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Seritage Growth Properties
Form 10-Q
August 04, 2017
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 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 001-37420

SERITAGE GROWTH PROPERTIES

(Exact name of registrant as specified in its charter)

Maryland 38-3976287
(State of Incorporation) (I.R.S. Employer Identification No.)

489 Fifth Avenue, 18th Floor, New York, New York 10017
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (212) 355-7800

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. 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

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

As of July 31, 2017, the registrant had the following common shares outstanding:

Class	Shares Outstanding
Class A common shares of beneficial interest, par value \$0.01 per share	27,927,912
Class B common shares of beneficial interest, par value \$0.01 per share	1,434,922
Class C common shares of beneficial interest, par value \$0.01 per share	6,025,635

SERITAGE GROWTH PROPERTIES

QUARTERLY REPORT ON FORM 10-Q

QUARTER ENDED JUNE 30, 2017

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PART I. FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

SERITAGE GROWTH PROPERTIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited, amounts in thousands, except share and per share amounts)

	June 30, 2017	December 31, 2016
ASSETS		
Investment in real estate		
Land	\$840,021	\$840,021
Buildings and improvements	845,598	839,663
Accumulated depreciation	(117,348)	(89,940)
	1,568,271	1,589,744
Construction in progress	155,031	55,208
Net investment in real estate	1,723,302	1,644,952
Investment in unconsolidated joint ventures	432,014	425,020
Cash and cash equivalents	9,873	52,026
Restricted cash	172,563	87,616
Tenant and other receivables, net	26,385	23,172
Lease intangible assets, net	388,586	464,399
Prepaid expenses, deferred expenses and other assets, net	13,359	15,052
Total assets	\$2,766,082	\$2,712,237
LIABILITIES AND EQUITY		
Liabilities		
Mortgage loans payable, net	\$1,250,336	\$1,166,871
Unsecured term loan, net	83,020	—
Accounts payable, accrued expenses and other liabilities	103,285	121,055
Total liabilities	1,436,641	1,287,926
Commitments and contingencies (Note 9)		
Shareholders' Equity		
Class A shares \$0.01 par value; 100,000,000 shares authorized;		
27,924,378 and 25,843,251 shares issued and outstanding as of		
June 30, 2017 and December 31, 2016, respectively	279	258
Class B shares \$0.01 par value; 5,000,000 shares authorized;		
1,434,922 and 1,589,020 shares issued and outstanding as of		
June 30, 2017 and December 31, 2016, respectively	14	16
Class C shares \$0.01 par value; 50,000,000 shares authorized;		
6,021,985 and 5,754,685 shares issued and outstanding as of		

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	June 30, 2017 and December 31, 2016, respectively	
Additional paid-in capital	995,673	925,563
Accumulated deficit	(179,397)	(121,338)
Total shareholders' equity	816,629	804,557
Non-controlling interests	512,812	619,754
Total equity	1,329,441	1,424,311
Total liabilities and equity	\$2,766,082	\$2,712,237

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

SERITAGE GROWTH PROPERTIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, amounts in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
REVENUE				
Rental income	\$42,185	\$45,927	\$91,359	\$91,153
Tenant reimbursements	15,708	15,940	31,932	33,718
Total revenue	57,893	61,867	123,291	124,871
EXPENSES				
Property operating	4,932	5,553	9,674	12,671
Real estate taxes	11,950	11,667	24,372	23,136
Depreciation and amortization	50,571	37,324	109,234	76,833
General and administrative	5,093	4,413	11,367	8,852
Provision for doubtful accounts	12	145	51	145
Acquisition-related expenses	—	—	—	73
Total expenses	72,558	59,102	154,698	121,710
Operating (loss) income	(14,665)	2,765	(31,407)	3,161
Equity in (loss) income of unconsolidated joint ventures	(1,542)	912	(540)	2,998
Interest and other income	42	59	120	119
Interest expense	(18,431)	(15,636)	(35,023)	(31,366)
Unrealized loss on interest rate cap	(124)	(480)	(595)	(1,851)
Loss before income taxes	(34,720)	(12,380)	(67,445)	(26,939)
Provision for income taxes	(147)	(185)	(266)	(340)
Net loss	(34,867)	(12,565)	(67,711)	(27,279)
Net loss attributable to non-controlling interests	13,648	5,448	26,654	11,827
Net loss attributable to common shareholders	\$(21,219)	\$(7,117)	\$(41,057)	\$(15,452)
Net loss per share attributable to Class A and Class C				
common shareholders - Basic and diluted	\$(0.63)	\$(0.23)	\$(1.22)	\$(0.49)
Weighted average Class A and Class C common shares				
outstanding - Basic and diluted	33,766	31,391	33,638	31,391

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

SERITAGE GROWTH PROPERTIES

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited, amounts in thousands)

	Class A Shares	Class B Amount	Class B Shares	Class C Amount	Class C Shares	Class C Amount	Additional Paid-In Capital	Accumulated Deficit	Non- Controlling Interests	Total Equity
Balance at January 1, 2016	24,818	\$ 248	1,589	\$ 16	6,773	\$ 68	\$ 924,508	\$(38,145)	\$ 683,382	\$ 1,570,077
Net loss	—	—	—	—	—	—	—	(15,452)	(11,827)	(27,279)
Dividends and distributions declared (\$0.50 per share and unit)	—	—	—	—	—	—	—	(15,817)	(12,088)	(27,905)
Stock-based compensation	—	—	—	—	—	—	534	—	—	534
Share class exchanges, net (1,010,250 common shares)	1,010	10	—	—	(1,010)	(10)	—	—	—	—
Balance at June 30, 2016	25,828	\$ 258	1,589	\$ 16	5,763	\$ 58	\$ 925,042	\$(69,414)	\$ 659,467	\$ 1,515,427
Balance at January 1, 2017	25,843	258	1,589	16	5,755	58	925,563	(121,338)	619,754	1,424,311
Net loss	—	—	—	—	—	—	—	(41,057)	(26,654)	\$(67,711)
Dividends and distributions declared (\$0.50 per share and unit)	—	—	—	—	—	—	—	(17,002)	(10,936)	(27,938)
Vesting of restricted share units	4	0	—	—	—	—	(0)	—	—	—
Stock-based compensation	—	—	—	—	—	—	779	—	—	779

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Share class exchanges, net											
(267,300 common shares)	(267)	(2)	—	—	267	2	—	—	—	—	—
Share class surrenders											
(154,098 common shares)	—	—	(154)	(2)	—	—	2	—	—	—	—
OP Unit exchanges											
(2,344,589 units)	2,344	23	—	—	—	—	69,329	—	(69,352)	—	—
Balance at June 30, 2017	27,924	\$ 279	1,435	\$ 14	6,022	\$ 60	\$ 995,673	\$ (179,397)	\$ 512,812	\$ 1,329,441	

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

SERITAGE GROWTH PROPERTIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, amounts in thousands)

	Six Months Ended June 30,	
	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES		
Net loss	\$(67,711)	\$(27,279)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Equity in loss (income) of unconsolidated joint ventures	540	(2,998)
Distributions from unconsolidated joint ventures	7,515	8,193
Unrealized loss on interest rate cap	595	1,851
Stock-based compensation	779	534
Depreciation and amortization	109,234	76,833
Amortization of deferred financing costs	4,061	2,680
Amortization of above and below market leases, net	(594)	(330)
Straight-line rent adjustment	(3,479)	(8,227)
Change in operating assets and liabilities		
Tenants and other receivables	265	851
Prepaid expenses, deferred expenses and other assets	461	12,758
Accounts payable, accrued expenses and other liabilities	(22,451)	5,453
Net cash provided by operating activities	29,215	70,319
CASH FLOW FROM INVESTING ACTIVITIES		
Investments in unconsolidated joint ventures	(15,047)	—
Development of real estate	(106,075)	(33,223)
Net cash used in investing activities	(121,122)	(33,223)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Future Funding Facility	79,998	—
Proceeds from Unsecured Term Loan	85,000	—
Payment of deferred financing costs	(2,449)	(6)
Common dividends paid	(16,913)	(23,610)
Non-controlling interests distributions paid	(10,935)	(18,132)
Net cash provided by (used in) financing activities	134,701	(41,748)
Net increase (decrease) in cash, cash equivalents, and restricted cash	42,794	(4,652)
Cash, cash equivalents, and restricted cash, beginning of period	139,642	155,342
Cash, cash equivalents, and restricted cash, end of period	\$182,436	\$150,690
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	\$33,984	\$30,073
Capitalized interest	3,361	1,283
Income taxes paid	266	313
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND		
FINANCING ACTIVITIES		
Development of real estate financed with accounts payable	\$12,100	\$5,676
Dividends and distribution declared and unpaid	13,969	13,953

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

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SERITAGE GROWTH PROPERTIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 – Organization

Seritage Growth Properties (“Seritage”) was organized in Maryland on June 3, 2015 and was initially capitalized with 100 shares of Class A common shares. The Company conducts its operations through Seritage Growth Properties, L.P. (the “Operating Partnership”), a Delaware limited partnership that was formed on April 22, 2015. Unless the context otherwise requires, “Seritage” and the “Company” refer to Seritage, the Operating Partnership, and its subsidiaries.

On June 11, 2015, Sears Holdings Corporation (“Sears Holdings”) effected a rights offering (the “Rights Offering”) to Sears Holdings stockholders to purchase common shares of Seritage in order to fund, in part, the \$2.7 billion acquisition of 234 of Sears Holdings’ owned properties and one of its ground leased properties (the “Wholly Owned Properties”), and its 50% interests in three joint ventures (such joint ventures, the “JVs,” and such 50% joint venture interests, the “JV Interests”) that collectively owned 28 properties, ground leased one property and leased two properties (collectively, the “JV Properties”) (collectively, the “Transaction”). The Rights Offering ended on July 2, 2015, and the Company’s Class A common shares were listed on the New York Stock Exchange (“NYSE”) on July 6, 2015.

On July 7, 2015, the Company completed the Transaction with Sears Holdings and commenced operations. The Company did not have any operations prior to the completion of the Rights Offering and the Transaction.

Seritage is a fully-integrated, self-administered, self-managed real estate investment trust (“REIT”) primarily engaged in the real property business through the Company’s investment in the Operating Partnership. As of June 30, 2017, 180 of the Company’s wholly-owned properties were leased to Sears Holdings pursuant to a master lease agreement (the “Master Lease”) and operated under either the Sears or Kmart brand. At 88 properties, third-party tenants under direct leases occupy a portion of leasable space alongside Sears or Kmart, and 37 properties are leased only to third parties. A substantial majority of the space at the JV Properties is also leased (or subleased) by the JVs to Sears Holdings under master lease agreements (collectively, the “JV Master Leases”). The Master Lease and the JV Master Leases provide the Company and the JVs with the right to recapture certain space from Sears Holdings at each property for retenanting or redevelopment purposes.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

These condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission (“SEC”) and should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K, as amended, (the “Annual Report”), for the year ended December 31, 2016. Certain footnote disclosures which would substantially duplicate those contained in our Annual Report have been condensed or omitted from this quarterly report. In the opinion of management, all adjustments necessary for a fair presentation (which include only normal recurring adjustments) have been included in this quarterly report. Operating results of the six months ended June 30, 2017 may not be indicative

of the results that may be expected for any other interim period or for the year ending December 31, 2017. Capitalized terms used, but not defined in this quarterly report, have the same meanings as set forth in our Annual Report.

The accompanying condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). The condensed consolidated financial statements include the accounts of the Company, the Operating Partnership, each of their wholly-owned subsidiaries, and all other entities in which they have a controlling financial interest or entities that meet the definition of a variable interest entity (“VIE”) in which the Company has, as a result of ownership, contractual interests or other financial interests, both the power to direct activities that most significantly impact the economic performance of the VIE and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. All intercompany accounts and transactions have been eliminated.

If the Company has an interest in a VIE but it is not determined to be the primary beneficiary, the Company accounts for its interest under the equity method of accounting. Similarly, for those entities which are not VIEs and over which the Company has the ability to exercise significant influence, but does not have a controlling financial interest, the Company accounts for its interests under the equity method of accounting. The Company continually reconsiders its determination of whether an entity is a VIE and whether the Company qualifies as its primary beneficiary.

To the extent such variable interests are in entities that cannot be evaluated under the VIE model, the Company evaluates its interests using the voting interest entity model. The Company holds a 60.9% interest in the Operating Partnership and is the sole general

partner which gives the Company exclusive and complete responsibility for the day-to-day management, authority to make decisions, and control of the Operating Partnership. Through consideration of new consolidation guidance effective for the Company as of January 1, 2016, it has been concluded that the Operating Partnership is a VIE as the limited partners in the Operating Partnership, although entitled to vote on certain matters, do not possess kick-out rights or substantive participating rights. Accordingly, the Company consolidates its interest in the Operating Partnership. However, as the Company holds what is deemed a majority voting interest in the Operating Partnership, it qualifies for the exemption from providing certain of the disclosure requirements associated with investments in VIEs.

The portions of consolidated entities not owned by the Company and the Operating Partnership are presented as non-controlling interests as of and during the periods presented.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The most significant assumptions and estimates relate to fair values of acquired assets and liabilities assumed for purposes of applying the acquisition method of accounting, the useful lives of tangible and intangible assets, real estate impairment assessments, and assessing the recoverability of accounts receivables. These estimates are based on historical experience and other assumptions which management believes are reasonable under the circumstances. Management evaluates its estimates on an ongoing basis and makes revisions to these estimates and related disclosures as experience develops or new information becomes known. Actual results could differ from these estimates.

Segment Reporting

The Company currently operates in a single reportable segment which includes the acquisition, ownership, development, redevelopment, management, and leasing of retail properties. The Company's chief operating decision maker, its Chief Executive Officer, assesses and measures the operating and financial results for each property on an individual basis and does not distinguish or group properties based on geography, size, or type. The Company, therefore, aggregates all properties into one reportable segment due to their similarities with regard to the nature and economics of the properties, tenants, and operations.

Accounting for Real Estate Acquisitions

Upon the acquisition of real estate, the Company assesses the fair value of acquired assets and liabilities assumed, including land, buildings, improvements and identified intangibles such as above-market and below-market leases, in-place leases and other items, as applicable, and allocates the purchase price based on these assessments. In making estimates of fair values, the Company may use a number of sources, including data provided by third parties, as well as information obtained by the Company as a result of its due diligence, including expected future cash flows of the property and various characteristics of the markets where the property is located.

The fair values of tangible assets are determined on an "if vacant" basis. The "if vacant" fair value allocated to land is generally estimated via a market or sales comparison approach with the subject site being compared to similar properties that have sold or are currently listed for sale. The comparable properties are adjusted for dissimilar characteristics such as market conditions, location, access/frontage, size, shape/topography, or intended use, including the impact of any encumbrances on such use. The "if vacant" value allocated to buildings and site improvements is generally estimated using an income approach and a cost approach that utilizes published guidelines for current replacement cost or actual construction costs for similar, recently developed properties. Assumptions used in the income approach include capitalization and discount rates, lease-up time, market rents, make-ready costs, land value,

and site improvement value.

The estimated fair value of in-place tenant leases includes lease origination costs (the costs the Company would have incurred to lease the property to the current occupancy level) and the lost revenues during the period necessary to lease-up from vacant to the current occupancy level. Such estimates include the fair value of leasing commissions, legal costs and tenant coordination costs that would be incurred to lease the property to this occupancy level. Additionally, the Company evaluates the time period over which such occupancy level would be achieved and includes an estimate of the net operating costs (primarily real estate taxes, insurance and utilities) incurred during the lease-up period, which generally ranges up to one year. The fair value of acquired in-place tenant leases is included in lease intangible assets on the condensed consolidated balance sheets and amortized over the remaining lease term for each tenant.

Identifiable intangible assets and liabilities are calculated for above-market and below-market tenant and ground leases where the Company is either the lessor or the lessee. The difference between the contractual rental rates and the Company's estimate of market

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rental rates is measured over a period equal to the remaining non-cancelable term of the leases, including significantly below-market renewal options for which exercise of the renewal option appears to be reasonably assured.

Above-market tenant leases and below-market ground leases are included in lease intangible assets on the condensed consolidated balance sheets; below-market tenant leases and above-market ground leases are included in accounts payable, accrued expenses and other liabilities on the condensed consolidated balance sheets. The values assigned to above-market and below-market tenant leases are amortized as reductions and increases, respectively, to base rental revenue over the remaining term of the respective leases. The values assigned to below-market and above-market ground leases are amortized as increases and reductions, respectively, to property operating expenses over the remaining term of the respective leases.

The Company expenses transaction costs associated with business combinations in the period incurred; these costs are included in acquisition-related expenses within the condensed consolidated statements of operations. The Company capitalizes transaction costs associated with asset acquisitions; these costs are allocated to the fair values of the net assets acquired, included within the condensed consolidated balance sheets and depreciated or amortized over the remaining life or term of the acquired assets.

Real Estate Investments

Real estate assets are recorded at cost, less accumulated depreciation and amortization.

Expenditures for ordinary repairs and maintenance will be expensed as incurred. Significant renovations which improve the property or extend the useful life of the assets are capitalized. As real estate is undergoing redevelopment activities, all amounts directly associated with and attributable to the project, including planning, development and construction costs, interest costs, personnel costs of employees directly involved and other miscellaneous costs incurred during the period of redevelopment, are capitalized. The capitalization period begins when redevelopment activities are underway and ends when the project is substantially complete.

Depreciation of real estate assets, excluding land, is recognized on a straight-line basis over their estimated useful lives as follows:

Building: 25 – 40 years

Site improvements: 5 – 15 years

Tenant improvements: shorter of the estimated useful life or non-cancelable term of lease

The Company amortizes identified intangibles that have finite lives over the period they are expected to contribute directly or indirectly to the future cash flows of the property or business acquired, generally the remaining non-cancelable term of a related lease.

On a periodic basis, management assesses whether there are indicators that the value of the Company's real estate assets (including any related intangible assets or liabilities) may be impaired. If an indicator is identified, a real estate asset is considered impaired only if management's estimate of current and projected operating cash flows (undiscounted and unleveraged), taking into account the anticipated and probability weighted holding period, are less than a real estate asset's carrying value. Various factors are considered in the estimation process, including expected future operating income, trends and prospects and the effects of demand, competition, and other economic factors. If management determines that the carrying value of a real estate asset is impaired, a loss will be recorded for the excess of its carrying amount over its estimated fair value. No such impairment losses were recognized for the three or six months ended June 30, 2017 or June 30, 2016.

Investments in Unconsolidated Joint Ventures

The Company accounts for its investments in unconsolidated joint ventures using the equity method of accounting as the Company exercises significant influence, but does not control these entities. These investments are initially recorded at cost and are subsequently adjusted for cash contributions, cash distributions, and earnings which are recognized in accordance with the terms of the applicable agreement.

On a periodic basis, management assesses whether there are indicators, including the operating performance of the underlying real estate and general market conditions, that the value of the Company's investments in unconsolidated joint ventures may be impaired. An investment's value is impaired only if management's estimate of the fair value of the Company's investment is less than its carrying value and such difference is deemed to be other-than-temporary. To the extent impairment has occurred, the loss is measured as the excess of the carrying amount of the investment over its estimated fair value. No such impairment losses were recognized for the three or six months ended June 30, 2017 or June 30, 2016.

Cash and Cash Equivalents

The Company considers instruments with an original maturity of three months or less to be cash and cash equivalents. Cash and cash equivalents balances may, at a limited number of banks and financial institutions, exceed insurable amounts. The Company believes it

mitigates this risk by investing in or through major financial institutions and primarily in funds that are insured by the United States federal government.

Restricted Cash

Restricted cash represents cash deposited in escrow accounts which generally can only be used for the payment of real estate taxes, debt service, insurance, and future capital expenditures as required by certain loan and lease agreements, as well as legally restricted tenant security deposits. As of June 30, 2017, the Company had approximately \$172.6 million of restricted cash, including \$146.9 million reserved for redevelopment costs, tenant allowances and leasing commissions, deferred maintenance, environmental remediation and other capital expenditures, \$22.2 million reserved for basic property carrying costs such as real estate taxes, insurance and ground rent, and \$3.5 million of other restricted cash which consisted primarily of prepaid rental income.

Tenant and Other Receivables

Accounts receivable includes unpaid amounts billed to tenants, accrued revenues for future billings to tenants for property expenses, and amounts arising from the straight-lining of rent. The Company periodically reviews its receivables for collectability, taking into consideration changes in factors such as the tenant's payment history, the financial condition of the tenant, business conditions in the industry in which the tenant operates, and economic conditions in the area where the property is located. In the event that the collectability of a receivable with respect to any tenant is in doubt, a provision for uncollectible amounts will be established or a direct write-off of the specific rent receivable will be made. For accrued rental revenues related to the straight-line method of reporting rental revenue, the Company performs a periodic review of receivable balances to assess the risk of uncollectible amounts and establish appropriate provisions.

Revenue Recognition

Rental income is recognized on a straight-line basis over the non-cancelable terms of the related leases. For leases that have fixed and measurable rent escalations, the difference between such rental income earned and the cash rent due under the provisions of the lease is recorded as deferred rent receivable and included as a component of tenant and other receivables on the condensed consolidated balance sheets.

In leasing tenant space, the Company may provide funding to the lessee through a tenant allowance. In accounting for a tenant allowance, the Company will determine whether the allowance represents funding for the construction of leasehold improvements and evaluate the ownership of such improvements. If the Company is considered the owner of the improvements for accounting purposes, the Company will capitalize the amount of the tenant allowance and depreciate it over the shorter of the useful life of the improvements or the related lease term. If the tenant allowance represents a payment for a purpose other than funding leasehold improvements, or in the event the Company is not considered the owner of the improvements for accounting purposes, the allowance is considered to be a lease incentive and is recognized over the lease term as reduction of rental revenue on a straight-line basis.

The Company commences recognizing revenue based on an evaluation of a number of factors. In most cases, revenue recognition under a lease begins when the lessee takes possession of or controls the physical use of the leased asset. Generally, this occurs on the lease commencement date.

Tenant reimbursement income arises from tenant leases which provide for the recovery of all or a portion of the operating expenses and real estate taxes of the respective property. This revenue is accrued in the same periods as the expenses are incurred.

Accounting for Recapture and Termination Activity Pursuant to the Master Lease

Seritage 100% Recapture Rights. The Company generally treats the delivery of a 100% recapture notice as a modification of the Master Lease as of the date of notice. Such a notice and lease modification result in the following accounting adjustments for the recaptured property:

- Accrued rental revenues related to the straight-line method of reporting rental revenue that are deemed uncollectable as result of the lease modification are amortized over the remaining shortened life of the lease from the date of notice to the date of vacancy.
- Intangible lease assets and liabilities that are deemed to be impacted by the lease modification are amortized over the shorter of the shortened lease term from the date of notice to the date of vacancy or the remaining useful life of the asset or liability.

A 100% recapture will generally occur in conjunction with obtaining a new tenant or a real estate development project. As such, termination fees, if any, associated with the 100% recapture notice are generally capitalized as either an initial direct cost of obtaining a new lease or a necessary cost of the real estate project and depreciated over the life of the new lease obtained or the real estate asset being constructed or improved.

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Seritage 50% Recapture Rights. The Company generally treats the delivery of a 50% recapture notice as a modification of the Master Lease as of the date of notice. Such a notice and lease modification result in the following accounting adjustments for the recaptured property:

- The portion of accrued rental revenues related to the straight-line method of reporting rental revenue that are subject to the lease modification are amortized over the remaining shortened life of the lease from the date of notice to the date of vacancy. The portion of accrued rental revenues related to the straight-line method of reporting rental revenue that is attributable to the retained space is amortized over the remaining life of the Master Lease.
- The portion of intangible lease assets and liabilities that is deemed to be impacted by the lease modification is amortized over the shorter of the shortened lease term from the date of notice to the date of vacancy or the remaining useful life of the asset or liability. The portion of intangible lease assets and liabilities that is attributable to the retained space is amortized over the remaining useful life of the asset or liability.

Sears Holdings Termination Rights. The Master Lease provides Sears Holdings with certain rights to terminate the Master Lease with respect to properties that cease to be profitable for operation by Sears Holdings. Such a termination would generally result in the following accounting adjustments for the terminated property:

- Accrued rental revenues related to the straight-line method of reporting rental revenue that are subject to the termination are amortized over the remaining shortened life of the lease from the date of notice to the date of vacancy.
- Intangible lease assets and liabilities that are deemed to be impacted by the termination are amortized over the shorter of the shortened lease term from the date of notice to the date of vacancy or the remaining useful life of the asset or liability.
- Termination fees required to be paid by Sears Holdings are recognized as follows:
 - ✦For the portion of the termination fee attributable to the annual base rent of the subject property, termination income is recognized on a straight-line basis over the shortened life of the lease from the date the termination fee becomes legally binding to the date of vacancy.
 - ✦For the portion of the termination fee attributable to estimated real estate taxes and property operating expenses for the subject property, prepaid rental income is recorded in the period such fee is received and recognized as tenant reimbursement revenue in the same periods as the expenses are incurred.

Derivatives

The Company's use of derivative instruments is limited to the management of interest rate exposure and not for speculative purposes. In connection with the issuance of the Company's Mortgage Loans and Future Funding Facility, the Company purchased for \$5.0 million an interest rate cap with a term of four years, a notional amount of \$1,261 million and a strike rate of 3.5%. The interest rate cap is measured at fair value and included as a component of prepaid expenses, deferred expenses and other assets on the condensed consolidated balance sheets. The Company has elected not to utilize hedge accounting, and therefore, the change in fair value is included within change in fair value of interest rate cap on the condensed consolidated statements of operations. For the three months ended June 30, 2017, the Company recorded a loss of \$0.1 million compared to a loss of \$0.5 million for the three months ended June 30, 2016. For the six months ended June 30, 2017, the Company recorded a loss of \$0.6 million compared to a loss of \$1.9 million for the six months ended June 30, 2016.

Stock-Based Compensation

The Company generally recognizes equity awards to employees as compensation expense and includes such expense within general and administrative expenses on the condensed consolidated statements of operations. Compensation expense for equity awards is generally based on the fair value of the common shares at the date of the grant and is recognized (i) ratably over the vesting period for awards with time-based vesting and (ii) for awards with performance-based vesting, at the date the achievement of performance criteria is deemed probable, an amount equal to that which would have been recognized ratably from the date of the grant through the date the achievement of performance criteria is deemed probable, and then ratably from the date the achievement of performance criteria is

deemed probable through the remainder of the vesting period.

Concentration of Credit Risk

Concentrations of credit risk arise when a number of operators, tenants, or obligors related to the Company's investments are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations, including those to the Company, to be similarly affected by changes in economic conditions. As of June 30, 2017, a majority of the Company's real estate properties were leased to Sears Holdings, and the majority of Company's rental revenues were derived from the Master Lease (see Note 5). Until the Company further diversifies the tenancy of its portfolio,

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an event that has a material adverse effect on Sears Holdings' business, financial condition or results of operations could have a material adverse effect on the Company's business, financial condition or results of operations. Sears Holdings is a publicly traded company that is subject to the informational filing requirements of the Securities Exchange Act of 1934, as amended, and is required to file periodic reports on Form 10-K and Form 10-Q with the SEC. Refer to www.sec.gov for Sears Holdings publicly-available financial information.

Other than the Company's tenant concentration, management believes the Company's portfolio was reasonably diversified by geographical location and did not contain any other significant concentrations of credit risk. As of June 30, 2017, the Company's portfolio of 235 Wholly Owned Properties was diversified by location across 49 states and Puerto Rico.

Earnings per Share

The Company has three classes of common stock. The rights, including the liquidation and dividend rights, of the holders of the Company's Class A common shares and Class C non-voting common shares are identical, except with respect to voting. As the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis. The net earnings (loss) per share amounts are the same for Class A and Class C common shares because the holders of each class are legally entitled to equal per share distributions whether through dividends or in liquidation. Class B non-economic common shares are excluded from earnings per share computations as they do not have economic rights.

All outstanding non-vested shares that contain non-forfeitable rights to dividends are considered participating securities and are included in computing earnings per share pursuant to the two-class method which specifies that all outstanding non-vested share-based payment awards that contain non-forfeitable rights to distributions are considered participating securities and should be included in the computation of earnings per share.

Recently Issued Accounting Pronouncements

In February 2017, the Financial Accounting Standards Boards ("FASB") issued Accounting Standards Update ("ASU") 2017-05, "Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets" to provide guidance for recognizing gains and losses from the transfer of nonfinancial assets. The standard requires a company to derecognize nonfinancial assets once it transfers control of a distinct nonfinancial asset or distinct in substance nonfinancial assets to noncustomers. Additionally, when a company transfers its controlling interest in a nonfinancial asset, but retains a non-controlling ownership interest, the company is required to measure any non-controlling interest it receives or retains at fair value. ASU 2017-15 is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. The effective date of this guidance coincides with revenue recognition guidance. The Company is currently assessing the impact that adoption of this guidance will have on its condensed consolidated financial statements and footnote disclosures.

In January 2017, the FASB issued ASU 2017-01 which changes the definition of a business to exclude acquisitions where substantially all of the fair value of the assets acquired are concentrated in a single identifiable asset or a group of similar identifiable assets. While there are various differences between the accounting for an asset acquisition and a business combination, the Company expects that the largest impact will be the capitalization of transaction costs for asset acquisitions which are expensed for business combinations. ASU 2017-01 is effective, on a prospective basis, for interim and annual periods beginning after January 1, 2019; early adoption is permitted. The Company has chosen to early adopt ASU 2017-01 during the current period on a prospective basis and it did not have an impact on the condensed consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows - Restricted Cash." ASU 2016-18 requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or cash equivalents. Therefore, amounts generally described as

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restricted cash and equivalents should be included with cash and cash equivalents when reconciling the beginning and end of period total amounts on the statement of cash flows. ASU 2016-18 is effective, on a retroactive basis, for interim and annual periods beginning after December 15, 2017; early adoption is permitted. The Company early adopted this guidance on March 31, 2017, which changes our statements of cash flows and related disclosure for all periods presented and accordingly, the following is a summary of our cash, cash equivalents, and restricted cash total as presented in our statements of cash flows for the six months ended June 30, 2017 and June 30, 2016 (in thousands):

	Six Months Ended	
	June 30, 2017	June 30, 2016
Cash and cash equivalents	\$9,873	\$63,650
Restricted cash	172,563	87,040
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	\$182,436	\$150,690

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In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments." ASU 2016-15 provides classification guidance for eight specific topics including debt extinguishment costs, contingent consideration payments made after a business combination, and distributions received from equity method investees. ASU 2016-18 is effective, on a prospective basis, for interim and annual periods beginning after December 15, 2017; early adoption is permitted. The Company is currently assessing the impact that adoption of this guidance will have on its condensed consolidated financial statements and footnote disclosures.

On February 25, 2016, the FASB issued Accounting Standards Codification ("ASC") 842 ("ASC 842"), "Leases" which replaces the existing guidance in ASC 840, Leases. ASC 842 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. ASC 842 requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use (ROU) asset and a corresponding lease liability. For finance leases, the lessee would recognize interest expense and amortization of the ROU asset and for operating leases, the lessee would recognize a straight-line total lease expense. The Company is currently assessing the impact that adoption of this guidance will have on its condensed consolidated financial statements and footnote disclosures.

In September 2015, the FASB issued ASU 2015-16, which amends Topic 805, Business Combinations, and requires the recognition of purchase price allocation adjustments that are identified during the measurement period in the reporting period in which the adjustment amounts are determined, and eliminates the requirement to retrospectively account for these adjustments. ASU 2015-16 is effective, on a prospective basis, for interim and annual periods beginning after December 15, 2015; early adoption is permitted. The Company has chosen to early adopt ASU 2015-16 during the current period on a prospective basis and it did not have an impact on the condensed consolidated financial statements.

In May 2014, with subsequent updates issued in August 2015 and March, April, May and December 2016, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 states that "an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." While ASU 2014-09 specifically references contracts with customers, it may apply to certain other transactions such as the sale of real estate or equipment. In July 2015, the FASB voted to defer the effective date of ASU 2014-09 by one year. Accordingly, ASU 2014-09 is effective for annual periods beginning after December 15, 2017, with early adoption permitted for annual periods beginning after December 15, 2016. The standard can be applied either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment recognized as of the date of initial application. Expanded quantitative and qualitative disclosures regarding revenue recognition will be required for contracts that are subject to this guidance. While the Company anticipates additional disclosure, it does not expect the adoption of this pronouncement will have a material effect on its condensed consolidated financial statements; however, it will continue to evaluate this assessment until the guidance becomes effective.

Note 3 – Lease Intangible Assets and Liabilities

Lease intangible assets (acquired in-place leases, above-market leases and below-market ground leases) and liabilities (acquired below-market leases), net of accumulated amortization, were \$388.6 million and \$15.6 million, respectively, as of June 30, 2017 and \$464.4 million and \$16.8 million, respectively, as of December 31, 2016. The following table summarizes the Company's lease intangible assets and liabilities (in thousands):

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June 30, 2017

Lease Intangible Assets	Gross Asset	Accumulated Amortization	Balance
In-place leases, net	\$556,401	\$ (185,635)	\$370,766
Below-market ground leases, net	11,766	(406)	11,360
Above-market leases, net	8,964	(2,504)	6,460
Total	\$577,131	\$ (188,545)	\$388,586

Lease Intangible Liabilities	Gross Liability	Accumulated Amortization	Balance
Below-market leases, net	\$19,780	\$ (4,220)	\$15,560
Total	\$19,780	\$ (4,220)	\$15,560

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December 31, 2016

	Gross Asset	Accumulated Amortization	Balance
Lease Intangible Assets			
In-place leases, net	\$592,871	\$ (146,964)	\$445,907
Below-market ground leases, net	11,766	(305)	11,461
Above-market leases, net	8,964	(1,933)	7,031
Total	\$613,601	\$ (149,202)	\$464,399

	Gross Liability	Accumulated Amortization	Balance
Lease Intangible Liabilities			
Below-market leases, net	\$20,011	\$ (3,184)	\$16,827
Total	\$20,011	\$ (3,184)	\$16,827

Amortization of acquired below-market leases, net of acquired above-market leases, resulted in additional rental income of \$0.2 million and \$0.2 million for the three months ended June 30, 2017 and June 30, 2016, respectively, and \$0.5 million and \$0.4 million for the six months ended June 30, 2017 and June 30, 2016, respectively. Future amortization of these intangibles is estimated to increase rental income as set forth below (in thousands):

Remainder of 2017	\$(485)
2018	(968)
2019	(941)
2020	(806)
2021	(790)

Amortization of acquired below-market ground leases resulted in additional property expense of \$51 thousand for the three months ended June 30, 2017 and June 30, 2016, respectively, and \$0.1 million for the six months ended June 30, 2017 and June 30, 2016, respectively. Future amortization of below-market ground leases is estimated to increase property expenses as set forth below (in thousands):

Remainder of 2017	\$101
2018	203
2019	203
2020	203
2021	203

Amortization of acquired in-place leases resulted in additional depreciation and amortization expense of \$31.4 million and \$21.4 million for the three months ended June 30, 2017 and June 30, 2016, respectively, and \$75.2 million and \$44.5 million for the six months ended June 30, 2017 and June 30, 2016, respectively. Future estimated amortization of acquired in-place leases is set forth below (in thousands):

Remainder of 2017	\$66,760
2018	48,239
2019	46,050
2020	44,849
2021	39,968

Note 4 – Investments in Unconsolidated Joint Ventures

The Company conducts a portion of its property rental activities through investments in unconsolidated joint ventures for which the Company holds less than a controlling interest. The Company’s partners in these unconsolidated joint ventures are unrelated real estate entities or commercial enterprises. The Company and its unconsolidated joint venture partners make initial and/or ongoing capital contributions to these unconsolidated joint ventures. The obligations to make capital contributions are governed by each unconsolidated joint venture’s respective operating agreement and related governing documents.

The Company currently has investments in three unconsolidated entities: GS Portfolio Holdings LLC (the “GGP JV”), a joint venture between Seritage and a subsidiary of GGP Inc. (together with its subsidiaries, “GGP”), SPS Portfolio Holdings LLC (the “Simon JV”), a joint venture between Seritage and a subsidiary of Simon Property Group, Inc. (together with its subsidiaries, “Simon”), and

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MS Portfolio LLC (the “Macerich JV”), a joint venture between Seritage and a subsidiary of The Macerich Company (together with its subsidiaries, “Macerich”). A substantial majority of the space at the JV Properties is leased to Sears Holdings under the JV Master Leases which include recapture rights and termination rights with similar terms as those described under the Master Lease.

The Company’s investments in unconsolidated joint ventures at June 30, 2017, consisted of (in thousands):

Joint Venture	Seritage % Ownership	# of Properties	Total GLA	Initial Investment
GGP JV	50 %	12	2,199	\$ 165,000
Macerich JV	50 %	9	1,573	150,000
Simon JV	50 %	10	1,714	114,012
Total		31	5,486	\$ 429,012

On July 12, 2017, the Company completed two transactions with GGP for gross consideration of \$247.6 million (the “GGP Transactions”). Pursuant to the GGP Transactions, the Company (i) sold to GGP the Company’s 50% interest in eight of the 12 assets in the GGP JV for \$190.1 million; and (ii) sold to GGP a 50% joint venture interest in five additional assets for \$57.5 million (see Note 16).

The Company continues to own 50% interests in 10 assets in the Simon JV, and 50% interest in nine assets in the Macerich JV.

Each unconsolidated joint venture is obligated to maintain financial statements in accordance with GAAP. The Company shares in the profits and losses of these unconsolidated joint ventures generally in accordance with the Company’s respective equity interests. In some instances, the Company may recognize profits and losses related to investment in an unconsolidated joint venture that differ from the Company’s equity interest in the unconsolidated joint venture. This may arise from impairments that the Company recognizes related to its investment that differ from the impairments the unconsolidated joint venture recognizes with respect to its assets; differences between the Company’s basis in assets it has transferred to the unconsolidated joint venture and the unconsolidated joint venture’s basis in those assets; the Company’s deferral of the unconsolidated joint venture’s profits from land sales to the Company; or other items. There were no joint venture impairment charges for the three or six months ended June 30, 2017 or June 30, 2016.

The following tables present combined condensed financial data for the Company’s unconsolidated joint ventures (in thousands):

	June 30, 2017	December 31, 2016
ASSETS		
Investment in real estate		
Land	\$214,109	\$ 214,109
Buildings and improvements	590,275	598,978
Accumulated depreciation	(71,833)	(56,324)
	732,551	756,763
Construction in progress	81,670	48,885
Net investment in real estate	814,221	805,648

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Cash and cash equivalents	7,105	3,434
Tenant and other receivables, net	6,496	6,133
Other assets, net	596	38,646
Total assets	\$828,418	\$ 853,861
LIABILITIES AND MEMBERS INTERESTS		
Liabilities		
Accounts payable, accrued expenses and other liabilities	\$ 10,839	\$ 14,177
Total liabilities	10,839	14,177
Members Interest		
Additional paid in capital	818,772	830,389
Retained earnings	(1,193)	9,295
Total members interest	817,579	839,684
Total liabilities and members interest	\$828,418	\$ 853,861

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	Three Months		Six Months Ended		
	Ended June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016	
EQUITY IN INCOME OF UNCONSOLIDATED					
JOINT VENTURES					
Total revenue	\$17,168	\$16,309	\$33,512	\$33,847	
Property operating expenses	(3,195)	(3,196)	(6,517)	(6,600)	
Depreciation and amortization	(16,725)	(11,183)	(27,697)	(20,922)	
Operating income	(2,752)	1,930	(702)	6,325	
Other expenses	(331)	(106)	(377)	(329)	
Net (loss) income	\$(3,083)	\$1,824	\$(1,079)	\$5,996	
Equity in (loss) income of unconsolidated					
joint ventures		\$(1,542)	\$912	\$(540)	\$2,998

Note 5 – Leases

Master Lease

On July 7, 2015, subsidiaries of Seritage and subsidiaries of Sears Holdings entered into the Master Lease. The Master Lease generally is a triple net lease with respect to all space which is leased thereunder to Sears Holdings, subject to proportional sharing by Sears Holdings for repair and maintenance charges, real property taxes, insurance and other costs and expenses which are common to both the space leased by Sears Holdings and other space occupied by unrelated third-party tenants in the same or other buildings pursuant to third-party leases, space which is recaptured pursuant to the Company recapture rights described below and all other space which is constructed on the properties. Under the Master Lease, Sears Holdings and/or one or more of its subsidiaries will be required to make all expenditures reasonably necessary to maintain the premises in good appearance, repair and condition for as long as they are in occupancy.

The Master Lease has an initial term of 10 years and contains three options for five-year renewals of the term and a final option for a four-year renewal. As of June 30, 2017 and June 30, 2016, the annualized base rent paid directly by Sears Holdings and its subsidiaries under the Master Lease was approximately \$117.0 million and \$132.0 million, respectively. In each of the initial and first two renewal terms, annual base rent will be increased by 2.0% per annum for each lease year over the rent for the immediately preceding lease year. For subsequent renewal terms, rent will be set at the commencement of the renewal term at a fair market rent based on a customary third-party appraisal process, taking into account all the terms of the Master Lease and other relevant factors, but in no event will the renewal rent be less than the rent payable in the immediately preceding lease year.

Revenues from the Master Lease for the three and six months ended June 30, 2017 and June 30, 2016 are as follows (in thousands and excluding straight-line rental income of \$0.8 million and \$3.0 million for the three months ended June 30, 2017 and June 30, 2016, respectively, and \$1.8 million and \$6.1 million for the six months ended June 30, 2017 and June 30, 2016, respectively):

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	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2017	2016	2017	2016
Rental income	\$29,208	\$33,082	\$60,859	\$66,467
Termination fee income	628	—	6,765	—
Tenant reimbursements	13,025	14,516	27,731	31,268
Total revenue	\$42,861	\$47,598	\$95,355	\$97,735

The Master Lease provides the Company with the right to recapture up to approximately 50% of the space occupied by Sears Holdings at each of the 224 Wholly Owned Properties initially included in the Master Lease (subject to certain exceptions). While the Company is permitted to exercise its recapture rights all at once or in stages as to any particular property, it is not permitted to recapture all or substantially all of the space subject to the recapture right at more than 50 Wholly Owned Properties during any lease year. In addition, Seritage has the right to recapture any automotive care centers which are free-standing or attached as “appendages” to the properties, all outparcels or outlots and certain portions of the parking areas and common areas. Upon exercise of these recapture rights, the Company will generally incur certain costs and expenses for the separation of the recaptured space from the remaining Sears Holdings space as it reconfigures and rents the recaptured space to third-party tenants.

The Company also has the right to recapture 100% of the space occupied by Sears Holdings at each of 21 identified Wholly Owned Properties by making a specified lease termination payment to Sears Holdings, after which the Company can reposition and re-lease those stores. The lease termination payment is calculated as the greater of an amount specified at the time the Company entered into the Master Lease with Sears Holdings and an amount equal to 10 times the adjusted EBITDA attributable to such space within the

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Sears Holdings main store which is not attributable to the space subject to the separate 50% recapture right discussed above for the 12-month period ending at the end of the fiscal quarter ending immediately prior to recapturing such space.

As of June 30, 2017, the Company had exercised recapture rights at 40 properties:

Property	Recapture Type	Notice Date
Temecula, CA	Partial	June 2017
Roseville, CA	Auto center	June 2017
North Riverside, IL	Partial	June 2017
Watchung, NJ	100%	June 2017
Canton, OH	Partial	June 2017
Dayton, OH	Auto center	June 2017
Carson, CA	100% (1)	April 2017 / December 2016
San Diego, CA	100% (2)	April 2017
Aventura, FL	100%	April 2017
Hialeah, FL	100% (2)	April 2017
Anderson, SC	100% (1)	April 2017 / July 2016
Charleston, SC	100% (1)	April 2017 / October 2016
Valley View, TX	100%	April 2017
North Miami, FL	100%	March 2017
Cockeysville, MD	Partial	March 2017
Olean, NY	Partial	March 2017
Santa Cruz, CA	Partial	December 2016
Santa Monica, CA	100%	December 2016
Saugus, MA	Partial	December 2016
Guaynabo, PR	Partial	December 2016
Roseville, MI	Partial	November 2016
Troy, MI	Partial	November 2016
West Hartford, CT	100%	October 2016
Rehoboth Beach, DE	Partial	October 2016
St. Petersburg, FL	100%	October 2016
Warwick, RI	Auto center	October 2016
North Hollywood, CA	Partial	July 2016
Orlando, FL	100%	July 2016
Ft. Wayne, IN	Out parcel	July 2016
West Jordan, UT	Partial	July 2016
Madison, WI	Partial + auto center	July 2016
Bowie, MD	Auto center	May 2016
Hagerstown, MD	Auto center	May 2016
Wayne, NJ	Partial	May 2016
Albany, NY	Auto center	May 2016
Fairfax, VA	Partial + auto center	May 2016
San Antonio, TX	Auto center	March 2016
Honolulu, HI	100%	December 2015
Memphis, TN	100%	December 2015
Braintree, MA	100%	November 2015

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- (1) In April 2017, the Company converted previously exercised partial recapture rights to 100% recapture rights.
(2) In April 2017, the Company converted partial recapture rights to 100% recapture rights and exercised such recapture rights.

The Master Lease also provides for certain rights to Sears Holdings to terminate the Master Lease with respect to Wholly Owned Properties that cease to be profitable for operation by Sears Holdings. In order to terminate the Master Lease with respect to a certain property, Sears Holdings must make a payment to the Company of an amount equal to one year of rent (together with taxes and other expenses) with respect to such property. Sears Holdings must provide notice of not less than 90 days of their intent to exercise such termination right and such termination right will be limited so that it will not have the effect of reducing the fixed rent under the Master Lease by more than 20% per annum.

In June 2017, Sears Holdings provided notice that it intended to exercise its right to terminate the Master Lease with respect to 20 stores totaling 3.8 million square feet of gross leasable area. The aggregate annual base rent at these stores is approximately \$11.2

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million or 4.8% of the Company's total annual base rent as of June 30, 2017, including all signed leases. Sears Holdings will continue to pay Seritage rent until it vacates the stores in October 2017, and also pay Seritage a termination fee equal to one year of aggregate annual base rent plus one year of estimated real estate taxes and operating expenses.

The 20 properties are as follows:

Property	Square Feet
Sarasota, FL	204,500
Chicago, IL	293,700
Overland Park, KS	215,000
Lafayette, LA	194,900
Cockeysville, MD	83,900
Hagerstown, MD	107,300
Roseville, MI	277,000
Burnsville, MN	161,700
Albany, NY	216,200
East Northport, NY	187,000
Johnson City, NY	155,100
Olean, NY	75,100
Mentor, OH	208,700
Middleburg Heights, OH	351,600
Toledo, OH	209,900
York, PA	82,000
Warwick, RI	169,200
Friendswood, TX	166,000
Westwood, TX	215,000
Greendale, WI	238,400
Total square feet	3,812,200

In April 2017, pursuant to termination notices previously submitted to the Company, Sears Holdings vacated 19 stores totaling 1.9 million square feet of gross leasable area. The aggregate annual base rent at these stores was approximately \$5.9 million. Sears Holdings paid rent until it vacated the stores and also paid a termination fee of approximately \$10.9 million, an amount equal to one year of aggregate annual base rent plus one year of estimated real estate taxes and operating expenses.

The 19 properties are as follows:

Property	Square Feet
Riverside, CA	94,500
Kissimmee, FL	112,505
Leavenworth, KS	76,853
Hopkinsville, KY	70,326
Paducah, KY	108,244

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Owensboro, KY	68,334
Detroit Lakes, MN	79,102
Jefferson City, MO	92,016
Henderson, NV	122,823
Concord, NC	137,499
Chapel Hill, OH	187,179
Kenton, OH	96,066
Muskogee, OK	87,500
Mount Pleasant, PA	83,536
Sioux Falls, SD	72,511
El Paso, TX	103,657
Layton, UT	90,010
Elkins, WV	94,885
Platteville, WI	94,841
Total square feet	1,872,387

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In January 2017, pursuant to termination notices previously submitted to the Company, Sears Holdings vacated 17 stores totaling 1.7 million square feet of gross leasable area. The aggregate annual base rent at these stores was approximately \$6.0 million. Sears Holdings paid rent until it vacated the stores and also paid a termination fee of approximately \$10.0 million, an amount equal to one year of aggregate annual base rent plus one year of estimated real estate taxes and operating expenses.

The 17 properties are as follows:

Property	Square Feet
Cullman, AL	98,500
Sierra Vista, AZ	86,100
Thornton, CO	190,200
Chicago, IL	118,800
Springfield, IL	84,200
Elkhart, IN	86,500
Merrillville, IN	108,300
Houma, LA	96,700
New Iberia, LA	91,700
Alpena, MI	118,200
Manistee, MI	87,800
Sault Sainte Marie, MI	92,700
Kearney, NE	86,500
Deming, NM	96,600
Harlingen, TX	91,700
Yakima, WA	97,300
Riverton, WY	94,800
Total square feet	1,726,600

Note 6 – Debt

Mortgage Loans Payable

On July 7, 2015, pursuant to the Transaction, the Company entered into a mortgage loan agreement (the “Mortgage Loan Agreement”) and mezzanine loan agreement (collectively, the “Loan Agreements”), providing for term loans in an initial principal amount of approximately \$1,161 million (collectively, the “Mortgage Loans”) and a \$100 million future funding facility (the “Future Funding Facility”). Pursuant to the terms of the Loan Agreements, the Company drew the remaining amounts available under the Future Funding Facility on June 30, 2017. Such amounts were deposited into a redevelopment reserve and will be used to fund redevelopment activity at the Company’s properties.

As of June 30, 2017, the total principal amounts outstanding under the Mortgage Loans and the Future Funding Facility were \$1,161 million and \$100.0 million, respectively.

Interest under the Mortgage Loans is due and payable on the payment dates, and all outstanding principal amounts are due when the loan matures on the payment date in July 2019, pursuant to the Loan Agreements. The Company has two one-year extension options subject to the payment of an extension fee and satisfaction of certain other

conditions. Borrowings under the Mortgage Loans bear interest at the London Interbank Offered Rates (“LIBOR”) plus, as of June 30, 2017, a weighted-average spread of 465 basis points; payments are made monthly on an interest-only basis. The weighted-average interest rates for the Mortgage Loans and Future Funding Facility for the three months ended June 30, 2017 and June 30, 2016 were 5.86% and 5.19%, respectively. The weighted-average interest rates for the Mortgage Loans and Future Funding Facility for the six months ended June 30, 2017 and June 30, 2016 were 5.77% and 5.18%, respectively.

The Loan Agreements contain a yield maintenance provision for the early extinguishment of the debt before March 9, 2018.

The Mortgage Loans and Future Funding Facility are secured by all of the Company’s Wholly Owned Properties and a pledge of its equity in the JVs. The Loan Agreements contain customary covenants for a real estate financing, including restrictions that limit the Company’s ability to grant liens on its assets, incur additional indebtedness, or transfer or sell assets, as well as those that may require the Company to obtain lender approval for certain major tenant leases or significant redevelopment projects. Such restrictions also include cash flow sweep provisions based upon certain measures of the Company’s and Sears Holdings’ financial and operating performance, including (a) where the “Debt Yield” (the ratio of net operating income for the mortgage borrowers to their debt) is less than 11.0%, (b) if the performance of Sears Holdings at the stores subject to the Master Lease with Sears Holdings fails to meet specified rent ratio thresholds, (c) if the Company fails to meet specified tenant diversification tests and (d) upon the occurrence of a

bankruptcy or insolvency action with respect to Sears Holdings or if there is a payment default under the Master Lease with Sears Holdings, in each case, subject to cure rights, including providing specified amounts of cash collateral or satisfying tenant diversification thresholds.

In November 2016, the Company and the servicer for our Mortgage Loans entered into amendments to our Loan Agreements to resolve a disagreement regarding one of the cash flow sweep provisions in our Loan Agreements. The principal terms of these amendments are that the Company has (i) posted \$30.0 million, and will post \$3.3 million on a monthly basis, to a redevelopment project reserve account, which amounts may be used by the Company to fund redevelopment activity and (ii) extended the spread maintenance provision for prepayment of the loan by two months through March 9, 2018 (with the spread maintenance premium for the second month at a reduced amount). As a result of this agreement and the resolution of the related disagreement, no cash flow sweep was imposed.

All obligations under the Loan Agreements are non-recourse to the borrowers and the pledgors of the JV Interests and the guarantors thereunder, except that (i) the borrowers and the guarantors will be liable, on a joint and several basis, for losses incurred by the lenders in respect of certain matters customary for commercial real estate loans, including misappropriation of funds and certain environmental liabilities and (ii) the indebtedness under the Loan Agreements will be fully recourse to the borrowers and guarantors upon the occurrence of certain events customary for commercial real estate loans, including without limitation prohibited transfers, prohibited voluntary liens, and bankruptcy. Additionally the guarantors delivered a limited completion guaranty with respect to future redevelopments undertaken by the borrowers at the properties, and the Company must maintain (i) a net worth of not less than \$1.0 billion and (ii) a minimum liquidity of not less than \$50.0 million, throughout the term of the Loan Agreements.

The Company believes it is currently in compliance with all material terms and conditions of the Loan Agreements.

The Company has incurred \$22.3 million of debt issuance costs related to the Mortgage Loans and Future Funding Facility which are recorded as a direct deduction from the carrying amount of the Mortgage Loans and Future Funding Facility and amortized over the term of the Loan Agreements. As of June 30, 2017, the unamortized balance of the Company's debt issuance costs was \$10.9 million as compared to \$14.3 million as December 31, 2016.

Unsecured Term Loan

On February 23, 2017 (the "Closing Date"), the Operating Partnership, as borrower, and the Company, as guarantor, entered into a \$200.0 million senior unsecured delayed draw term loan facility (the "Unsecured Term Loan") with JPP, LLC ("JPP") and JPP II, LLC, as lenders (collectively, the "Initial Lenders"), and JPP, as administrative agent (the "Administrative Agent").

Loans under the Unsecured Term Loan may be requested by the Operating Partnership at any time from the Closing Date until thirty days prior to the stated maturity date, upon five business days' prior notice to the Administrative Agent. The total commitments of the lenders under the Unsecured Term Loan is \$200.0 million, provided that the maximum draw amount under the Unsecured Term Loan through April 30, 2017 was \$100.0 million, which amount increased to \$150.0 million on May 1, 2017 and increases to \$200.0 million on September 1, 2017 so long as no cash flow sweep period is then in effect and continuing as of such date under the Company's Mortgage Loan Agreement. Amounts drawn under the Unsecured Term Loan and repaid may not be redrawn.

As of June 30, 2017, the total principal amount outstanding under the Unsecured Term Loan was \$85.0 million.

The Unsecured Term Loan will mature the earlier of (i) December 31, 2017 and (ii) the date on which the outstanding indebtedness under the Loan Agreements are repaid or refinanced in full. The Unsecured Term Loan may be prepaid at any time in whole or in part, without any penalty or premium.

The principal amount of loans outstanding under the Unsecured Term Loan bear a base annual interest rate of 6.50%. If a cash flow sweep period were to occur and be continuing under the Company's Mortgage Loan Agreement (i) the interest rate on any outstanding advances would increase from and after such date by 1.5% per annum above the base interest rate and (ii) the interest rate on any advances made after such date would increase by 3.5% per annum above the base interest rate. Accrued and unpaid interest will be payable in cash, except that during the continuance of a cash flow sweep period under the existing mortgage loan agreement, the Operating Partnership may defer the payment of interest which deferred amount would be added to the outstanding principal balance of the loans.

On the Closing Date, the Operating Partnership paid to the Initial Lenders an upfront commitment fee equal to \$1.0 million. On May 24, 2017, the Operating Partnership paid an additional, and final, commitment fee of \$1.0 million.

The Unsecured Term Loan documentation requires that the Company at all times maintain (i) a net worth of not less than \$1.0 billion, and (ii) a leverage ratio not to exceed 60.0%.

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The Unsecured Term Loan includes customary representations and warranties, covenants and indemnities. The Unsecured Term Loan also has customary events of default, including (subject to certain materiality thresholds and grace periods) payment default, failure to comply with covenants, material inaccuracy of representation or warranty, and bankruptcy or insolvency proceedings. If there is an event of default, the Lenders may declare all or any portion of the outstanding indebtedness to be immediately due and payable, exercise any rights they might have under any of the Unsecured Term Loan documents, and require the Operating Partnership to pay a default interest rate on overdue amounts equal to 1.50% in excess of the applicable base interest rate.

The Company believes it is currently in compliance with all material terms and conditions of the Unsecured Term Loan.

Mr. Edward S. Lampert, the Company's Chairman, is the Chairman and Chief Executive Officer of ESL, which controls JPP, LLC and JPP II, LLC. The terms of the Unsecured Term Loan were approved by the Company's Audit Committee and the Company's Board of Trustees (with Mr. Edward S. Lampert recusing himself).

Note 7 – Income Taxes

The Company has elected to be taxed as a REIT as defined under Section 856(c) of the Code for federal income tax purposes and expects to continue to operate to qualify as a REIT. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a requirement to currently distribute at least 90% of its adjusted REIT taxable income to its shareholders.

As a REIT, the Company generally will not be subject to federal income tax on taxable income that is distributed to its shareholders. If the Company fails to qualify as a REIT or does not distribute 100% of its taxable income in any taxable year, it will be subject to federal taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for four subsequent taxable years.

Even if the Company qualifies for taxation as a REIT, the Company is subject to certain state, local and Puerto Rico taxes on its income and property, and to federal income and excise taxes on its undistributed taxable income.

Note 8 – Fair Value Measurements

ASC 820, Fair Value Measurement, defines fair value and establishes a framework for measuring fair value. The objective of fair value is to determine the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the "exit price"). ASC 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels:

Level 1 - quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities

Level 2 - observable prices based on inputs not quoted in active markets, but corroborated by market data

Level 3 - unobservable inputs used when little or no market data is available

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company also considers counterparty credit risk in its assessment of fair value.

Financial Assets and Liabilities Measured at Fair Value on a Recurring or Non-Recurring Basis

All derivative instruments are carried at fair value and are valued using Level 2 input. The Company's derivative instruments as of June 30, 2017 and December 31, 2016 consisted of a single interest rate cap. The Company utilizes an independent third party and interest rate market pricing models to assist management in determining the fair value of this instrument.

The fair value of the Company's interest rate cap at June 30, 2017 and December 31, 2016 was approximately \$0.1 million and \$0.7 million, respectively, and is included as a component of prepaid expenses, deferred expenses and other assets on the condensed consolidated balance sheets.

The Company has elected not to utilize hedge accounting, and therefore, the change in fair value is included within change in fair value of interest rate cap on the condensed consolidated statements of operations. For the three months ended June 30, 2017, the Company recorded a loss of \$0.1 million compared to a loss of \$0.5 million for the three months ended June 30, 2016. For the six months ended June 30, 2017, the Company recorded a loss of \$0.6 million compared to a loss of \$1.9 million for the six months ended June 30, 2016.

Financial Assets and Liabilities not Measured at Fair Value

Financial assets and liabilities that are not measured at fair value on the condensed consolidated balance sheets include cash equivalents and debt obligations. The fair value of cash equivalents is classified as Level 1 and the fair value of debt obligations is classified as Level 2.

Cash equivalents are carried at cost, which approximates fair value. The fair value of debt obligations is calculated by discounting the future contractual cash flows of these instruments using current risk-adjusted rates available to borrowers with similar credit ratings. As of June 30, 2017 and December 31, 2016, the estimated fair values of the Company's debt obligations were \$1.3 billion and \$1.2 billion, respectively, which approximated the carrying value at such dates as the current risk-adjusted rate approximates the stated rates on the Company's debt obligations.

Note 9 – Commitments and Contingencies

Insurance

The Company maintains general liability insurance and all-risk property and rental value, with sub-limits for certain perils such as floods and earthquakes on each of the Company's properties. The Company also maintains coverage for terrorism acts as defined by Terrorism Risk Insurance Program Reauthorization Act, which expires in December 2020.

Insurance premiums are charged directly to each of the retail properties. The Company will be responsible for deductibles and losses in excess of insurance coverage, which could be material. The Company continues to monitor the state of the insurance market and the scope and costs of coverage for acts of terrorism. However, the Company cannot anticipate what coverage will be available on commercially reasonable terms in the future.

Environmental Matters

Under various federal, state and local laws, ordinances and regulations, the Company may be considered an owner or operator of real property or may have arranged for the disposal or treatment of hazardous or toxic substances. As a result, the Company may be liable for certain costs, including removal, remediation, government fines, and injuries to persons and property. The Company does not believe that any resulting liability from such matters will have a material effect on the condensed consolidated financial position, results of operations, or liquidity of the Company. Under the Master Lease, Sears Holdings has indemnified the Company from certain environmental liabilities at the Wholly Owned Properties existing before, or caused by Sears Holdings during, the period in which each Wholly Owned Property is leased to Sears Holdings, including removal and remediation of all affected facilities and equipment constituting the automotive care center facilities (and each JV Master Lease includes a similar requirement of Sears Holdings). As of June 30, 2017 and December 31, 2016, the Company had approximately \$11.2 million and \$11.8 million, respectively, of restricted cash in a lender reserve account to fund potential environmental costs that were identified during due diligence related to the Transaction.

Litigation and Other Matters

In accordance with accounting standards regarding loss contingencies, the Company accrues an undiscounted liability for those contingencies where the incurrence of a loss is probable and the amount can be reasonably estimated, and the Company discloses the amount accrued and the amount of a reasonably possible loss in excess of the amount accrued or disclose the fact that such a range of loss cannot be estimated. The Company does not record liabilities when the likelihood that the liability has been incurred is probable but the amount cannot be reasonably estimated, or when the

liability is believed to be only reasonably possible or remote. In such cases, the Company discloses the nature of the contingency, and an estimate of the possible loss, range of loss, or disclose the fact that an estimate cannot be made.

The Company is subject, from time to time, to various legal proceedings and claims that arise in the ordinary course of business. While the resolution of such matters cannot be predicted with certainty, management believes, based on currently available information, that the final outcome of such matters will not have a material effect on the condensed consolidated financial position, results of operations, cash flows or liquidity of the Company.

In May and June of 2015, four purported Sears Holdings shareholders filed lawsuits in the Delaware Court of Chancery challenging the Transaction, which lawsuits were subsequently consolidated into a single action captioned In re Sears Holdings Corporation Stockholder and Derivative Litigation, Consol. C.A. No. 11081-VCL (the “Action”). On October 15, 2015, plaintiffs filed a verified consolidated stockholder derivative complaint in the Action against the individual members of Sears Holdings’ Board of Directors, ESL Investments, Inc. (together with its affiliates, “ESL”), Sears Holdings’ CEO, Fairholme Capital Management L.L.C. (“FCM”), and Seritage. On July 12, 2016, the plaintiffs filed a verified consolidated amended stockholder derivative complaint (the “Amended

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Complaint”) against the same defendants and asserting substantially the same claims as set forth in the complaint filed in October 2015. The plaintiffs brought the Action derivatively on behalf of Sears Holdings, which was named as a nominal defendant, and alleged that the Sears Holdings directors, as well as ESL and Edwards S. Lampert (in their capacity as the alleged controlling stockholder of Sears Holdings), breached their fiduciary duties to Sears Holdings shareholders by selling the Wholly Owned Properties to Seritage at a price that was unfairly low and was the result of a process that allegedly was flawed. The Amended Complaint also alleged that Seritage and FCM aided and abetted these alleged fiduciary breaches. Among other forms of relief, the Amended Complaint sought damages in unspecified amounts. In October 2016, following mediation, the parties reached an agreement-in-principle to settle the Action, which ultimately was reflected in a definitive Stipulation and Agreement of Settlement, Compromise and Release executed on February 8, 2017. On May 9, 2017, the Delaware Court of Chancery, after customary notice to Sears Holding stockholders and an in-person settlement hearing, entered a final order and judgment approving the settlement. Pursuant to the settlement, (a) the defendants and the D&O insurers for the individual members of the Sears Holdings’ Board of Directors paid \$40.0 million, of which Seritage paid \$19.0 million and (b) all defendants received customary releases. The defendants continue to deny the claims asserted and entered into the settlement solely to avoid the burden, expense, distraction, and inherent risk in and of litigation.

Note 10 – Related Party Disclosure

Edward S. Lampert

Edward S. Lampert is Chairman and Chief Executive Officer of Sears Holdings and is the Chairman and Chief Executive Officer of ESL. Mr. Lampert beneficially owned approximately 53.8% of Sears Holdings’ outstanding common stock at June 30, 2017. Mr. Lampert is also the Chairman of Seritage.

As of June 30, 2017, Mr. Lampert beneficially owned a 39.1% interest in the Operating Partnership and approximately 3.8% and 100% of the outstanding Class A common shares and Class B non-economic common shares, respectively.

Subsidiaries of Sears Holdings, as lessees, and subsidiaries of the Company, as lessors, are parties to the Master Lease (see Note 5).

Unsecured Term Loan

On February 23, 2017, the Operating Partnership, as borrower, and the Company, as guarantor, entered into a \$200.0 million senior unsecured delayed draw term loan facility with JPP, LLC and JPP II, LLC as lenders, and JPP, LLC as administrative agent.

Edward S. Lampert, the Company’s Chairman, is the Chairman and Chief Executive Officer of ESL, which controls JPP, LLC and JPP II, LLC. The terms of the unsecured delayed draw term loan facility were approved by the Company’s Audit Committee and the Company’s Board of Trustees (with Mr. Edward S. Lampert recusing himself).

Sears Holdings Corporation

As of June 30, 2017, the Company had an accounts payable to Sears Holding resulting from an overpayment of real estate taxes paid by Sears Holdings of approximately \$11.0 million. This amount was included in accounts payable, accrued expense and other liabilities on the consolidated balance sheet as of June 30, 2017.

Transition Services Agreement

On July 7, 2015, the Operating Partnership and Sears Holdings Management Corporation (“SHMC”), a wholly owned subsidiary of Sears Holdings, entered into a transition services agreement (the “Transition Services Agreement” or “TSA”). Pursuant to the TSA, SHMC was to provide certain limited services to the Operating Partnership during the period from the closing of the Transaction through the 18-month anniversary of the closing. On January 7, 2017, the TSA expired by its terms.

During the three and six months ended June 30, 2017 the Company did not incur any fees under the TSA. During the three and six months ended June 30, 2016, the Company incurred fees of approximately \$0.1 million for certain accounting and tax services provided in support of the Company’s 2015 yearend activities. These fees are included in general and administrative expenses on the condensed consolidated statements of operations.

Note 11 – Non-Controlling Interests

Partnership Agreement

On July 7, 2015, Seritage and ESL entered into the agreement of limited partnership of the Operating Partnership (the “Partnership Agreement”). Pursuant to the Partnership Agreement, as the sole general partner of the Operating Partnership, Seritage exercises exclusive and complete responsibility and discretion in its day-to-day management, authority to make decisions, and control of the Operating Partnership, and may not be removed as general partner by the limited partners.

During the six months ended June 30, 2017, 2,344,589 Operating Partnership units were converted to Class A common shares.

As of June 30, 2017, the Company held a 60.9% interest in the Operating Partnership and ESL held a 39.1% interest. The portions of consolidated entities not owned by the Company are presented as non-controlling interest as of and during the periods presented.

Note 12 – Shareholders’ Equity

Class A Common Shares

During the six months ended June 30, 2017, 2,344,589 Operating Partnership units were converted to Class A common shares and 267,300 net Class A common shares were converted to Class C non-voting common shares.

As of June 30, 2017, 27,924,378 Class A common shares were issued and outstanding.

Subsequent to the three months ended June 30, 2017, 3,650 net Class A common shares were converted to Class C non-voting common shares.

Class B Non-Economic Common Shares

During the six months ended June 30, 2017, 154,098 Class B non-economic common shares were surrendered to the Company.

As of June 30, 2017, 1,434,922 Class B non-economic common shares were issued and outstanding. The Class B non-economic common shares have voting rights, but do not have economic rights and, as such, do not receive dividends and are not included in earnings per share computations.

Class C Non-Voting Common Shares

During the six months ended June 30, 2017, 267,300 net Class A common shares were converted to Class C non-voting common shares.

As of June 30, 2017, 6,021,985 Class C non-voting common shares were issued and outstanding. The Class C non-voting common shares have economic rights, but do not have voting rights. Upon any transfer of a Class C non-voting common share to any person other than an affiliate of the holder of such share, such share shall automatically convert into one Class A common share.

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Subsequent to the three months ended June 30, 2017, 3,650, net Class A common shares were converted to Class C non-voting common shares.

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Dividends and Distributions

The Company's Board of Trustees declared the following common stock dividends during 2017 and 2016, with holders of Operating Partnership units entitled to an equal distribution per Operating Partnership unit held on the record date:

Declaration Date	Record Date	Payment Date	Dividends per Class A and Class C Common Share
2017			
July 25	September 29	October 12	\$ 0.25
April 25	June 30	July 13	0.25
February 28	March 31	April 13	0.25
2016			
November 1	December 31	January 12	\$ 0.25
August 2	September 30	October 13	0.25
May 3	June 30	July 14	0.25
March 8	March 31	April 14	0.25

Note 13 – Earnings per Share

The table below provides a reconciliation of net loss and the number of common shares used in the computations of “basic” earnings per share (“EPS”), which utilizes the weighted-average number of common shares outstanding without regard to dilutive potential common shares, and “diluted” EPS, which includes all such shares. Potentially dilutive securities consist of shares of non-vested restricted stock and the redeemable non-controlling interests in the Operating Partnership.

All outstanding non-vested shares that contain non-forfeitable rights to dividends are considered participating securities and are included in computing EPS pursuant to the two-class method which specifies that all outstanding non-vested share-based payment awards that contain non-forfeitable rights to distributions are considered participating securities and should be included in the computation of EPS.

Earnings per share has not been presented for Class B shareholders, as they do not have economic rights.

(in thousands except per share amounts)	Three Months		Six Months Ended	
	Ended June 30, 2017	2016	June 30, 2017	2016
Numerator - Basic and Diluted				
Net loss	\$(34,867)	\$(12,565)	\$(67,711)	\$(27,279)
Net loss attributable to non-controlling interests	13,648	5,448	26,654	11,827
Net loss attributable to common shareholders	\$(21,219)	\$(7,117)	\$(41,057)	\$(15,452)

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Denominator - Basic and Diluted				
Weighted average Class A common shares				
outstanding	27,922	25,667	27,835	25,307
Weighted average Class C common shares				
outstanding	5,844	5,724	5,803	6,084
Weighted average Class A and Class C				
common shares outstanding	33,766	31,391	33,638	31,391
Net loss per share attributable to Class A and				
Class C common shareholders	\$(0.63)	\$(0.23)	\$(1.22)	\$(0.49)

No adjustments were made to the numerator for the three or six months ended June 30, 2017 or June 30, 2016 because the Company generated a net loss. During periods of net loss, undistributed losses are not allocated to the participating securities as they are not required to absorb losses.

No adjustments were made to the denominator for the three or six months ended June 30, 2017 or June 30, 2016 because (i) the inclusion of outstanding non-vested restricted shares would have had an anti-dilutive effect and (ii) including the non-controlling interest in the Operating Partnership would also require that the share of the Operating Partnership loss attributable to such interests be added back to net loss, therefore, resulting in no effect on earnings per share.

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As of June 30, 2017 and December 31, 2016, there were 274,598 and 216,348 shares, respectively, of non-vested restricted shares and share units outstanding.

Note 14 – Stock Based Compensation

On July 7, 2015, the Company adopted the Seritage Growth Properties 2015 Share Plan (the “Plan”). The number of shares of common stock reserved for issuance under the Plan is 3,250,000. The Plan provides for grants of restricted shares, share units, other share-based awards, options, and share appreciation rights, each as defined in the Plan (collectively, the "Awards"). Directors, officers, other employees, and consultants of the Company and its subsidiaries and affiliates are eligible for Awards.

Restricted Shares and Share Units

Pursuant to the Plan, the Company made grants of restricted shares or share units during the six months ended June 30, 2017 and June 30, 2016, as well as the period from July 7, 2015 (Date Operations Commenced) through December 31, 2015. The vesting terms of these grants are specific to the individual grant and vary in that a portion of the restricted shares and share units vest in equal annual amounts over the next three years (time-based vesting) and a portion of the restricted shares and share units vest on the third anniversary of the grants subject to the achievement of certain performance criteria (performance-based vesting). As of June 30, 2017, the performance criteria have not been met for any outstanding restricted shares or share units with performance-based vesting.

In general, participating employees are required to remain employed for vesting to occur (subject to certain limited exceptions). Restricted shares and share units that do not vest are forfeited. Dividends on restricted shares and share units with time-based vesting are paid to holders of such shares and share units and are not returnable, even if the underlying shares or share units do not ultimately vest. Dividends on restricted shares and share units with performance-based vesting are accrued when declared and paid to holders of such shares on the third anniversary of the initial grant subject to the vesting of the underlying shares.

The following table summarizes restricted share activity for the six months ended June 30, 2017:

	Six Months Ended June 30, 2017	
	Shares	Weighted- Average Grant Date Fair Value
Unvested restricted shares at beginning of period	216,348	\$ 38.98
Restricted shares granted	62,135	45.23
Restricted shares vested	(3,885)	46.48
Unvested restricted shares at end of period	274,598	\$ 40.28

The Company recognized \$0.4 million and \$0.3 million in compensation expense related to the restricted shares for the three months ended June 30, 2017 and June 30, 2016, respectively, and \$0.8 million and \$0.5 million in

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compensation expense related to the restricted shares for the six months ended June 30, 2017 and June 30, 2016, respectively. Such expenses are included in general and administrative expenses on the Company's condensed consolidated statements of operations. As of June 30, 2017, there were approximately \$10.6 million of total unrecognized compensation costs related to the outstanding restricted shares.

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Note 15 – Accounts Payable, Accrued Expenses and Other Liabilities

The following table summarizes the significant components of accounts payable, accrued expenses and other liabilities as of June 30, 2017 and December 31, 2016 (in thousands):

	June 30, 2017	December 31, 2016
Accounts payable and accrued expenses	\$ 17,089	\$ 22,424
Accrued real estate taxes	16,752	23,942
Below-market leases	15,560	16,827
Dividends payable	14,262	14,132
Environmental reserve	11,584	11,584
Sears Holdings payable	10,964	—
Unearned tenant reimbursements	5,740	4,039
Deferred maintenance	4,074	4,124
Prepaid rental income	3,918	1,979
Accrued interest	3,342	3,004
Litigation charge	—	19,000
Total accounts payable, accrued expenses and other liabilities	\$ 103,285	\$ 121,055

Note 16 – Subsequent Events

On July 12, 2017, the Company completed the GGP Transactions for gross consideration of \$247.6 million. Pursuant to the GGP Transactions, the Company (i) sold to GGP the Company's 50% interest in eight of the 12 assets in the GGP JV for \$190.1 million; and (ii) sold to GGP a 50% joint venture interest in five additional assets for \$57.5 million. The new joint venture will own and operate these assets on substantially the same terms as the existing joint venture

As a result of the GGP Transactions, the Company reduced amounts outstanding under its mortgage loan by \$50.6 million and received approximately \$171.6 million of additional cash proceeds before closing costs, which it intends to use to fund its redevelopment pipeline and for general corporate purposes.

The table below presents the properties included in each transaction, as well as the 4 properties remaining in the Company's original JV with GGP:

Eight Existing JV Assets Sold to GGP	Assets Sold to GGP Location	Four Remaining Assets in Original JV with GGP		Five Assets Contributed to New JV with GGP	
		Retail Center	Location	Retail Center	Location
Coronado Center	Albuquerque, NM	Alderwood	Lynwood, WA	Altamonte Mall	Altamonte Springs, FL
The Mall in Columbia	Columbia, MD	Natick Collection	Natick, MA	Cumberland Mall	Atlanta, GA

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Oakbrook Center	Oakbrook, IL	Sooner Mall	Norman, OK	Coastland Center	Naples, FL
Paramus Park	Paramus, NJ	Stonebriar Center	Frisco, TX	Northridge Fashion Center	Northridge, CA
Pembroke Lakes	Pembroke Pines, FL			Willowbrook Mall	Wayne, NJ
Ridgedale Center	Minnetonka, MN				
Staten Island Mall	Staten Island, NY				
Valley Plaza	Bakersfield, CA				

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain statements contained herein constitute forward-looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

Forward-looking statements are not guarantees of future performance. They represent our intentions, plans, expectations and beliefs and are subject to numerous assumptions, risks and uncertainties. Our future results, financial condition and business may differ materially from those expressed in these forward-looking statements. You can find many of these statements by looking for words such as "approximates," "believes," "expects," "anticipates," "estimates," "intends," "plans," "projects," "will," "would," "may" or other similar expressions in this Quarterly Report on Form 10-Q. Many of the factors that will determine the outcome of these and our other forward-looking statements are beyond our ability to control or predict. For further discussion of factors that could materially affect the outcome of our forward-looking statements, see "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances occurring after the date of this Quarterly Report on Form 10-Q. The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto included in Part 1 of this Quarterly Report.

Overview

Seritage Growth Properties (NYSE: SRG), a Maryland real estate investment trust formed on June 3, 2015, is a fully integrated, self-administered and self-managed real estate investment trust ("REIT") as defined under Section 856(c) of the Internal Revenue Code (the "Code"). Seritage's assets are held by and its operations are primarily conducted through, directly or indirectly, the Operating Partnership. Under the partnership agreement of the Operating Partnership, Seritage, as the sole general partner, has exclusive responsibility and discretion in the management and control of the Operating Partnership. Unless otherwise expressly stated or the context otherwise requires, the "Company", "we," "us," and "our" as used herein refer to Seritage, the Operating Partnership, and its owned and controlled subsidiaries.

We are principally engaged in the acquisition, ownership, development, redevelopment, management, and leasing of diversified retail real estate throughout the United States. As of June 30, 2017, our portfolio included over 42.0 million square feet of gross leasable area ("GLA"), consisting of 235 Wholly Owned Properties totaling approximately 36.6 million square feet of GLA across 49 states and Puerto Rico, and interests in 31 JV Properties totaling over 5.5 million square feet of GLA across 17 states.

As of June 30, 2017, 180 of the Company's wholly-owned properties were leased to Sears Holdings pursuant to the Master Lease and operated under either the Sears or Kmart brand. At 88 properties, third-party tenants under direct leases occupy a portion of leasable space alongside Sears and Kmart, and 37 properties are leased only to third parties. A substantial majority of the space at the JV Properties is also leased to Sears Holdings under the JV Master Leases.

We generate revenues primarily by leasing our properties to tenants, including both Sears Holdings and third-party tenants, who operate retail stores (and potentially other uses) in the leased premises, a business model common to many publicly traded REITs. In addition to revenues generated under the Master Lease through rent payments from Sears Holdings, we generate revenue through leases to third-party tenants under existing and future leases for space at our properties.

The Master Lease provides us with the right to recapture up to approximately 50% of the space occupied by Sears Holdings at each of the 224 Wholly Owned Properties initially included in the Master Lease (subject to certain exceptions and limitations). In addition, Seritage has the right to recapture any automotive care centers which are

free-standing or attached as “appendages” to the properties, and all outparcels or outlots and certain portions of parking areas and common areas. Upon exercise of this recapture right, we will generally incur certain costs and expenses for the separation of the recaptured space from the remaining Sears Holdings space and can reconfigure and rent the recaptured space to third-party tenants on potentially superior terms determined by us and for our own account. We also have the right to recapture 100% of the space occupied by Sears Holdings at each of 21 identified Wholly Owned Properties by making a specified lease termination payment to Sears Holdings, after which we expect to be able to reposition and re-lease those stores on potentially superior terms determined by us and for our own account.

As of June 30, 2017, we had exercised recapture rights at 40 properties, including 16 properties at which we exercised partial recapture rights, 16 properties at which we exercised 100% recapture rights (five of which were converted from partial recapture properties), and eight properties at which we exercised our rights to recapture only automotive care centers or outparcels.

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With respect to the JV Properties, each JV Master Lease provides for similar recapture rights as the Master Lease governing the Company's Wholly Owned Properties. As of June 30, 2017, the GGP JV has initiated redevelopment projects at four of its 12 properties and had announced plans to recapture space at five additional locations according to a specific schedule.

GGP Transactions

On July 12, 2017, the Company completed the GGP Transactions for gross consideration of \$247.6 million. Pursuant to the GGP Transactions, the Company (i) sold to GGP the Company's 50% interest in eight of the 12 assets in the GGP JV for \$190.1 million; and (ii) sold to GGP a 50% joint venture interest in five additional assets for \$57.5 million. The new joint venture will own and operate these assets on substantially the same terms as the existing joint venture

As a result of the GGP Transactions, the Company reduced amounts outstanding under its mortgage loan by \$50.6 million and received approximately \$171.6 million of additional cash proceeds before closing costs, which it intends to use to fund its redevelopment pipeline and for general corporate purposes.

Results of Operations

We derive substantially all of our revenue from rents received from tenants under existing leases at each of our properties. This revenue generally includes fixed base rents and recoveries of expenses that we have incurred and that we pass through to the individual tenants, in each case as provided in the respective leases.

Our primary cash expenses consist of our property operating expenses, general and administrative expenses, interest expense, and construction and development related costs. Property operating expenses include: real estate taxes, repairs and maintenance, management expenses, insurance, ground lease costs and utilities; general and administrative expenses include payroll, office expenses, professional fees, and other administrative expenses; and interest expense is primarily on our mortgage loans payable. In addition, we incur substantial non-cash charges for depreciation and amortization on our properties and related intangible assets and liabilities resulting from the Transaction.

We did not have any revenues or expenses until we completed the Transaction on July 7, 2015.

Rental Income

For the three months ended June 30, 2017:

- The Company recognized total rental income of \$42.2 million as compared to \$45.9 million for the three months ended June 30, 2016. The \$3.7 million decrease was driven primarily by (i) reduced rental income under the Master Lease of \$3.9 million and (ii) reduced straight-line rent of \$1.9 million, offset by (iii) increased third-party rental income of \$1.2 million and (iv) termination fee income of \$0.6 million, in each case for the three months ended June 30, 2017 as compared to the prior year period.
- Rental income attributable to Sears Holdings was \$29.2 million (excluding termination fee income of \$0.6 million and straight-line rental income of \$0.8 million), or 74.5% of total rental income earned in the period. For the prior year period, the comparable rental income attributable to Sears Holdings was \$33.1 million, or approximately 79.0% of total rental income earned in the period.
- Rental income attributable to third-party tenants was \$10.0 million (excluding straight-line rental income of \$1.1 million), or 25.5% of total rental income earned in the period. For the prior year period, the comparable rental income attributable to third-party tenants was \$8.8 million, or approximately 21.0% of total rental income earned in the period.
- Straight-line rent was \$1.9 million as compared to \$3.8 million for the prior year period. The reduction in straight-line rent was primarily due to reduced rental income under the Master Lease and the amortization of accrued

rental revenues related to the straight-line method of reporting that are deemed uncollectable as result of recapture and termination activity under the Master Lease.

For the six months ended June 30, 2017:

- The Company recognized total rental income of \$91.4 million as compared to \$91.2 million for the six months ended June 30, 2016. The \$0.2 million increase was driven primarily by (i) termination fee income of \$6.8 million and (ii) increased third-party rental income of \$3.7 million, offset by (iii) reduced rental income under the Master Lease of \$5.6 million and (iv) reduced straight-line rent of \$4.7 million, in each case for the six months ended June 30, 2017 as compared to the prior year period.
- Rental income attributable to Sears Holdings was \$60.9 million (excluding termination fee income of \$6.8 million and straight-line rental income of \$1.8 million), or 75.6% of total rental income earned in the period. For the prior year period, the comparable rental income attributable to Sears Holdings was \$66.5 million, or approximately 81.0% of total rental income earned in the period.

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- Rental income attributable to third-party tenants was \$19.7 million (excluding straight-line rental income of \$1.7 million), or 24.4% of total rental income earned in the period. For the prior year period, the comparable rental income attributable to third-party tenants was \$16.0 million, or approximately 19.0% of total rental income earned in the period.
- Straight-line rent was \$3.5 million as compared to \$8.2 million for the prior year period. The reduction in straight-line rent was primarily due to reduced rental income under the Master Lease and the amortization of accrued rental revenues related to the straight-line method of reporting that are deemed uncollectable as result of recapture and termination activity under the Master Lease.

On an annual basis, and taking into account all signed leases, including those which have not yet commenced rental payments, rental income attributable to third-party tenants would have represented approximately 43.9% of total annual base rental income as of June 30, 2017.

The increase in rental income attributable to third-party tenants, and the reduction in rental income attributable directly to Sears Holdings, are driven by the Company's leasing and redevelopment activity, including signing leases with new, third-party tenants and recapturing space from Sears Holdings.

Tenant Reimbursements and Property Operating Expenses

Pursuant to the provisions of the Master Lease and many third-party leases, the Company is entitled to be reimbursed for certain property related expenses. For the three months ended June 30, 2017 and June 30, 2016, the Company recorded tenant reimbursement income of \$15.7 million and \$15.9 million, respectively, compared to property operating expenses and real estate tax expense aggregating of \$16.9 million and \$17.2 million, respectively. For the six months ended June 30, 2017 and June 30, 2016, the Company recorded tenant reimbursement income of \$31.9 million and \$33.7 million, respectively, compared to property operating expenses and real estate tax expense aggregating of \$34.0 million and \$35.8 million, respectively.

Depreciation and Amortization Expenses

Depreciation and amortization expenses consist of depreciation of real property, depreciation of furniture, fixtures and equipment, and amortization of certain lease intangible assets.

For the three months ended June 30, 2017, the Company incurred depreciation and amortization expenses of \$50.6 million as compared to depreciation and amortization expenses of \$37.3 million in the prior year period. The increase of \$13.3 million was due primarily to approximately \$16.2 million of accelerated amortization attributable to certain lease intangible assets during the three months ended June 30, 2017, offset by lower amortization resulting from an increase in fully-amortized lease intangibles.

For the six months ended June 30, 2017, the Company incurred depreciation and amortization expenses of \$109.2 million as compared to depreciation and amortization expenses of \$76.8 million in the prior year period. The increase of \$30.4 million was due primarily to approximately \$37.3 million of accelerated amortization attributable to certain lease intangible assets during the six months ended June 30, 2017, offset by lower amortization resulting from an increase in fully-amortized lease intangibles.

Accelerated amortization results from the recapture of space from, or the termination of space by, Sears Holdings. Such recaptures and terminations are deemed lease modifications and require related lease intangibles to be amortized over the shorter of the shortened lease term or the remaining useful life of the asset.

General and Administrative Expenses

General and administrative expenses consist of personnel costs, including stock-based compensation, professional fees, office expenses and overhead expenses.

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For the three months ended June 30, 2017, the Company incurred general and administrative expenses of \$5.1 million compared to general and administrative expenses of \$4.4 million for the prior year period. The \$0.7 million increase was driven primarily by increased personnel costs.

For the six months ended June 30, 2017, the Company incurred general and administrative expenses of \$11.4 million compared to general and administrative expenses of \$8.9 million for the prior year period. The \$2.3 million increase was driven primarily by an increase in fees to firms providing professional services and increased personnel costs.

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Acquisition-Related Expenses

The Company did not incur any acquisition-related expenses for the three or six months ended June 30, 2017. For the three and six months ended June 30, 2016, the Company recorded less than \$0.1 million of acquisition-related expenses, primarily remaining legal fees.

Interest Expense

For the three months ended June 30, 2017, the Company incurred \$18.4 million of interest expense (net of amounts capitalized) as compared to interest expense of \$15.6 million for the prior year period. For the six months ended June 30, 2017, the Company incurred \$35.0 million of interest expense (net of amounts capitalized) as compared to interest expense of \$31.4 million for the prior year period. The increase in interest expense in both periods was driven by higher average borrowings under the Future Funding Facility and Unsecured Term Loan, as well as higher average LIBOR rates.

Unrealized Loss on Interest Rate Cap

For the three months ended June 30, 2017, the Company recorded a loss of \$0.1 million compared to a loss of \$0.5 million for the three months ended June 30, 2016. For the six months ended June 30, 2017, the Company recorded a loss of \$0.6 million compared to a loss of \$1.9 million for the six months ended June 30, 2016.

Liquidity and Capital Resources

Property rental income is our primary source of cash and is dependent on a number of factors, including occupancy levels and rental rates, as well as our tenants' ability to pay rent. Our primary uses of cash include payment of operating expenses, debt service, reinvestment in and redevelopment of properties, and distributions to shareholders and unitholders. We believe that we currently have sufficient liquidity to fund such uses in the form of, as of June 30, 2017, (i) \$9.9 million of unrestricted cash, (ii) \$172.6 million of restricted cash, (iii) \$65.0 million of capacity under our \$200.0 million Unsecured Term Loan (which amount can increase to \$115.0 million on September 1, 2017) and (iv) anticipated cash provided by operations; and subsequent to June 30, 2017, \$171.6 million of unrestricted cash proceeds, before closing costs, received as a result of the GGP Transactions. We may also raise additional capital through the public or private issuance of debt securities, common or preferred equity or other instruments convertible into or exchangeable for common or preferred equity, as well as through asset sales or joint ventures.

In November 2016, the Company and the servicer for our Mortgage Loans entered into amendments to our Loan Agreements to resolve a disagreement regarding one of the cash flow sweep provisions in our Loan Agreements. The principal terms of these amendments are that the Company has (i) posted \$30.0 million, and will post \$3.3 million on a monthly basis, to a redevelopment project reserve account, which amounts may be used by the Company to fund redevelopment activity and (ii) extended the spread maintenance provision for prepayment of the loan by two months through March 9, 2018 (with the spread maintenance premium for the second month at a reduced amount).

The Company believes it is currently in compliance with all material terms and conditions of the Loan Agreements.

Summary of Cash Flows

Net cash provided by operating activities was \$29.2 million for the six months ended June 30, 2017 and \$70.3 million for the six months ended June 30, 2016. Significant changes in the components of net cash provided by operating activities include:

–In 2017, a decrease in operating cash inflows due the payment of a previously recorded litigation expense;

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In 2017, a decrease in operating cash inflows due to net reductions in rental income under the Master Lease and increased interest expense, offset by termination fee income and additional third-party rental income;

–In 2016, an increase in operating cash inflows due to changes in operating assets and liabilities.

Net cash used in investing activities was \$121.1 million for the six months ended June 30, 2017 and \$33.2 million for the six months ended June 30, 2016. Significant components of net cash used in investing activities include:

–In 2017, development of real estate and property improvements, (\$106.1) million;

–In 2017, investments in unconsolidated joint ventures, (\$15.0) million; and

–In 2016, development of real estate and property improvements, (\$33.2) million.

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Net cash provided by financing activities was \$134.7 million for the six months ended June 30, 2017 compared to net cash used in financing activities of \$41.8 million for the six months ended June 30, 2016. Significant components of net cash used in financings activities include:

- In 2017, cash distributions to common stockholders and holders of Operating Partnership units, (\$27.8) million;
- In 2017, proceeds from the Future Funding Facility, \$80.0 million;
- In 2017, proceeds from the Unsecured Term Loan, \$85.0 million; and
- In 2016, cash distributions to common stockholders and holders of Operating Partnership units, (\$41.7) million.

Dividends and Distributions

The Company's Board of Trustees declared the following common stock dividends during 2017 and 2016, with holders of Operating Partnership units entitled to an equal distribution per Operating Partnership unit held on the record date:

Declaration Date	Record Date	Payment Date	Dividends per Class A and Class C Common Share
2017			
July 25	September 29	October 12	\$ 0.25
April 25	June 30	July 13	0.25
February 28	March 31	April 13	0.25
2016			
November 1	December 31	January 12	\$ 0.25
August 2	September 30	October 13	0.25
May 3	June 30	July 14	0.25
March 8	March 31	April 14	0.25

Litigation and Other Matters

In accordance with accounting standards regarding loss contingencies, the Company accrues an undiscounted liability for those contingencies where the incurrence of a loss is probable and the amount can be reasonably estimated, and the Company discloses the amount accrued and the amount of a reasonably possible loss in excess of the amount accrued or disclose the fact that such a range of loss cannot be estimated. The Company does not record liabilities when the likelihood that the liability has been incurred is probable but the amount cannot be reasonably estimated, or when the liability is believed to be only reasonably possible or remote. In such cases, the Company discloses the nature of the contingency, and an estimate of the possible loss, range of loss, or disclose the fact that an estimate cannot be made.

The Company is subject, from time to time, to various legal proceedings and claims that arise in the ordinary course of business. While the resolution of such matters cannot be predicted with certainty, management believes, based on currently available information, that the final outcome of such matters will not have a material effect on the condensed consolidated financial position, results of operations, cash flows or liquidity of the Company.

In May and June of 2015, four purported Sears Holdings shareholders filed lawsuits in the Delaware Court of Chancery challenging the Transaction, which lawsuits were subsequently consolidated into a single action captioned In re Sears Holdings Corporation Stockholder and Derivative Litigation, Consol. C.A. No. 11081-VCL (the

“Action”). On October 15, 2015, plaintiffs filed a verified consolidated stockholder derivative complaint in the Action against the individual members of Sears Holdings’ Board of Directors, ESL Investments, Inc. (together with its affiliates, “ESL”), Sears Holdings’ CEO, Fairholme Capital Management L.L.C. (“FCM”), and Seritage. On July 12, 2016, the plaintiffs filed a verified consolidated amended stockholder derivative complaint (the “Amended Complaint”) against the same defendants and asserting substantially the same claims as set forth in the complaint filed in October 2015. The plaintiffs brought the Action derivatively on behalf of Sears Holdings, which was named as a nominal defendant, and alleged that the Sears Holdings directors, as well as ESL and Edwards S. Lampert (in their capacity as the alleged controlling stockholder of Sears Holdings), breached their fiduciary duties to Sears Holdings shareholders by selling the Wholly Owned Properties to Seritage at a price that was unfairly low and was the result of a process that allegedly was flawed. The Amended Complaint also alleged that Seritage and FCM aided and abetted these alleged fiduciary breaches. Among other forms of relief, the Amended Complaint sought damages in unspecified amounts. In October 2016, following mediation, the parties reached an agreement-in-principle to settle the Action, which ultimately was reflected in a definitive Stipulation and Agreement of Settlement, Compromise and Release executed on February 8, 2017. On May 9, 2017, the Delaware Court of Chancery, after customary notice to Sears Holding stockholders and an in-person settlement hearing, entered a final order and judgment approving the settlement.

Pursuant to the settlement, (a) the defendants and the D&O insurers for the individual members of the Sears Holdings' Board of Directors paid \$40.0 million, of which Seritage paid \$19.0 million and (b) all defendants received customary releases. The defendants continue to deny the claims asserted and entered into the settlement solely to avoid the burden, expense, distraction, and inherent risk in and of litigation.

Off-Balance Sheet Arrangements

The Company accounts for its investments in joint ventures that it does not have a controlling interest or is not the primary beneficiary using the equity method of accounting and those investments are reflected on the condensed consolidated balance sheets of the Company as investments in unconsolidated joint ventures. As of June 30, 2017 and December 31, 2016, we did not have any off-balance sheet financing arrangements.

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Retenancing and Redevelopment Projects

We are currently retenancing or redeveloping several properties primarily to convert single-tenant buildings occupied by Sears Holdings into multi-tenant properties occupied by a diversity of retailers and related concepts. The table below provides a brief description of each of the 50 new redevelopment projects originated on the Seritage platform as of June 30, 2017. These projects represent an estimated total investment of \$624.8 million, of which \$518.7 million remained to be spent.

Total Project Costs under \$10 Million

Property	Description	Total Project Square Feet	Estimated Construction Start	Estimated Substantial Completion
King of Prussia, PA	Repurpose former auto center space for Outback Steakhouse, Yard House and small shop retail	29,100		Substantially complete
Merrillville, IN	Termination property; redevelop existing store for At Home and small shop retail	132,000		Substantially complete
Elkhart, IN	Termination property; existing store has been released to Big R Stores	86,500		Substantially complete
San Antonio, TX	Recapture and repurpose auto center space for Orvis, Jared's Jeweler, Shake Shack and small shop retail	18,900		Substantially complete
Bowie, MD	Recapture and repurpose auto center space for BJ's			
	Brewhouse	8,200		Delivered to tenant
Albany, NY	Recapture and repurpose auto	28,000		Underway Q4 2017

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	center space for BJ's Brewhouse and additional small shop retail			
Hagerstown, MD	Recapture and repurpose auto center space for BJ's Brewhouse, Verizon and additional restaurants	15,400	Underway	Q4 2017
Roseville, MI	Partial recapture; redevelop existing store for At Home	100,400	Underway	Q4 2017
Troy, MI	Partial recapture; redevelop existing store for At Home	100,000	Underway	Q4 2017
Warwick, RI	Recapture and repurpose auto center space for BJ's Brewhouse and additional retail	27,900	Underway	Q4 2017
Henderson, NV	Termination property; redevelop existing store for At Home, Seafood City and additional retail	144,400	Underway	Q4 2017
Rehoboth Beach, DE	Partial recapture; redevelop existing store for Christmas Tree Shops and That! and PetSmart	56,700	Underway	Q1 2018
Ft. Wayne, IN	Site densification; new outparcels for BJ's	12,000	Underway	Q1 2018

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	Brewhouse (substantially complete) and Chick-Fil-A (project expansion)			
Kearney, NE	Termination property; redevelop existing store for Marshall's, PetSmart and additional junior anchors	92,500	Q3 2017	Q2 2018
Guaynabo, PR	Partial recapture; redevelop existing store for Planet Fitness and Capri	56,100	Q3 2017	Q2 2018
Jefferson City, MO	Termination property; redevelop existing store for Orscheln Farm and Home	96,000	Q3 2017	Q2 2018
Olean, NY	Partial recapture; redevelop existing store for Marshall's and additional retail	45,000	Q3 2017	Q2 2018
Cullman, AL	Termination property; redevelop existing store for Bargain Hunt and additional junior anchors	99,000	Q3 2017	Q3 2018
Roseville, CA	Recapture and repurpose auto center space for AAA	10,400	Q4 2017	Q2 2018
Dayton, OH	Recapture and repurpose auto center space for Outback	14,100	Q4 2017	Q4 2018

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	Steakhouse and additional restaurants			
Florissant, MO	Site densification; new outparcel for Chick-Fil-A	5,000	Q1 2018	Q3 2018
New Iberia, LA	Termination property; redevelop existing store for Rouses Supermarkets, additional junior anchors and small shop retail	93,100	Q1 2018	Q1 2019
Total Project Costs \$10 - \$20 Million				
Property	Description	Total Project Square Feet	Estimated Construction Start	Estimated Substantial Completion
Braintree, MA	100% recapture; redevelop existing store for Nordstrom Rack, Saks OFF 5th and additional retail	90,000	Substantially complete	
Honolulu, HI	100% recapture; redevelop existing store for Longs Drugs (CVS), PetSmart and Ross Dress for Less	79,000	Substantially complete	
Madison, WI	Partial recapture; redevelop existing store for Dave & Busters, Total Wine & More, additional retail and restaurants	75,300	Underway	Q4 2017

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West Jordan, UT	Partial recapture; redevelop existing store and attached auto center for Burlington Stores and additional retail	81,400	Underway	Q4 2017
Anderson, SC	100% recapture (project expansion); redevelop existing store for Burlington Stores, Sportsman's Warehouse, additional retail and restaurants	111,300	Underway	Q4 2017
Fairfax, VA	Partial recapture; redevelop existing store and attached auto center for Dave & Busters, additional junior anchors and restaurants	110,300	Underway	Q1 2018

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Total Project Costs \$10 - \$20 Million (cont'd)

Property	Description	Total Project Square Feet	Estimated Construction Start	Estimated Substantial Completion
Charleston, SC	100% recapture (project expansion); redevelop existing store and detached auto center for Burlington Stores and additional retail	133,500	Underway	Q1 2018
North Hollywood, CA	Partial recapture; redevelop existing store for Burlington Stores and additional junior anchors	79,800	Underway	Q1 2018
Orlando, FL	100% recapture; demolish and construct new buildings for Floor & Décor, Orchard Supply Hardware, Longhorn Steakhouse, small shop retail and restaurants	139,200	Underway	Q2 2018
Springfield, IL	Termination property; redevelop existing store for Burlington Stores, Binny's Beverage Depot, Orange Theory Fitness,	133,400	Underway	Q2 2018

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	Outback Steakhouse, additional junior anchors and small shop retail			
Santa Cruz, CA	Partial recapture; redevelop existing store for TJ Maxx, HomeGoods and Petco	62,200	Q3 2017	Q1 2018
Saugus, MA	Partial recapture; redevelop existing store and detached auto center for Round One and restaurants	99,000	Q3 2017	Q1 2018
Thornton, CO	Termination property; redevelop existing store for Vasa Fitness and additional junior anchors	191,600	Q3 2017	Q1 2018
North Miami, FL	100% recapture; redevelop existing store for Michael's, PetSmart and Ross Dress for Less	124,300	Q3 2017	Q2 2018
Hialeah, FL	100% recapture; redevelop existing store for Bed, Bath & Beyond and additional junior anchors to join current tenant, Aldi	88,400	Q3 2017	Q2 2018
Cockeysville, MD	Partial recapture; redevelop	83,500	Q4 2017	Q2 2018

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	existing store for HomeGoods, Michael's Stores, additional junior anchors and restaurants			
Salem, NH	Site densification; new theatre for Cinemark			
	Recapture and repurpose auto center for restaurant space.	71,200	Q4 2017	Q3 2018
Temecula, CA	Partial recapture; redevelop existing store and detached auto center for Round One, small shop retail and restaurants	65,100	Q1 2018	Q4 2018
Canton, OH	Partial recapture; redevelop existing store for Dave & Busters and restaurants	83,900	Q1 2018	Q2 2019
North Riverside, IL	Partial recapture; redevelop existing store and detached auto center for Round One, additional junior anchors, small shop retail and restaurants	103,900	Q1 2018	Q3 2019

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Total Project Costs over \$20 Million

Property	Description	Total Project Square Feet	Estimated Construction Start	Estimated Substantial Completion
Memphis, TN	100% recapture; demolish and construct new buildings for LA Fitness, Nordstrom Rack, Ulta Beauty, Hopdoddy Burger Bar, additional junior anchors, restaurants and small shop retail	135,200	Underway	Q3 2017
Wayne, NJ	Partial recapture; redevelop existing store for Dave & Busters, additional junior anchors and restaurants Recapture and repurpose detached auto center for Cinemark (project expansion)	108,800	Underway	Q4 2017
West Hartford, CT	100% recapture; redevelop existing store and detached auto center for BuyBuy Baby, Cost Plus World Market, REI, Saks OFF	147,600	Underway	Q1 2018

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	Fifth, other junior anchors, Shake Shack and additional small shop retail			
St. Petersburg, FL	100% recapture; demolish and construct new buildings for Dick's Sporting Goods, Lucky's Market, PetSmart, Five Below, Chili's Grill & Bar, Pollo Tropical, Longhorn Steakhouse and additional small shop retail and restaurants	142,400	Underway	Q2 2018
Carson, CA	100% recapture (project expansion); redevelop existing store for Burlington Stores, Ross Dress for Less and additional retail	163,800	Q3 2017	Q1 2019
Santa Monica, CA	100% recapture; redevelop existing building into premier, mixed-use asset featuring unique, small-shop retail and	96,500	Q4 2017	Q4 2019

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Watchung, NJ	creative office space 100% recapture; demolish full-line store and construct new buildings for HomeSense, Sierra Trading Post, Ulta Beauty and additional small shop retail and restaurants Demolish detached auto center and construct a freestanding Cinemark theater	126,700	Q1 2018	Q2 2019
East Northport, NY	Termination property (notice period); redevelop existing store and attached auto center for AMC Theatres, 24 Hour Fitness, additional junior anchors and small shop retail	179,700	Q2 2018	Q4 2019

Non-GAAP Supplemental Financial Measures and Definitions

The Company makes reference to NOI, Total NOI, FFO, Company FFO, EBITDA and Adjusted EBITDA which are considered non-GAAP measures.

Net Operating Income ("NOI") and Total NOI

We define NOI as income from property operations less property operating expenses. Other REITs may use different methodologies for calculating NOI, and accordingly, the Company's depiction of NOI may not be comparable to other REITs. We believe NOI provides useful information regarding the Company, its financial condition, and results of operations because it reflects only those income and expense items that are incurred at the property level.

The Company also uses Total NOI, which includes its proportional share of unconsolidated properties. We believe this form of presentation offers insights into the financial performance and condition of the Company as a whole given our ownership of unconsolidated properties that are accounted for under GAAP using the equity method. We also consider Total NOI to be a helpful supplemental measure of our operating performance because it excludes from NOI variable items such as termination fee income, as well as non-cash items such as straight-line rent and amortization of lease intangibles.

Due to the adjustments noted, NOI and Total NOI should only be used as an alternative measure of the Company's financial performance.

Earnings Before Interest Expense, Income Tax, Depreciation, and Amortization ("EBITDA") and Adjusted EBITDA

We define EBITDA as net income less depreciation, amortization, interest expense and provision for income and other taxes. EBITDA is a commonly used measure of performance in many industries, but may not be comparable to measures calculated by other companies. We believe EBITDA provides useful information to investors regarding our results of operations because it removes the impact of our capital structure (primarily interest expense) and our asset base (primarily depreciation and amortization). Management also believes the use of EBITDA facilitates comparisons between us and other equity REITs, retail property owners who are not REITs, and other capital-intensive companies.

The Company makes certain adjustments to EBITDA, which it refers to as Adjusted EBITDA, to account for certain non-cash and non-comparable items, such as termination fee income, unrealized loss on interest rate cap, litigation charges, acquisition-related expenses, and up-front-hiring and personnel costs, that it does not believe are representative of ongoing operating results.

Due to the adjustments noted, EBITDA and Adjusted EBITDA should only be used as an alternative measure of the Company's financial performance

Funds From Operations ("FFO") and Company FFO

We define FFO using the definition set forth by the National Association of Real Estate Investment Trusts ("NAREIT"), which may not be comparable to measures calculated by other companies who do not use the NAREIT definition of FFO. FFO is calculated as net income computed in accordance with GAAP, excluding gains (or losses) from property sales, real estate related depreciation and amortization, and impairment charges on depreciable real estate assets.

We consider FFO a helpful supplemental measure of the operating performance for equity REITs and a complement to GAAP measures because it is a recognized measure of performance by the real estate industry. FFO facilitates an understanding of the operating performance of our properties between periods because it does not give effect to real estate depreciation and amortization which are calculated to allocate the cost of a property over its useful life. Since

values for well-maintained real estate assets have historically increased or decreased based upon prevailing market conditions, the Company believes that FFO provides investors with a clearer view of the Company's operating performance.

The Company makes certain adjustments to FFO, which it refers to as Company FFO, to account for certain non-cash and non-comparable items, such as termination fee income, unrealized loss on interest rate cap, litigations charges, acquisition-related expenses, amortization of deferred financing costs and up-front-hiring and personnel costs, that it does not believe are representative of ongoing operating results. The Company previously referred to this metric as Normalized FFO; the definition and calculation remain the same.

Due to the adjustments noted, FFO and Company FFO should only be used as an alternative measure of the Company's financial performance.

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Reconciliation of Non-GAAP Financial Measures to GAAP Financial Measures

None of NOI, Total NOI, EBITDA, Adjusted EBITDA, FFO and Company FFO are measures that (i) represent cash flow from operations as defined by GAAP; (ii) are indicative of cash available to fund all cash flow needs, including the ability to make distributions; (iii) are alternatives to cash flow as a measure of liquidity; or (iv) should be considered alternatives to net income (which is determined in accordance with GAAP) for purposes of evaluating the Company's operating performance. Reconciliations of these measures to the respective GAAP measures we deem most comparable are presented below on a comparative basis for all periods.

The following table reconciles NOI and Total NOI to GAAP net loss for the three months ended June 30, 2017 and June 30, 2016 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
NOI				
Net loss	\$(34,867)	\$(12,565)	\$(67,711)	\$(27,279)
Termination fee income	(628)	—	(6,764)	—
Depreciation and amortization	50,571	37,324	109,234	76,833
General and administrative	5,093	4,413	11,367	8,852
Acquisition-related expenses	—	—	—	73
Equity in loss (income) of unconsolidated joint ventures	1,542	(912)	540	(2,998)
Interest and other income	(42)	(59)	(120)	(119)
Interest expense	18,431	15,636	35,023	31,366
Unrealized loss on interest rate cap	124	480	595	1,851
Provision for income taxes	147	185	266	340
NOI	\$40,371	\$44,502	\$82,430	\$88,919
Total NOI				
NOI	40,371	44,502	82,430	88,919
NOI of unconsolidated joint ventures	6,987	6,559	13,498	13,626
Straight-line rent adjustment (1)	(2,177)	(3,755)	(3,626)	(8,426)
Above/below market rental income/expense (1)	(459)	(124)	(690)	(424)
Total NOI	\$44,722	\$47,182	\$91,612	\$93,695

(1) Includes adjustments for unconsolidated joint ventures.

The following table reconciles EBITDA and Adjusted EBITDA to GAAP net loss for the three months ended June 30, 2017 and June 30, 2016 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
EBITDA				
Net loss	\$(34,867)	\$(12,565)	\$(67,711)	\$(27,279)
Depreciation and amortization	50,571	37,324	109,234	76,833
Depreciation and amortization (unconsolidated)	8,363	5,592	13,828	10,462

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joint ventures)				
Interest expense	18,431	15,636	35,023	31,366
Provision for income and other taxes	147	185	266	340
EBITDA	\$42,645	\$46,172	\$90,640	\$91,722
Adjusted EBITDA				
EBITDA	\$42,645	\$46,172	\$90,640	\$91,722
Termination fee income	(628)	—	(6,764)	—
Unrealized loss on interest rate cap	124	480	595	1,851
Acquisition-related expenses	—	—	—	73
Up-front hiring and personnel costs	—	68	—	328
Adjusted EBITDA	\$42,141	\$46,720	\$84,471	\$93,974

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The following table reconciles FFO and Company FFO to GAAP net loss for the three months ended June 30, 2017 and June 30, 2016 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Funds from Operations				
Net loss	\$(34,867)	\$(12,565)	\$(67,711)	\$(27,279)
Real estate depreciation and amortization				
(consolidated properties)	50,271	37,153	108,675	76,538
Real estate depreciation and amortization				
(unconsolidated joint ventures)	8,363	5,592	13,828	10,462
FFO attributable to common shareholders				
and unitholders	\$23,767	\$30,180	\$54,792	\$59,721
FFO per diluted common share and unit	\$0.43	\$0.54	\$0.99	\$1.07
Company Funds from Operations				
Funds from Operations attributable to Seritage				
Growth Properties	\$23,767	\$30,180	\$54,792	\$59,721
Termination fee income	(628)	—	(6,764)	—
Unrealized loss on interest rate cap	124	480	595	1,851
Amortization of deferred financing costs	2,479	1,340	4,061	2,680
Acquisition-related expenses	—	—	—	73
Up-front hiring and personnel costs	—	68	—	328
Company FFO attributable to common				
shareholders and unitholders	\$25,742	\$32,068	\$52,684	\$64,653
Company FFO per diluted common share and unit	\$0.46	\$0.58	\$0.95	\$1.16
Weighted Average Common Shares and Units Outstanding				
Weighted average common shares outstanding	33,766	31,391	33,638	31,391
Weighted average OP units outstanding	21,833	24,176	21,959	24,176
Weighted average common shares and				
units outstanding	55,599	55,567	55,597	55,567

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Except as discussed below, there were no material changes in the Quantitative and Qualitative Disclosures about Market Risk set forth in our 2016 Annual Report on Form 10-K.

Interest Rate Fluctuations

As of June 30, 2017, we had \$1.35 billion of consolidated debt, including \$1.26 billion outstanding under our variable-rate Mortgage Loans and Future Funding Facility. The interest rate on the loans is the 30-day LIBOR rate plus, as of June 30, 2017, a weighted average spread of 465 basis points. We have purchased a LIBOR interest rate cap that has a LIBOR strike rate of 3.5% and a term of four years. We are subject to market risk with respect to changes in the LIBOR rate. An immediate 100 basis point change in interest rates would have affected annual pretax funding costs by approximately \$12.6 million.

Fair Value of Debt

As of June 30, 2017, the estimated fair value of our consolidated debt was \$1.3 billion. The estimated fair value of our consolidated debt is calculated based on current market prices and discounted cash flows at the current rate at which similar loans would be made to borrowers with similar credit ratings for the remaining term of such debt.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

Under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of such date.

Changes in Internal Controls.

There were no changes in our internal control over financial reporting that occurred during the period ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information required by this Item is incorporated by reference to Note 9 of the condensed consolidated financial statements included herein.

Item 1A. Risk Factors

Information regarding risk factors appears in our 2016 Annual Report on Form 10-K in Part I, Item 1A. Risk Factors. Except as discussed below, there have been no material changes from the risk factors previously disclosed in our 2016 Annual Report on Form 10-K.

We will be substantially dependent on Sears Holdings, as a tenant, until we further diversify the tenancy of our portfolio, and an event that has a material adverse effect on Sears Holdings' business, financial condition or results of operations could have a material adverse effect on our business, financial condition or results of operations.

Sears Holdings is the lessee of a substantial majority of our properties and accounts for a substantial majority of our revenues. Under the Master Lease, Sears Holdings is required to pay all insurance, taxes, utilities and maintenance and repair expenses in connection with these leased properties and to indemnify, defend and hold us harmless from and against various claims, litigation and liabilities arising in connection with its business, subject to proportionate sharing of certain of these expenses with occupants of the remainder of the space not leased to Sears Holdings. Sears Holdings may not in the future have sufficient assets, income and access to financing to enable it to satisfy its payment obligations under the Master Lease. In its most recent Form 10-K, Sears Holdings disclosed, among other things, that its historical operating results indicate substantial doubt exists related to Sears Holdings' ability to continue as a going concern. In addition, Sears Holdings has disclosed that its domestic pension and postretirement benefit plan obligations are currently underfunded. Sears Holdings may have to make significant cash payments to some or all of its pension and postretirement benefit plans, which would reduce the cash available for its businesses, potentially including its rent obligations under the Master Lease. The inability or unwillingness of Sears Holdings to meet its rent obligations and other obligations under the Master Lease could materially adversely affect our business, financial condition or results of operations, including our ability to pay the interest, principal and other costs and expenses under our financings, or to pay cash dividends to Seritage shareholders. For these reasons, if Sears Holdings were to experience a material adverse effect on its business, financial condition or results of operations, our business, financial condition or results of operations could also be materially adversely affected.

Our dependence on rental payments from Sears Holdings as our main source of revenues may limit our ability to enforce our rights under the Master Lease. In addition, we may be limited in our ability to enforce our rights under the Master Lease because it is a unitary lease and does not provide for termination with respect to individual properties by reason of the default of the tenant. Failure by Sears Holdings to comply with the terms of the Master Lease or to comply with the regulations to which the leased properties are subject could require us to find another master lessee for all such leased property and there could be a decrease or cessation of rental payments by Sears Holdings. In such event, we may be unable to locate a suitable master lessee or a lessee for individual properties at similar rental rates and other obligations and in a timely manner or at all, which would have the effect of reducing our rental revenues. In addition, each JV is subject to similar limitations on enforcements of remedies and risks under its respective JV Master Lease, which could reduce the value of our investment in, or distributions to us by, one or more of the JVs.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit No.	Description	SEC Document Reference
31.1	<u>Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>	Filed herewith.
31.2	<u>Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>	Filed herewith.
32.1	<u>Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350</u>	Filed herewith.
32.2	<u>Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350</u>	Filed herewith.
101.INS	XBRL Instance Document	Filed herewith.
101.SCH	XBRL Taxonomy Extension	Filed herewith.

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	Schema Document	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SERITAGE
GROWTH
PROPERTIES

Dated: August 4, 2017 /s/ Benjamin Schall
By: Benjamin Schall
President and Chief
Executive Officer

Dated: August 4, 2017 /s/ Brian Dickman
By: Brian Dickman
Executive Vice
President and Chief
Financial Officer