $54.9 million, or 7.0%, to $841.5 million in 2017 compared to $786.6 million in 2016 due primarily to the following:

- an increase of $22.0 million from acquisitions, primarily related to the six shopping centers acquired in Los Angeles County, California, Riverpoint Center, and Hastings Ranch Plaza,
- an increase of $16.6 million at redevelopment properties due to the opening of our new office building at Santana Row in late 2016, the lease-up of three of our retail redevelopments, and the lease-up of the new residential building at Congressional Plaza, partially offset by lower occupancy at two of our retail properties in Florida in the beginning stages of redevelopment,
- an increase of $8.0 million at same-center properties due primarily to higher rental rates of approximately $6.0 million, higher recoveries of $3.4 million primarily the result of higher real estate tax assessments, partially offset by lower average occupancy of approximately $1.2 million,
- an increase of $6.1 million from Assembly Row and Pike & Rose due primarily to the lease-up of residential units and the opening of the second phase of retail during the second half of 2017, and

- an increase of $3.2 million from the acquisition of six previously unconsolidated Clarion joint venture properties in January 2016, partially offset by

- a decrease of $0.9 million from the sale of our 150 Post Street and North Lake Commons properties in August and September 2017, respectively.

Other Property Income

Other property income increased $1.8 million, or 16.4%, to $12.8 million in 2017 compared to $11.0 million in 2016. Included in other property income are items, which, although recurring, inherently tend to fluctuate more than rental income from period to period, such as lease termination fees. This increase is primarily related to higher lease termination fees.

Mortgage Interest Income

Mortgage interest income decreased $0.9 million, or 23.3%, to $3.1 million in 2017 compared to $4.0 million in 2016. This decrease is primarily related to a mortgage note receivable that was repaid in 2016.

Property Expenses

Total property expenses increased $19.1 million, or 7.5%, to $272.7 million in 2017 compared to $253.6 million in 2016. Changes in the components of property expenses are discussed below.

Rental Expenses

Rental expenses increased $6.6 million, or 4.1%, to $164.9 million in 2017 compared to $158.3 million in 2016. This increase is primarily due to the following:

- an increase of $4.7 million from acquisitions, primarily related to six shopping centers in Los Angeles County, California, Hastings Ranch Plaza, and Riverpoint Center, and
- an increase of $2.1 million from Assembly Row and Pike & Rose due primarily to the opening of Phase II residential units during the second half of 2017.

As a result of the changes in rental income and rental expenses as discussed above, rental expenses as a percentage of rental income plus other property income decreased to 19.3% for the year ended December 31, 2017 from 19.9% for the year ended December 31, 2016.

Real Estate Taxes

Real estate tax expense increased $12.6 million, or 13.2% to $107.8 million in 2017 compared to $95.3 million in 2016 due primarily to the following:

- an increase of $4.4 million at same-center properties primarily due to higher assessments,
- an increase of $4.2 million from acquisitions, primarily related to six shopping centers in Los Angeles County, California, Riverpoint Center, and Hastings Ranch Plaza,
- an increase of $3.0 million from redevelopment properties, primarily related to our new office building at Santana Row and other reassessments on our redevelopments, and
- an increase of $0.9 million related to Assembly Row and Pike & Rose.

Property Operating Income

Property operating income increased $36.6 million, or 6.7%, to $584.6 million in 2017 compared to $548.0 million in 2016. This increase is primarily due to growth in earnings at redevelopment and same-center properties, 2017 acquisitions, Assembly Row and Pike & Rose (primarily the lease-up of residential units at Pike & Rose, the opening of the second phase of retail at Pike & Rose, and higher lease termination fees), and the acquisition of the six previously unconsolidated Clarion joint venture properties in January 2016.

Other Operating Expenses

General and Administrative Expense

General and administrative expense increased $2.9 million, or 8.6%, to $36.3 million in 2017 from $33.4 million in 2016. This increase is primarily due to higher personnel related costs.

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Depreciation and Amortization

Depreciation and amortization expense increased $22.5 million, or 11.6%, to $216.1 million in 2017 from $193.6 million in 2016. This increase is primarily due to 2017 acquisitions, redevelopment properties (largely the new office building at Santana Row), Assembly Row and Pike & Rose, and same-center properties.

Operating Income

Operating income increased $11.3 million, or 3.5%, to $332.3 million in 2017 compared to $321.0 million in 2016. This increase is primarily due to growth in earnings at redevelopment and same-center properties, our 2017 acquisitions, Assembly Row and Pike & Rose, and the acquisition of the six previously unconsolidated Clarion joint venture properties in January 2016, partially offset by higher personnel related costs.

Other

Interest Expense

Interest expense increased $5.1 million, or 5.4%, to $100.1 million in 2017 compared to $95.0 million in 2016. This increase is due primarily to the following:

- an increase of $16.1 million due to higher borrowings primarily attributable to the $300 million 3.25% senior notes and the $100 million reopening of the 4.5% senior notes both issued in June 2017, the 3.625% senior notes issued in July 2016, and higher weighted average borrowings on our revolving credit facility,

partially offset by

- an increase of $7.5 million in capitalized interest, and
- a decrease of $3.5 million due to a lower overall weighted average borrowing rate.

Gross interest costs were $125.7 million and $113.0 million in 2017 and 2016, respectively. Capitalized interest was $25.6 million and $18.0 million in 2017 and 2016, respectively.

Early Extinguishment of Debt

The $12.3 million early extinguishment of debt charge in 2017 relates to the make-whole premium paid as part of the early redemption of our 5.90% senior notes on December 31, 2017 and the related write-off of the unamortized discount and debt fees.

Gain on Sale of Real Estate and Change in Control of Interests, Net

The $77.9 million gain on sale of real estate and change in control of interests, net for the year ended December 31, 2017 is primarily due to the following:

- $45.2 million gain related to the sale of our 150 Post Street property in August 2017,
- $15.4 million gain related to the sale of three ground lease parcels at our Assembly Row property in Somerville, Massachusetts,
- $6.5 million gain related to the sale of a parcel of land at our Bethesda Row property in December 2017,
- $5.4 million net percentage-of-completion gain, related to residential condominium units under binding contract at our Assembly Row property, and
- $4.9 million gain related to the sale of our North Lake Commons property in September 2017.

The $32.5 million gain on sale of real estate and change in control of interests for the year ended December 31, 2016 is primarily due to the following:

- $25.7 million gain related to our obtaining control of six properties when we acquired Clarion's 70% interest in the partnership that owned those properties. The properties were previously accounted for under the equity method of accounting. We consolidated these assets effective January 13, 2016, and consequently recognized a gain on obtaining the controlling interest,
- $4.9 million gain related to the reversal of the unused portion of the warranty reserve for condominium units at Santana Row, as the statutorily mandated latent construction defect period ended in third quarter 2016, and
- $1.8 million gain related to the sale of a building in Coconut Grove, Florida. Our share of the gain, net of noncontrolling interests, was $0.5 million.

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YEAR ENDED DECEMBER 31, 2016 COMPARED TO YEAR ENDED DECEMBER 31, 2015

	2016	2015	Change Dollars	%
	(Dollar amounts in thousands)			
Rental income	$786,583	$727,812	$58,771	8.1 %
Other property income	11,015	11,810	(795)	(6.7)%
Mortgage interest income	3,993	4,390	(397)	(9.0)%
Total property revenue	801,591	744,012	57,579	7.7 %
Rental expenses	158,326	147,593	10,733	7.3 %
Real estate taxes	95,286	85,824	9,462	11.0 %
Total property expenses	253,612	233,417	20,195	8.7 %
Property operating income (1)	547,979	510,595	37,384	7.3 %
General and administrative expenses	(33,399)	(35,645)	2,246	(6.3)%
Depreciation and amortization	(193,585)	(174,796)	(18,789)	10.7 %
Operating income	320,995	300,154	20,841	6.9 %
Other interest income	374	149	225	151.0 %
Income from real estate partnerships	50	1,416	(1,366)	(96.5)%
Interest expense	(94,994)	(92,553)	(2,441)	2.6 %
Early extinguishment of debt	—	(19,072)	19,072	(100.0)%
Total other, net	(94,570)	(110,060)	15,490	(14.1)%
Income from continuing operations	226,425	190,094	36,331	19.1 %
Gain on sale of real estate	32,458	28,330	4,128	14.6 %
Net income	258,883	218,424	40,459	18.5 %
Net income attributable to noncontrolling interests	(8,973)	(8,205)	(768)	9.4 %
Net income attributable to the Trust	$249,910	$210,219	$39,691	18.9 %

(1) Property operating income is a non-GAAP financial measure. See Item 6. Selected Financial Data for further discussion.

Property Revenues

Total property revenue increased $57.6 million, or 7.7%, to $801.6 million in 2016 compared to $744.0 million in 2015. The percentage occupied at our shopping centers was 93.3% at December 31, 2016 compared to 93.5% at December 31, 2015. Changes in the components of property revenue are discussed below.

Rental Income

Rental income consists primarily of minimum rent, cost reimbursements from tenants and percentage rent. Rental income increased $58.8 million, or 8.1%, to $786.6 million in 2016 compared to $727.8 million in 2015 due primarily to the following:

- an increase of $16.9 million attributable to properties acquired in 2015 and 2016,
- an increase of $15.3 million from the acquisition of the six previously unconsolidated Clarion joint venture properties in January 2016,
- an increase of $11.7 million from Assembly Row and Pike & Rose as portions of both projects opened in 2015 and early 2016,
- an increase of $10.6 million at redevelopment properties due primarily to the lease-up of The Point at Plaza El Segundo, as well as six of our other retail redevelopments, and the opening of the new office building at Santana Row, partially offset by lower occupancy as we start redeveloping centers, and
- an increase of $9.5 million at same-center properties due primarily to higher rental rates of approximately $12.8 million, higher recoveries of $1.8 million primarily the net result of higher real estate tax expense offset by lower snow removal expense, partially offset by lower average occupancy of approximately $4.7 million,

partially offset by,

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- a decrease of $4.8 million due to the sale of our Houston Street and Courtyard Shops properties in April 2015 and November 2015, respectively.

Other Property Income

Other property income decreased $0.8 million, or 6.7%, to $11.0 million in 2016 compared to $11.8 million in 2015. The decrease is primarily due to a decrease in fee income as we no longer earn fees on the former Clarion joint venture properties.

Property Expenses

Total property expenses increased $20.2 million, or 8.7%, to $253.6 million in 2016 compared to $233.4 million in 2015. Changes in the components of property expenses are discussed below.

Rental Expenses

Rental expenses increased $10.7 million, or 7.3%, to $158.3 million in 2016 compared to $147.6 million in 2015. This increase is primarily due to the following:

- an increase of $6.1 million related to properties acquired in 2015 and 2016,
- an increase of $3.2 million from the acquisition of the six previously unconsolidated Clarion joint venture properties in January 2016,
- an increase of $2.0 million related to Assembly Row and Pike & Rose, as portions of both projects opened in 2015 and early 2016,
- an increase of $2.0 million at redevelopment properties,

partially offset by

- a decrease of $1.9 million in repairs and maintenance expenses at same-center properties primarily due to lower snow removal costs, and
- a decrease of $1.1 million due to the sale of our Houston Street and Courtyard Shops properties in April 2015 and November 2015, respectively.

As a result of the changes in rental income and rental expenses as discussed above, rental expenses as a percentage of rental income plus other property income increased to 19.9% for the year ended December 31, 2016 from 20.0% for the year ended December 31, 2015.

Real Estate Taxes

Real estate tax expense increased $9.5 million, or 11.0% to $95.3 million in 2016 compared to $85.8 million in 2015 due primarily to the following:

- an increase of $4.2 million at same-center properties due to higher assessments,
- an increase of $2.2 million from properties acquired in 2015 and 2016,
- an increase of $1.9 million due to the acquisition of the six previously unconsolidated Clarion joint venture properties in January 2016,
- an increase of $1.1 million from redevelopment properties, and
- an increase of $0.8 million related to Assembly Row and Pike & Rose,

partially offset by

- a decrease of $0.8 million due to the sale of our Houston Street and Courtyard Shops properties in April 2015 and November 2015, respectively.

Property Operating Income

Property operating income increased $37.4 million, or 7.3%, to $548.0 million in 2016 compared to $510.6 million in 2015. This increase is primarily due to growth in earnings at same-center and redevelopment properties, the acquisition of the six previously unconsolidated Clarion joint venture properties in January 2016, portions of Assembly Row and Pike & Rose opening in 2015 and early 2016, and properties acquired in 2015, partially offset by the sale of our Houston Street and Courtyard Shops properties in April 2015 and November 2015, respectively.

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Other Operating Expense
General and Administrative Expense
General and administrative expense decreased $2.2 million, or 6.3%, to $33.4 million in 2016 from $35.6 million in 2015. This increase is primarily due to lower transaction costs, partially offset by higher personnel related costs.
Depreciation and Amortization
Depreciation and amortization expense increased $18.8 million, or 10.7%, to $193.6 million in 2016 from $174.8 million in 2015. This increase is due primarily to the acquisition of the six previously unconsolidated Clarion joint venture properties in
January 2016, Assembly Row and Pike & Rose, depreciation on redevelopment related assets, and properties acquired in 2015.
Operating Income
Operating income increased $20.8 million, or 6.9%, to $321.0 million in 2016 compared to $300.2 million in 2015. This increase is primarily due to properties acquired in 2015, portions of Assembly Row and Pike & Rose opening in 2015 and early 2016, growth in earnings at redevelopment and same-center properties, and the acquisition of the six previously unconsolidated Clarion joint venture properties in January 2016, partially offset by the sale of our Houston Street and Courtyard Shops properties in April 2015 and November 2015, respectively.
Other
Interest Expense
Interest expense increased $2.4 million, or 2.6%, to $95.0 million in 2016 compared to $92.6 million in 2015. This increase is due primarily to an increase of $8.6 million due to higher borrowings, partially offset by a decrease of $6.2 million due to a lower overall weighted average borrowing rate.
Gross interest costs were $113.0 million and $110.7 million in 2016 and 2015, respectively. Capitalized interest was $18.0 million and $18.1 million in 2016 and 2015, respectively.
Early Extinguishment of Debt
The $19.1 million early extinguishment of debt in 2015 relates to the make-whole premium paid as part of the early redemption of our 6.20% senior notes in the second quarter of 2015, partially offset by the related net write-off of unamortized premium and debt fees.
Gain on sale of Real Estate
The $32.5 million gain on sale of real estate and change in control of interests is primarily the result of our obtaining control of six properties when we acquired Clarion's 70% interest in the partnership that owned those properties (see discussion in Note 3 to the consolidated financial statements). The properties were previously accounted for under the equity method of accounting. We consolidated these assets effective January 13, 2016, and consequently recognized a gain of $25.7 million upon obtaining the controlling interest. 2016 also included a $1.8 million gain related to the May 2016 sale of a building in Coconut Grove, Florida by an unconsolidated joint venture (our share of the gain, net of noncontrolling interests, was $0.5 million) and a $4.9 million gain due to the reversal of the warranty reserve for condominium units at Santana Row, as the statutorily mandated latent construction defect period ended in third quarter 2016 and no further claims were filed.
The $28.3 million gain on sale of real estate for 2015 is due to the sale of our Houston Street property in April 2015 and the sale of our Courtyard Shops property in November 2015.

Liquidity and Capital Resources
Due to the nature of our business and strategy, we typically generate significant amounts of cash from operations. The cash generated from operations is primarily paid to our common and preferred shareholders in the form of dividends. As a REIT, we must generally make annual distributions to shareholders of at least 90% of our taxable income.
Our short-term liquidity requirements consist primarily of normal recurring operating expenses, obligations under our capital and operating leases, regular debt service requirements (including debt service relating to additional or replacement debt, as well as scheduled debt maturities), recurring expenditures, non-recurring expenditures (such as tenant improvements and redevelopments) and dividends to common and preferred shareholders. Our long-term capital requirements consist primarily of maturities under our long-term debt agreements, development and

redevelopment costs and potential acquisitions.

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We intend to operate with and maintain a conservative capital structure that will allow us to maintain strong debt service coverage and fixed-charge coverage ratios as part of our commitment to investment-grade debt ratings. In the short and long term, we may seek to obtain funds through the issuance of additional equity, unsecured and/or secured debt financings, joint venture relationships relating to existing properties or new acquisitions, and property dispositions that are consistent with this conservative structure.

At December 31, 2017, we had cash and cash equivalents of $15.2 million and $41.0 million outstanding on our $800.0 million unsecured revolving credit facility which matures on April 20, 2020, subject to two six-month extensions at our option. In addition, we have an option (subject to bank approval) to increase the credit facility through an accordion feature to $1.5 billion. Our $275.0 million unsecured term loan that matures on November 21, 2018, subject to a one-year extension at our option, also has an option (subject to bank approval) to increase the term loan through an accordion feature to $350.0 million. As of December 31, 2017, we had the capacity to issue up to $261.3 million in common shares under our ATM equity program.

For 2017, the maximum amount of borrowings outstanding under our revolving credit facility was $344.0 million, the weighted average amount of borrowings outstanding was $147.5 million and the weighted average interest rate, before amortization of debt fees, was 1.9%. During 2017, we raised $716.9 million of net proceeds through three separate public offerings for a total of $575.0 million of senior unsecured notes with a weighted average coupon of 3.47% and term of 13 years and $150.0 million of 5.0% preferred shares in addition to $108.3 million raised under our ATM equity program. During 2018, we have only $10.5 million of debt maturing, in addition to our unsecured term loan mentioned above. We currently believe that cash flows from operations, cash on hand, our ATM equity program, our revolving credit facility and our general ability to access the capital markets will be sufficient to finance our operations and fund our debt service requirements and capital expenditures.

Our overall capital requirements during 2018 will depend upon acquisition opportunities, the level of improvements and redevelopments on existing properties and the timing and cost of development of Assembly Row, Pike & Rose and future phases of Santana Row. While the amount of future expenditures will depend on numerous factors, we expect to see a reduced level of capital investments in our properties under development and redevelopment compared to 2017, which is the result of completing construction on Phase II at both Assembly Row and Pike & Rose in 2018. With respect to other capital investments related to our existing properties, we expect to incur levels consistent with prior years. Our capital investments will be funded on a short-term basis with cash flow from operations, cash on hand and/or our revolving credit facility, and on a long-term basis, with long-term debt or equity including shares issued under our ATM equity program. If necessary, we may access the debt or equity capital markets to finance significant acquisitions. Given our past ability to access the capital markets, we expect debt or equity to be available to us. Although there is no intent at this time, if market conditions deteriorate, we may also delay the timing of certain development and redevelopment projects as well as limit future acquisitions, reduce our operating expenditures, or re-evaluate our dividend policy.

In addition to conditions in the capital markets which could affect our ability to access those markets, the following factors could affect our ability to meet our liquidity requirements:

- restrictions in our debt instruments or preferred shares may limit us from incurring debt or issuing equity at all, or on acceptable terms under then-prevailing market conditions; and
- we may be unable to service additional or replacement debt due to increases in interest rates or a decline in our operating performance.

Summary of Cash Flows

	Year Ended December 31,	
	2017	2016
	(In thousands)	
Cash provided by operating activities	$459,177	$423,705
Cash used in investing activities	(836,802)	(590,221)
Cash provided by financing activities	369,445	168,838

(Decrease) increase in cash and cash equivalents	(8,180)	2,322
Cash and cash equivalents, beginning of year	23,368	21,046
Cash and cash equivalents, end of year	$15,188	$23,368

Net cash provided by operating activities increased $35.5 million to $459.2 million during 2017 from $423.7 million during 2016. The increase was primarily attributable to higher net income before certain non-cash items, and the timing of payments related to operating costs.

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Net cash used in investing activities increased $246.6 million to $836.8 million during 2017 from $590.2 million during 2016. The increase was primarily attributable to:

- a $293.7 million increase in acquisitions of real estate, primarily due to the August 2017 acquisition of six shopping centers in Los Angeles County, California,
- a $80.0 million net increase in capital expenditures and leasing costs as we continue to invest in Pike & Rose, Assembly Row, Santana Row, and other current redevelopments, and
- a $13.3 million decrease in cash flows from mortgage notes receivable primarily due to the payoff of an $11.7 million note receivable in September 2016,

partially offset by

- $136.1 million in net proceeds primarily from the sale of our property at 150 Post Street, three land parcels at Assembly Row, North Lake Commons, and a land parcel at our Bethesda Row property in 2017.

Net cash provided by financing activities increased $200.6 million to $369.4 million during 2017 from $168.8 million during 2016. The increase was primarily attributable to:

- $572.1 million net proceeds from the June 2017 issuance of $300.0 million and the December 2017 issuance of $175.0 million of 3.25% senior unsecured notes that mature on July 15, 2027 and $100.0 million of 4.50% notes that mature on December 1, 2044, compared to $241.8 million in net proceeds from the issuance of 3.625% senior notes in July 2016,
- $145.0 million in net proceeds from the September 29, 2017 issuance of 6,000 Series C Preferred Shares,
- $41.0 million of borrowings on our revolving credit facility in 2017 as compared to $56.9 million of repayments in 2016,
- a $12.8 million increase in contributions from noncontrolling interests primarily due to contributions to fund the $50.0 million partial repayment of the Plaza El Segundo mortgage loan, and
- an $8.9 million decrease in distributions to and redemptions of noncontrolling interests primarily due to the 2016 acquisition of the 10% noncontrolling interest of a partnership which owns a project in Southern California,

partially offset by

- a $210.5 million decrease in net proceeds from the issuance of common shares primarily due to our March 2016 issuance of 1.0 million common shares at $149.43 per share in an underwritten public offering, and 1.2 million common shares under our ATM equity program at a weighted average price of $152.92 during 2016, compared to 0.8 million common shares under our ATM equity program at a weighted average price of $132.56 during 2017,
- the December 2017 redemption of $150.0 million of senior notes with a make-whole premium of $11.9 million, and
- a $15.3 million increase in dividends paid to shareholders due to an increase in the dividend rate and a higher number of shares outstanding.

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Contractual Commitments

The following table provides a summary of our fixed, noncancelable obligations as of December 31, 2017:

	Commitments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	After 5 Years
	(In thousands)				
Fixed rate debt (principal and interest)(1)	$4,632,932	$407,626	$305,997	$838,746	$3,080,563
Fixed and variable rate debt - our share of unconsolidated real estate partnerships (principal and interest)	30,825	752	20,610	9,463	—
Capital lease obligations (principal and interest)	171,435	5,800	11,600	11,610	142,425
Variable rate debt (principal only)(2)	41,000	—	41,000	—	—
Operating leases	211,831	4,583	9,486	9,630	188,132
Real estate commitments	67,500	—	—	—	67,500
Development, redevelopment, and capital improvement obligations	326,631	263,610	63,021	—	—
Contractual operating obligations	58,490	28,013	24,997	5,480	—
Total contractual obligations	$5,540,644	$710,384	$476,711	$874,929	$3,478,620

(1) Fixed rate debt includes our $275.0 million term loan as the rate is effectively fixed by two interest rate swap agreements.

(2) Variable rate debt includes our revolving credit facility, which currently has $41.0 million outstanding and bears interest at LIBOR plus 0.825%.

In addition to the amounts set forth in the table above and other liquidity requirements previously discussed, the following potential commitments exist:

(a) Under the terms of the Congressional Plaza partnership agreement, a minority partner has the right to require us and the other minority partner to purchase its 26.63% interest in Congressional Plaza at the interest's then-current fair market value. If the other minority partner defaults in their obligation, we must purchase the full interest. Based on management's current estimate of fair market value as of December 31, 2017, our estimated liability upon exercise of the put option would range from approximately $81 million to $85 million.

(b) Under the terms of various other partnership agreements, the partners have the right to exchange their operating partnership units for cash or the same number of our common shares, at our option. As of December 31, 2017, a total of 787,962 operating partnership units are outstanding.

(c) The other member in Montrose Crossing has the right to require us to purchase all of its 10.1% interest in Montrose Crossing at the interest's then-current fair market value. If the other member fails to exercise its put option, we have the right to purchase its interest on or after December 27, 2021 at fair market value. Based on management's current estimate of fair market value as of December 31, 2017, our estimated maximum liability upon exercise of the put option would range from approximately $12 million to $13 million.

(d) Two of the members in Plaza El Segundo have the right to require us to purchase their 10.0% and 11.8% ownership interests at the interests' then-current fair market value. If the members fail to exercise their put options, we have the right to purchase each of their interests on or after December 30, 2026 at fair market value. Based on management's current estimate of fair market value as of December 31, 2017, our estimated maximum liability upon exercise of the put option would range from approximately $26 million to $29 million.

(e) Effective January 1, 2017, the other member in The Grove at Shrewsbury and Brook 35 has the right to require us to purchase all of its approximately 4.8% interest in The Grove at Shrewsbury and approximately 8.8% interest in Brook 35 at the interests' then-current fair market value. Based on management's current estimate of fair market value as of December 31, 2017, our estimated maximum liability upon exercise of the put option would range from $9 million to $10 million.

(f) At December 31, 2017, we had letters of credit outstanding of approximately $1.3 million.

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Off-Balance Sheet Arrangements

Other than the items disclosed in the Contractual Commitments Table, we have no off-balance sheet arrangements as of December 31, 2017 that are reasonably likely to have a current or future material effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

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Debt Financing Arrangements

The following is a summary of our total debt outstanding as of December 31, 2017:

Description of Debt	Original Debt Issued	Principal Balance as of December 31, 2017	Stated Interest Rate as of December 31, 2017		Maturity Date
	(Dollars in thousands)				
Mortgages payable					
Secured fixed rate					
The Grove at Shrewsbury (West)	Acquired	$10,545	6.38	%	March 1, 2018
Rollingwood Apartments	24,050	20,820	5.54	%	May 1, 2019
The Shops at Sunset Place	Acquired	66,603	5.62	%	September 1, 2020
29th Place	Acquired	4,341	5.91	%	January 31, 2021
Sylmar Towne Center	Acquired	17,362	5.39	%	June 6, 2021
Plaza Del Sol	Acquired	8,579	5.23	%	December 1, 2021
THE AVENUE at White Marsh	52,705	52,705	3.35	%	January 1, 2022
Montrose Crossing	80,000	71,054	4.20	%	January 10, 2022
Azalea	Acquired	40,000	3.73	%	November 1, 2025
Bell Gardens	Acquired	13,184	4.06	%	August 1, 2026
Plaza El Segundo	125,000	125,000	3.83	%	June 5, 2027
The Grove at Shrewsbury (East)	43,600	43,600	3.77	%	September 1, 2027
Brook 35	11,500	11,500	4.65	%	July 1, 2029
Chelsea	Acquired	6,268	5.36	%	January 15, 2031
Subtotal		491,561			
Net unamortized premium and debt issuance costs		(56)			
Total mortgages payable		491,505			
Notes payable					
Unsecured fixed rate					
Term Loan (1)	275,000	275,000	LIBOR + 0.90%		November 21, 2018
Various	7,239	4,819	11.31	%	Various through 2028
Unsecured variable rate					
Revolving credit facility (2)	800,000	41,000	LIBOR + 0.825%		April 20, 2020
Subtotal		320,819			
Net unamortized debt issuance costs		(554)			
Total notes payable		320,265			
Senior notes and debentures					
Unsecured fixed rate					
2.55% notes	250,000	250,000	2.55	%	January 15, 2021
3.00% notes	250,000	250,000	3.00	%	August 1, 2022
2.75% notes	275,000	275,000	2.75	%	June 1, 2023
3.95% notes	300,000	300,000	3.95	%	January 15, 2024
7.48% debentures	50,000	29,200	7.48	%	August 15, 2026
3.25% notes	475,000	475,000	3.25	%	July 15, 2027
6.82% medium term notes	40,000	40,000	6.82	%	August 1, 2027
4.50% notes	550,000	550,000	4.50	%	December 1, 2044

3.625% notes	250,000	250,000	3.625 %	August 1, 2046
Subtotal		2,419,200		
Net unamortized discount and debt issuance costs		(17,760)		
Total senior notes and debentures		2,401,440		
Capital lease obligations				
Various		71,556	Various	Various through 2106
Total debt and capital lease obligations		$3,284,766		

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1) We entered into two interest rate swap agreements that fix the LIBOR portion of the interest rate on the term loan at 1.72%. The spread on the term loan is 90 basis points resulting in a fixed rate of 2.62%.

2) The maximum amount drawn under our revolving credit facility during 2017 was $344.0 million and the weighted average effective interest rate on borrowings under our revolving credit facility, before amortization of debt fees, was 1.9%.

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Our revolving credit facility, term loan and other debt agreements include financial and other covenants that may limit our operating activities in the future. As of December 31, 2017, we were in compliance with all of the financial and other covenants related to our revolving credit facility, term loan, and senior notes. Additionally, as of December 31, 2017, we were in compliance with all of the financial and other covenants that could trigger loan default on our mortgage loans. If we were to breach any of these financial and other covenants and did not cure the breach within an applicable cure period, our lenders could require us to repay the debt immediately and, if the debt is secured, could immediately begin proceedings to take possession of the property securing the loan. Many of our debt arrangements, including our public notes, term loan and our revolving credit facility, are cross-defaulted, which means that the lenders under those debt arrangements can put us in default and require immediate repayment of their debt if we breach and fail to cure a default under certain of our other debt obligations. As a result, any default under our debt covenants could have an adverse effect on our financial condition, our results of operations, our ability to meet our obligations and the market value of our shares. Our organizational documents do not limit the level or amount of debt that we may incur.
The following is a summary of our scheduled principal repayments as of December 31, 2017:

	Unsecured		Secured	Capital Lease	Total	
	(In thousands)					
2018	$275,506	(1)	$16,228	$ 41	$291,775	
2019	563		25,820	42	26,425	
2020	41,624	(2)	65,539	46	107,209	
2021	250,694		30,541	51	281,286	
2022	250,771		117,018	56	367,845	
Thereafter	1,920,861		236,415	71,320	2,228,596	
	$2,740,019		$491,561	$ 71,556	$3,303,136	(3)

1) Our $275.0 million unsecured term loan matures on November 21, 2018, subject to a one-year extension at our option.
2) Our $800.0 million revolving credit facility matures on April 20, 2020, subject to two six-month extensions at our option. As of December 31, 2017, there was $41.0 million outstanding under this credit facility.
3) The total debt maturities differs from the total reported on the consolidated balance sheet due to the unamortized net premium/(discount) and debt issuance costs on mortgage loans, notes payable, and senior notes as of December 31, 2017.

Interest Rate Hedging

We may use derivative instruments to manage exposure to variable interest rate risk. We generally enter into interest rate swaps to manage our exposure to variable interest rate risk and treasury locks to manage the risk of interest rates rising prior to the issuance of debt. We enter into derivative instruments that qualify as cash flow hedges and do not enter into derivative instruments for speculative purposes.
The interest rate swaps associated with our cash flow hedges are recorded at fair value on a recurring basis. We assess effectiveness of our cash flow hedges both at inception and on an ongoing basis. The effective portion of changes in fair value of the interest rate swaps associated with our cash flow hedges is recorded in other comprehensive income (loss) which is included in accumulated other comprehensive income (loss) on our consolidated balance sheet and our consolidated statement of shareholders' equity. Our cash flow hedges become ineffective if critical terms of the hedging instrument and the debt instrument do not perfectly match such as notional amounts, settlement dates, reset dates, calculation period and LIBOR rate. In addition, we evaluate the default risk of the counterparty by monitoring the credit worthiness of the counterparty which includes reviewing debt ratings and financial performance. However, management does not anticipate non-performance by the counterparty. If a cash flow hedge is deemed ineffective, the ineffective portion of changes in fair value of the interest rate swaps associated with our cash flow hedges is recognized in earnings in the period affected.

As of December 31, 2017, we are party to two interest rate swap agreements that effectively fixed the rate on the term loan at 2.62%. Both swaps were designated and qualified as cash flow hedges and were recorded at fair value. Hedge ineffectiveness has not impacted earnings in 2017, 2016 and 2015, and we do not anticipate it will have a significant effect in the future.

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REIT Qualification

We intend to maintain our qualification as a REIT under Section 856(c) of the Code. As a REIT, we generally will not be subject to corporate federal income taxes on income we distribute to our shareholders as long as we satisfy certain technical requirements of the Code, including the requirement to distribute at least 90% of our taxable income to our shareholders.

Funds From Operations

Funds from operations ("FFO") is a supplemental non-GAAP financial measure of real estate companies' operating performance. The National Association of Real Estate Investment Trusts ("NAREIT") defines FFO as follows: net income, computed in accordance with U.S. GAAP, plus real estate related depreciation and amortization and excluding extraordinary items and gains and losses on the sale of real estate, and impairment write-downs of depreciable real estate. We compute FFO in accordance with the NAREIT definition, and we have historically reported our FFO available for common shareholders in addition to our net income and net cash provided by operating activities. It should be noted that FFO:

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