

RAMCO GERSHENSON PROPERTIES TRUST
Form 10-Q
August 04, 2016

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 ACT OF 1934

For the quarterly period ended June 30, 2016

Commission file number 1-10093

RAMCO-GERSHENSON PROPERTIES TRUST
(Exact name of registrant as specified in its charter)

MARYLAND 13-6908486
(State of other jurisdiction of incorporation or organization) (I.R.S Employer Identification Numbers)

31500 Northwestern Highway, Suite 300 48334
Farmington Hills, Michigan
(Address of principal executive offices) (Zip Code)

248-350-9900
(Registrant's telephone number, including area code)

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, or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

Yes No

Number of common shares of beneficial interest (\$0.01 par value) of the registrant outstanding as of July 27, 2016:
79,247,938

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PART 1 – FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

RAMCO-GERSHENSON PROPERTIES TRUST
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

	June 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Income producing properties, at cost:		
Land	\$385,423	\$392,352
Buildings and improvements	1,758,731	1,792,129
Less accumulated depreciation and amortization	(342,304)	(331,520)
Income producing properties, net	1,801,850	1,852,961
Construction in progress and land available for development or sale	66,224	60,166
Real estate held for sale	—	453
Net real estate	1,868,074	1,913,580
Equity investments in unconsolidated joint ventures	3,159	4,325
Cash and cash equivalents	4,369	6,644
Restricted cash	7,785	8,708
Accounts receivable (net of allowance for doubtful accounts of \$2,945 and \$2,790 as of June 30, 2016 and December 31, 2015, respectively)	16,854	18,705
Acquired lease intangibles, net	78,115	88,819
Other assets, net	86,904	87,890
TOTAL ASSETS	\$2,065,260	\$2,128,671
LIABILITIES AND SHAREHOLDERS' EQUITY		
Notes payable, net	\$1,026,418	\$1,083,711
Capital lease obligation	1,108	1,108
Accounts payable and accrued expenses	42,115	44,480
Acquired lease intangibles, net	61,366	64,193
Other liabilities	14,366	10,035
Distributions payable	18,807	18,807
TOTAL LIABILITIES	1,164,180	1,222,334
Commitments and Contingencies		
Ramco-Gershenson Properties Trust ("RPT") Shareholders' Equity:		
Preferred shares, \$0.01 par, 2,000 shares authorized: 7.25% Series D Cumulative Convertible Perpetual Preferred Shares, (stated at liquidation preference \$50 per share), 1,849 shares issued and outstanding as of June 30, 2016 and December 31, 2015	\$92,427	\$92,427
Common shares of beneficial interest, \$0.01 par, 120,000 shares authorized, 79,234 and 79,162 shares issued and outstanding as of June 30, 2016 and December 31, 2015, respectively	792	792
Additional paid-in capital	1,157,066	1,156,345
Accumulated distributions in excess of net income	(362,137)	(363,937)
Accumulated other comprehensive loss	(8,232)	(1,404)
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO RPT	879,916	884,223
Noncontrolling interest	21,164	22,114

TOTAL SHAREHOLDERS' EQUITY	901,080	906,337
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$2,065,260	\$2,128,671

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

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RAMCO-GERSHENSON PROPERTIES TRUST
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
REVENUE				
Minimum rent	\$48,554	\$44,327	\$96,950	\$87,678
Percentage rent	138	18	440	371
Recovery income from tenants	16,032	13,962	32,778	28,284
Other property income	914	850	1,872	1,709
Management and other fee income	245	578	355	1,110
TOTAL REVENUE	65,883	59,735	132,395	119,152
EXPENSES				
Real estate taxes	11,132	9,126	21,441	18,121
Recoverable operating expense	6,672	6,846	14,751	14,124
Other non-recoverable operating expense	564	994	1,957	1,707
Depreciation and amortization	22,714	21,120	46,561	41,483
Acquisition costs	4	265	63	307
General and administrative expense	5,683	5,474	11,288	10,348
Provision for impairment	—	—	—	2,521
TOTAL EXPENSES	46,769	43,825	96,061	88,611
OPERATING INCOME	19,114	15,910	36,334	30,541
OTHER INCOME AND EXPENSES				
Other income (expense), net	198	27	(150)	(191)
Gain on sale of real estate	19,799	273	26,324	3,469
Earnings from unconsolidated joint ventures	109	335	218	2,995
Interest expense	(11,002)	(10,058)	(21,924)	(20,027)
Amortization of deferred financing fees	(374)	(330)	(754)	(664)
Other gain on unconsolidated joint ventures	215	—	215	—
Gain on extinguishment of debt	—	1,387	—	1,387
INCOME BEFORE TAX	28,059	7,544	40,263	17,510
Income tax provision	(39)	(255)	(101)	(277)
NET INCOME	28,020	7,289	40,162	17,233
Net income attributable to noncontrolling partner interest	(659)	(199)	(956)	(476)
NET INCOME ATTRIBUTABLE TO RPT	27,361	7,090	39,206	16,757
Preferred share dividends	(1,675)	(1,675)	(3,350)	(3,487)
Preferred share conversion costs	—	(500)	—	(500)
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$25,686	\$4,915	\$35,856	\$12,770
EARNINGS PER COMMON SHARE				
Basic	\$0.32	\$0.06	\$0.45	\$0.16
Diluted	\$0.32	\$0.06	\$0.45	\$0.16

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WEIGHTED AVERAGE COMMON SHARES OUTSTANDING

Basic	79,233	79,124	79,214	78,528
Diluted	86,027	79,319	79,413	78,731

OTHER COMPREHENSIVE INCOME

Net income	\$28,020	\$7,289	\$40,162	\$17,233
Other comprehensive (loss) gain:				
(Loss) gain on interest rate swaps	(2,221)	1,150	(6,997)	(315)
Comprehensive income	25,799	8,439	33,165	16,918
Comprehensive income attributable to noncontrolling interest (2015 as revised)	(606)	(231)	(787)	(466)
COMPREHENSIVE INCOME ATTRIBUTABLE TO RPT (2015 AS REVISED)	\$25,193	\$8,208	\$32,378	\$16,452

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

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RAMCO-GERSHENSON PROPERTIES TRUST
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

For the Six Months Ended June 30, 2016

(In thousands)

(Unaudited)

	Shareholders' Equity of Ramco-Gershenson Properties Trust						
	Preferred Shares	Common Shares	Additional Paid-in Capital	Accumulated Distributions in Excess of Net Income	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total Shareholders' Equity
Balance, December 31, 2015	\$92,427	\$ 792	\$ 1,156,345	\$(363,937)	\$(1,404)	\$ 22,114	\$ 906,337
Issuance of common shares, net of issuance costs	—	—	(155)	—	—	—	(155)
Redemption of OP unit holders	—	—	—	(594)	—	(914)	(1,508)
Share-based compensation and other expense, net of shares withheld for employee taxes	—	—	876	—	—	—	876
Dividends declared to common shareholders	—	—	—	(33,278)	—	—	(33,278)
Dividends declared to preferred shareholders	—	—	—	(3,350)	—	—	(3,350)
Distributions declared to noncontrolling interests	—	—	—	—	—	(823)	(823)
Dividends declared to deferred shares	—	—	—	(184)	—	—	(184)
Other comprehensive income adjustment	—	—	—	—	(6,828)	(169)	(6,997)
Net income	—	—	—	39,206	—	956	40,162
Balance, June 30, 2016	\$92,427	\$ 792	\$ 1,157,066	\$(362,137)	\$(8,232)	\$ 21,164	\$ 901,080

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

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RAMCO GERSHENSON PROPERTIES TRUST
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2016	2015
OPERATING ACTIVITIES		
Net income	\$40,162	\$17,233
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	46,561	41,483
Amortization of deferred financing fees	754	664
Income tax provision	101	277
Earnings from unconsolidated joint ventures	(218)	(2,995)
Distributions received from operations of unconsolidated joint ventures	268	901
Provision for impairment	—	2,521
Gain on extinguishment of debt	—	(1,387)
Other gain on unconsolidated joint ventures	(215)	—
Gain on sale of real estate	(26,324)	(3,469)
Amortization of premium on mortgages, net	(910)	(806)
Share-based compensation expense	1,325	1,082
Long-term incentive cash compensation expense	915	720
Changes in assets and liabilities:		
Accounts receivable, net	1,851	(817)
Acquired lease intangibles and other assets, net	(876)	(352)
Accounts payable, acquired lease intangibles and other liabilities	(9,475)	(10,872)
Net cash provided by operating activities	53,919	44,183
INVESTING ACTIVITIES		
Acquisition of real estate	—	(12,097)
Development and capital improvements	(30,872)	(24,034)
Net proceeds from sales of real estate	68,546	16,106
Distributions from sale of joint venture property	1,304	8,173
Increase (decrease) in restricted cash	923	(1,223)
Net cash provided by (used in) investing activities	39,901	(13,075)
FINANCING ACTIVITIES		
Repayment of mortgages and notes payable	(22,411)	(20,343)
Net (repayments) proceeds on revolving credit facility	(34,000)	7,000
Payment of deferred financing costs	(386)	(204)
Proceeds, net of costs, from issuance of common stock	(155)	17,125
Repayment of capitalized lease obligation	—	(680)
Redemption of operating partnership units for cash	(1,508)	(40)
Preferred share conversion costs	—	(500)
Dividends paid to preferred shareholders	(3,350)	(3,625)
Dividends paid to common shareholders	(33,462)	(31,346)
Distributions paid to operating partnership unit holders	(823)	(898)
Net cash used in financing activities	(96,095)	(33,511)

Net change in cash and cash equivalents	(2,275)	(2,403)
Cash and cash equivalents at beginning of period	6,644	9,335
Cash and cash equivalents at end of period	\$4,369	\$6,932

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest (net of capitalized interest of \$402 and \$488 in 2016 and 2015, respectively)	\$23,216	\$21,185
Cash paid for federal income taxes	\$—	\$—

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

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RAMCO-GERSHENSON PROPERTIES TRUST
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Organization and Basis of Presentations

Organization

Ramco-Gershenson Properties Trust, together with its subsidiaries (the "Company" or "RPT"), is a real estate investment trust ("REIT") engaged in the business of owning, developing, redeveloping, acquiring, managing and leasing large multi-anchored shopping centers primarily in a number of the largest metropolitan markets in the central United States. As of June 30, 2016, our property portfolio consisted of 66 wholly owned shopping centers and one office building comprising approximately 14.7 million square feet. We also have ownership interests, ranging from 7% to 30%, in three joint ventures. Our joint ventures are reported using equity method accounting. We earn fees from the joint ventures for managing, leasing and redeveloping the shopping centers they own. In addition, we own interests in several land parcels that are available for development or sale. Most of our properties are anchored by supermarkets and/or national chain stores. Our credit risk, therefore, is concentrated in the retail industry.

Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of the Company and our majority owned subsidiary, the Operating Partnership, Ramco-Gershenson Properties, L.P. (the "OP") (97.7% owned by the Company at June 30, 2016 and 97.6% owned by the Company at December 31, 2015), and all wholly-owned subsidiaries, including entities in which we have a controlling financial interest. During the first quarter of 2016 we adopted Accounting Standards Update ("ASU") No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The Company evaluated the application of ASU No. 2015-02 and concluded that no change was required to its accounting of its interests in less than wholly owned joint ventures, however, the Operating Partnership now meets the criteria as a variable interest entity. The Company's significant asset is its investment in the Operating Partnership, and consequently, substantially all of our assets and liabilities represent those assets and liabilities of the Operating Partnership.

We have elected to be a REIT for federal income tax purposes. All intercompany balances and transactions have been eliminated in consolidation. The information furnished is unaudited and reflects all adjustments which are, in the opinion of management, necessary to reflect a fair statement of the results for the interim periods presented, and all such adjustments are of a normal recurring nature. These condensed consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2015.

The preparation of our unaudited financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited financial statements and the reported amounts of revenues and expenses during the reporting period. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and reported amounts that are not readily apparent from other sources. Actual results could differ from those estimates.

Reclassifications and Revisions

Certain reclassifications of prior period amounts have been made in the condensed consolidated financial statements and footnotes in order to conform to the current presentation.

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In previously filed quarterly reports, the Company incorrectly calculated comprehensive income attributable to noncontrolling interest. Accordingly, the Condensed Consolidated Statements of Comprehensive Income have been revised. The revision resulted in a decrease to previously reported comprehensive income attributable to RPT as follows:

	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
	(in thousands)	
Comprehensive (income) loss attributable to non controlling interest as previously reported	\$(31)	\$10
Comprehensive income attributable to non controlling interest as revised	\$(231)	\$(466)
Comprehensive income attributable to RPT as previously reported	\$8,408	\$16,928
Comprehensive income attributable to RPT as revised	\$8,208	\$16,452

There was no impact to the Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Operations, Condensed Consolidated Statements of Shareholders' Equity or to the Company's cash position resulting from this revision.

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") updated Accounting Standards Codification ("ASC") Topic 326 "Financial Instruments - Credit Losses" with 2016-13 "Measurement of Credit Losses on Financial Instruments." ASU 2016-13 enhances the methodology of measuring expected credit losses to include the use of forward-looking information to better inform credit loss estimates. ASU 2016-13 is effective for annual periods (including interim periods within those periods) beginning after December 15, 2019. We are currently evaluating the guidance and have not determined the impact this standard may have on our consolidated financial statements.

In March 2016, the FASB updated ASC Topic 718 "Compensation - Stock Compensation" with ASU 2016-09 "Improvements to Employee Share-Based Payment Accounting". ASU 2016-09 simplifies several aspects of share-based payment award transactions, including tax consequences, classification of awards and the classification on the statement of cash flows. ASU 2016-09 is effective for annual periods (including interim periods within those periods) beginning after December 15, 2016. Early adoption is permitted. We are currently evaluating the guidance and have not determined the impact this standard may have on our consolidated financial statements.

In February 2016, the FASB updated ASC Topic 842 "Leases." In ASU 2016-02, which requires lessees to record operating and financing leases as assets and liabilities on the balance sheet and lessors to expense costs that are not direct leasing costs. ASU 2016-02 is effective for periods beginning after December 15, 2018, with early adoption permitted upon issuance using a modified retrospective approach. We are currently evaluating the effect that ASU 2016-02 will have on our consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. ASU 2014-09 is a comprehensive revenue recognition standard that will supersede nearly all existing GAAP revenue recognition guidance as well as impact the existing GAAP guidance governing the sale of nonfinancial assets. The standard's core principle is that a company will recognize revenue when it satisfies performance obligations, by transferring promised goods or services to customers, in an amount that reflects the consideration to which the company expects to be entitled in exchange for fulfilling those performance obligations. In doing so, companies will need to exercise more judgment and make more estimates than under existing GAAP guidance. ASU 2014-09 will be effective for public entities for annual and interim reporting periods beginning after December 15, 2017 and early adoption is permitted in

periods ending after December 15, 2016. We have not yet selected a transition method nor have we determined the effect of ASU 2014-09 on our consolidated financial statements.

2. Real Estate

Included in our net real estate assets are income producing properties that are recorded at cost less accumulated depreciation and amortization, construction in process and land available for development or sale.

We review our investment in real estate, including any related intangible assets, for impairment on a property-by-property basis whenever events or changes in circumstances indicate that the carrying value of the property may not be recoverable. These changes in circumstances include, but are not limited to, changes in occupancy, rental rates, tenant sales, net operating income, geographic location, real estate values and expected holding period.

Land available for development or sale includes real estate projects where vertical construction has yet to commence, but which have been identified by us and are available for future development when market conditions dictate the demand for a new shopping center. The viability of all projects under construction or development, including those owned by unconsolidated joint ventures, are regularly evaluated under applicable accounting requirements, including requirements relating to abandonment of assets or changes in use. Land available for development or sale was \$39.8 million and \$39.6 million at June 30, 2016 and December 31, 2015, respectively.

Construction in progress represents existing development, redevelopment and tenant build-out projects. When projects are substantially complete and ready for their intended use, balances are transferred to land or building and improvements as appropriate. Construction in progress was \$26.4 million and \$20.6 million at June 30, 2016 and December 31, 2015, respectively.

The increase in construction in progress from December 31, 2015 to June 30, 2016 was due primarily to ongoing redevelopment and expansion projects across the portfolio.

3. Property Acquisitions and Dispositions

Acquisitions

There were no acquisitions for the six months ended June 30, 2016.

Dispositions

The following table provides a summary of our disposition activity for the six months ended June 30, 2016:

Property Name	Location	GLA (In thousands)	Acreage	Date Sold	Gross Sales Price (In thousands)	Gain (Loss) on Sale
Lakeshore Marketplace	Norton Shores, MI	343	4.6	06/30/16	\$27,750	\$6,583
River Crossing Centre	New Port Ritchey, FL	62	N/A	06/26/16	12,500	6,750
Centre at Woodstock	Woodstock, GA	87	N/A	06/26/16	16,000	5,893
Troy Towne Center	Troy, OH	144	N/A	02/02/16	12,400	6,274
Total income producing dispositions		636	4.6		\$68,650	\$25,500
Conyers Crossing - Outparcel	Conyers, GA	N/A	0.5	06/27/16	\$1,000	\$579
Lakeshore Marketplace - Outparcel	Norton Shores, MI	N/A	0.7	06/15/16	302	(6)
The Towne Center at Aquia - Outparcel	Stafford, VA	N/A	0.7	01/15/16	750	251
Total land / outparcel dispositions		—	1.9		\$2,052	\$824
Total consolidated dispositions		636	6.5		\$70,702	\$26,324

4. Equity Investments in Unconsolidated Joint Ventures

We have three joint venture agreements whereby we own between 7% and 30% of the equity in each joint venture. We and the joint venture partners have joint approval rights for major decisions, including those regarding property operations. We cannot make significant decisions without our partner's approval. Accordingly, we account for our interest in the joint ventures using the equity method of accounting.

The combined condensed financial information for our unconsolidated joint ventures is summarized as follows:

Balance Sheets	June 30, December 31,	
	2016	2015
	(In thousands)	
ASSETS		
Investment in real estate, net	\$44,627	\$ 63,623
Other assets	4,076	4,230
Total Assets	\$48,703	\$ 67,853
LIABILITIES AND OWNERS' EQUITY		
Other liabilities	\$791	\$ 750
Owners' equity	47,913	67,103
Total Liabilities and Owners' Equity	\$48,704	\$ 67,853
RPT's equity investments in unconsolidated joint ventures	\$3,159	\$ 4,325

Statements of Operations	Three Months		Six Months	
	Ended June 30, 2016	2015	Ended June 30, 2016	2015
	(In thousands)			
Total revenue	\$1,600	\$10,285	\$3,309	\$20,910
Total expenses	1,106	7,367	2,154	14,663
Income before other income and expense	494	2,918	1,155	6,247
Gain on sale of real estate	371			