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Seritage Growth Properties  
Form 10-K  
March 01, 2019  
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2018

Commission file number 001-37420

SERITAGE GROWTH PROPERTIES

(Exact name of registrant as specified in its charter)

Maryland 38-3976287  
(State or Other Jurisdiction of (I.R.S. Employer

Incorporation or Organization) Identification No.)

500 Fifth Avenue, Suite 1530, New York, New York 10110  
(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class  | Name of each exchange on which registered |
|--|---|
| Class A common shares of beneficial interest, par value \$0.01 per share | New York Stock Exchange                   |

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7.00% Series A cumulative redeemable preferred shares of beneficial interest, New York Stock Exchange  
par value \$0.01 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the  
Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the  
Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was  
required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be  
submitted 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 such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§232.405 of this  
chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or  
information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definitions of "large accelerated filer,"  
"accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act:

|                           |                   |                         |
|---------------------------|-------------------|-------------------------|
| Large accelerated filer   | Accelerated filer | Non-Accelerated filer   |
| 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 Act). Yes No

On June 29, 2018, the last business day of the most recently completed second quarter of the registrant, the aggregate  
market value of the voting and non-voting common equity held by non-affiliates of the registrant was approximately  
\$1,486,600,000 based upon the closing price of \$42.43 of the common stock as reported on the New York Stock  
Exchange on such date.

As of February 22, 2019, the registrant had the following common shares outstanding:

| Class  | Shares Outstanding |
|--|--------------------|
| Class A common shares of beneficial interest, par value \$0.01 per share | 35,667,521         |
| Class B common shares of beneficial interest, par value \$0.01 per share | 1,322,365          |
| Class C common shares of beneficial interest, par value \$0.01 per share | 0                  |

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Seritage Growth Properties' Proxy Statement for its 2018 Annual Meeting of Shareholders, to be held April 30, 2019, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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SERITAGE GROWTH PROPERTIES

ANNUAL REPORT ON FORM 10-K

DECEMBER 31, 2018

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (the “Annual Report”) of Seritage Growth Properties contains statements that constitute forward-looking statements within the meaning of the federal securities laws. Any statements that do not relate to historical or current facts or matters are forward-looking statements. You can identify forward-looking statements by the use of forward-looking terminology such as “believes,” “expects,” “may,” “will,” “should,” “seeks,” “approximately,” “intends,” “plans,” “pro forma,” “estimates” or “anticipates” or the opposite of these words and phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. Statements concerning current conditions may also be forward-looking if they imply a continuation of current conditions. You can also identify forward-looking statements by discussions of strategy, plans or intentions.

Forward-looking statements involve numerous risks and uncertainties and you should not rely on them as predictions of future events. Forward-looking statements depend on assumptions, data or methods which may be incorrect or imprecise and we may not be able to realize them. The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

- Declines in retail, real estate and general economic conditions;
- Our current dependence on Sears Holdings Corporation and/or its successor(s) for a significant amount of our in-place revenue;
- Sears Holdings Corporation’s recent bankruptcy;
- Uncertainties regarding the new master lease recently executed with certain affiliates of Transform Holdco LLC;
- Risks relating to our recapture and redevelopment activities and potential acquisition or disposition of properties;
- Our relatively limited operating history as an independent public company;
- The terms of our indebtedness;
- Environmental, health, safety and land use laws and regulations;
- The effects of the legislation known as the “Tax Cuts and Jobs Act” and any future amendments or interpretive guidance in connection therewith, as well as any other changes in federal, state, or local tax law, including legislative, administrative, regulatory or other actions affecting REITs or changes in interpretations thereof or increased taxes resulting from tax audits; and
- Restrictions with which we are required to comply in order to maintain REIT status.

While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. Except as required by law, we disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors of new information, data or methods, future events or other changes. For a further discussion of these and other factors that could impact our future results, performance or transactions, see “Item 1A. Risk Factors.”

PART I

ITEM 1. BUSINESS

Seritage Growth Properties (“Seritage”) (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, Seritage Growth Properties, L.P., a Delaware limited partnership (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.

Seritage is principally engaged in the acquisition, ownership, development, redevelopment, management and leasing of diversified retail real estate throughout the United States. As of December 31, 2018, our portfolio consisted of approximately 36.3 million square feet of gross leasable area (“GLA”), including 206 wholly owned properties totaling approximately 31.6 million square feet of GLA across 48 states and Puerto Rico (the “Wholly Owned Properties”), and interests in 26 joint venture properties totaling over 4.7 million square feet of GLA across 13 states (the “JV Properties”).

On June 11, 2015, Sears Holdings Corporation (“Sears Holdings” or “Sears”) 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 (i) 234 of Sears Holdings’ owned properties and one of its ground leased properties, and (ii) its 50% interests in three joint ventures that collectively owned 28 properties, ground leased one property and leased two properties (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 Transaction.

As of December 31, 2018, we leased space at 86 Wholly Owned Properties to Sears Holdings pursuant to a master lease agreement (the “Master Lease”) that provided the Company with the right to recapture certain space from Sears Holdings at each property for retenanting or redevelopment purposes. Of these properties, 49 properties were leased only to Sears Holdings and 37 properties are leased to both Sears Holdings and one or more diversified, non-Sears tenants as of December 31, 2018. The remaining 120 Wholly Owned Properties included 89 properties that are leased solely to diversified, non-Sears tenants and 31 unleased properties. As of December 31, 2018, space at 19 JV Properties was also leased to Sears Holdings pursuant to lease agreements similar to the Master Lease (the “JV Master Leases”). As of December 31, 2018, Sears Holdings was the sole tenant at seven JV Properties and 12 JV properties are leased to both Sears Holdings and one or more diversified, non-Sears tenants. Five JV Properties were leased solely to diversified, non-Sears tenants and two JV Properties were unleased as of December 31, 2018.

As of December 31, 2018, there were four Wholly Owned Properties subject to previously exercised 100% recapture notices and five Wholly Owned Properties under contract for sale. Taking into account this recapture and transaction activity, we leased space at 77 Wholly Owned Properties and 19 JV Properties to Sears Holdings under the Master Lease and JV Master Leases, respectively, as of December 31, 2018.

On October 15, 2018, Sears Holdings and certain of its affiliates filed voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”) with the United States Bankruptcy Court for the Southern District of New York (the “Bankruptcy Court”). On February 11, 2019, Transform Holdco LLC (“Holdco”), an affiliate of ESL Investments, Inc., completed the acquisition of an approximately 425-store retail footprint and other assets and component businesses of Sears Holdings on a going-concern basis (the “Holdco Acquisition”). In connection with the Holdco Acquisition, Holdco acquired certain designation rights (which rights must be exercised by April 12, 2019)

with respect to certain executory contracts and leases of Sears Holdings, including our Master Lease with Sears Holdings. On February 28, 2019, we and certain affiliates of Holdco executed a master lease with respect to 51 Wholly Owned Properties (the "Holdco Master Lease"). A condition to the performance and obligations provided for in the Holdco Master Lease is the rejection of the Master Lease. On February 28, 2019, Sears Holdings filed a notice with the Bankruptcy Court seeking an order of the Bankruptcy Court approving the rejection of the Master Lease. The rejection will become effective by either (i) the Bankruptcy Court issues an order approving the rejection of the Master Lease or (ii) the Master Lease is deemed to be rejected pursuant to the operation of the Bankruptcy Code. As a result of this condition there can be no assurance as to the commencement of our and Holdco's performance and obligations provided for in the Holdco Master Lease and/or the timing thereof.

Edward S. Lampert is the Chairman and Chief Executive Officer of ESL Investments, Inc. Mr. Lampert is also the Chairman of Seritage and the Chairman of the Board of each of the tenant entities that is a party to the Holdco Master Lease.

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## Business Strategies

Our primary objective is to create value for our shareholders through the re-leasing and redevelopment of the majority of our Wholly Owned Properties and JV Properties. In doing so, we expect to meaningfully grow net operating income (“NOI”) by re-leasing existing space to diversified, non-Sears tenants at materially higher rents and densifying select sites with additional retail and mixed-use development. In order to achieve our objective, we intend to execute the following strategies:

- Convert single-tenant buildings into multi-tenant properties at meaningfully higher rents. We intend to increase NOI and diversify our portfolio by actively redeveloping space at our properties and re-leasing such space to new, diversified tenants at higher rents than those currently or formerly paid for space occupied by Sears and Kmart prior to redevelopment.

We seek to optimize the mix of tenants at, and maximize the value of, our properties by focusing on growing national retailers and taking into account customer demographics and the competitive environment of each property's market area. We believe that the superior real estate locations, diversity of property types and national footprint that characterize our portfolio, make us well-positioned to meet the store growth needs of retailers across a variety of sectors and concepts. As we lease space to such retailers, we aim to create multi-tenant shopping centers that command superior rents and valuations due to their prime locations, synergies with adjoining retailers and proximity to productive malls and shopping centers.

• **Maximize value of vast land holdings through retail and mixed-use densification.** As of December 31, 2018, our portfolio included approximately 3,000 acres of land, or an average of 13 acres per site, and our most significant geographic concentrations were in higher growth markets in California, Florida, Texas and the Northeast. We believe these land holdings will provide meaningful opportunities for additional retail and mixed-use development. In particular, we have identified approximately three dozen sites that we believe have the real estate characteristics and demographic profile to support integrated mixed-use development, including retail, residential, office and other uses. Given our fee ownership of these properties and control over parking lots and outparcels, we believe that these sites, as well as others throughout the portfolio, will provide attractive and value-enhancing redevelopment opportunities. In 2018, the Company solidified a portion of its mixed-used and densification pipeline by receiving entitlements for 1,750 residential units, 1.4 million square feet of office space and 500 hotel keys across four unique projects.

• **Leverage existing and future joint venture relationships with leading real estate and financial partners.** As of December 31, 2018, we owned 50% interests in 26 JV Properties, including three joint ventures with institutional capital partners and 23 joint ventures with leading regional mall REITs, each of which is focused on driving value creation at the JV Properties through the same intensive re-leasing and redevelopment activities we pursue at our Wholly Owned Properties.

We expect to participate in future joint ventures to leverage our human and capital resources and pursue additional value-creating projects. We will generally seek partners that provide incremental development expertise and/or capital, or, as a result of circumstances, allow us to create more value together than we believe we could create on our own.

• **Maintain a flexible capital structure to support value creation activities.** We expect to maintain a capital structure that provides us with the financial flexibility and capacity to fund our redevelopment opportunities. We believe that our current capital structure, specifically the \$2.0 billion term loan facility we entered into in 2018, positions us with sufficient liquidity and flexibility to execute our redevelopment business strategy. We believe that we will continue to have access to additional forms of capital to fund value-creating projects, including through the public or private issuance of certain equity and debt securities and, subject to compliance with certain provisions or the consent of our lender under the \$2.0 billion term loan facility, the ability to raise capital through asset sales and additional joint ventures.

## Significant Tenants



As of December 31, 2018, a significant number of our real estate properties were leased to Sears Holdings, and a significant amount of our in-place rental revenues were derived from the Master Lease. On February 28, 2019, we and certain affiliates of Holdco executed the Holdco Master Lease. A condition to the performance and obligations provided for in the Holdco Master Lease is the rejection of the Master Lease. On February 28, 2019, Sears Holdings filed a notice with the Bankruptcy Court seeking an order of the Bankruptcy Court approving the rejection of the Master Lease. The rejection will become effective by either (i) the Bankruptcy Court issues an order approving the rejection of the Master Lease or (ii) the Master Lease is deemed to be rejected pursuant to the operation of the Bankruptcy Code. As a result of this condition there can be no assurance as to the commencement of our and Holdco's performance and obligations provided for in the Holdco Master Lease and/or the timing thereof. A material amount of our rental income is expected to be derived from the Holdco Master Lease until we further diversify the tenancy of our portfolio. See "Risk Factors—Risks Related to Our Business and Operations."

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The Holdco Master Lease contains provisions that can help facilitate the diversification of our tenant base. The Holdco Master Lease provides us with the right to recapture up to approximately 50% of the space occupied by Holdco at all properties (other than five specified properties in Puerto Rico and California). Additionally, beginning in the second year of the term of the Holdco Master Lease, we have the right to recapture 100% of the space occupied by Holdco at any of the properties included in the Holdco Master Lease (other than five specified properties located in Puerto Rico and California) without making a recapture payment to Holdco. The right to recapture 100% of any property is limited to 10 properties in each year of the Holdco Master Lease term, with carry-over rights if less than 10 properties are recaptured in any year of the Holdco Master Lease term. Holdco has the right, at any time, to terminate the Holdco Master Lease with respect to any property upon the payment of a termination fee equal to one year of base rent plus annual taxes and other operating expenses, without the requirement that such property is EBITDA negative as is required under the Master Lease. Additionally, unlike the Master Lease, beginning in the second year of the term of the Holdco Master Lease, Holdco has the right to terminate without payment of a termination fee: (i) up to 16 properties in the second year of the Holdco Master Lease term, (ii) up to 12 properties in the third year of the Holdco Master Lease term, (iii) up to 10 properties in the fourth year of the Holdco Master Lease term, and (iv) thereafter, the remaining properties, in each instance with carry-over rights if less than the maximum permitted number of properties are terminated in any lease year.

As of December 31, 2018, a substantial majority of the space at the JV Properties was leased to Sears Holdings under the JV Master Leases. As of the date hereof, none of the existing JV Master Leases have been assumed or rejected. There can be no assurance that any such leases will not be assumed or rejected, or that Sears Holdings will continue to perform its obligations under the existing JV Master Leases to which it is a party.

### Competition

We compete for investment opportunities and prospective tenants with other REITs, real estate partnerships and other real estate companies, private individuals, investment companies, private equity and hedge fund investors, sovereign funds, pension funds, insurance companies, lenders and other investors, including retailer operators that may close stores and pursue similar real estate strategies. In addition, revenues from our properties are dependent on the ability of our tenants and operators to compete with other retail operators.

Some of our competitors are significantly larger and have greater financial resources and lower costs of capital than we have. Increased competition will make it more challenging to identify and successfully capitalize on investment opportunities that meet our objectives. Our ability to compete is also impacted by national and local economic trends, availability of investment alternatives, availability and cost of capital, construction and renovation costs, existing laws and regulations, new legislation and population trends.

As a landlord, we compete in the real estate market with numerous developers and owners of properties, including the shopping centers in which our properties are located. Some of our competitors have greater economies of scale, relationships with national tenants at multiple properties which are owned or operated by such competitors, access to more resources and greater name recognition than we do. If our competitors offer space at rental rates below the current market rates or below the rentals we currently charge, or on terms and conditions which include locations at multiple properties, we may lose our existing and/or potential tenants and we may be pressured to reduce our rental rates or to offer substantial rent abatements, tenant improvement allowances, early termination rights or below-market renewal options in order to win new tenants and retain tenants when our leases expire.

### Environmental Matters

Our properties are subject to environmental laws regulating, among other things, air emissions, wastewater discharges and the handling and disposal of wastes. Certain of the properties were built during the time that asbestos-containing building materials were routinely installed in residential and commercial structures. In addition, a substantial portion of the properties we acquired from Sears Holdings currently include, or previously included, automotive care center

facilities and retail fueling facilities, and are or were subject to laws and regulations governing the handling, storage and disposal of hazardous substances contained in some of the products or materials used or sold in the automotive care center facilities (such as motor oil, fluid in hydraulic lifts, antifreeze and solvents and lubricants), the recycling/disposal of batteries and tires, air emissions, wastewater discharges and waste management. In addition to these products or materials, the equipment in use or previously used at such properties, such as service equipment, car lifts, oil/water separators, and storage tanks, has been subject to increasing environmental regulation relating to, among other things, the storage, handling, use, disposal, and transportation of hazardous materials. The Master Lease obligated Sears Holdings to comply with applicable environmental laws and to indemnify us if their noncompliance results in losses or claims against us, and to remove all automotive care center equipment and facilities upon the expiration or sooner termination of the Master Lease. The Holdco Master Lease contains, and we expect other leases to include, similar provisions for other operators of their respective spaces with respect to environmental matters first arising during their occupancy. An operator's failure to comply could result in fines and penalties or the requirement to undertake corrective actions which may result in significant costs to the operator and thus adversely affect their ability to meet their obligations to us.

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Pursuant to U.S. federal, state and local environmental laws and regulations, a current or previous owner or operator of real property may be required to investigate, remove and/or remediate a release of hazardous substances or other regulated materials at, or emanating from, such property. Further, under certain circumstances, such owners or operators of real property may be held liable for property damage, personal injury and/or natural resource damage resulting from or arising in connection with such releases. Certain of these laws have been interpreted to be joint and several unless the harm is divisible and there is a reasonable basis for allocation of responsibility. We also may be liable under certain of these laws for damage that occurred prior to our ownership of a property or at a site where we sent wastes for disposal. The failure to properly remediate a property may also adversely affect our ability to lease, sell or rent the property or to borrow funds using the property as collateral.

Under the Master Lease, Sears Holdings is required to indemnify us from certain environmental liabilities at the Wholly Owned Properties before or 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 to which Sears Holdings is a party includes a similar requirement of Sears Holdings). In addition, an environmental reserve was funded at the closing of the Transaction in the amount of approximately \$12.0 million. As of December 31, 2018, the balance of the environmental reserve was approximately \$9.5 million.

In connection with the ownership of our current or past properties and any properties that we may acquire in the future, we could be legally responsible for environmental liabilities or costs relating to a release of hazardous substances or other regulated materials at or emanating from such property. We are not aware of any environmental issues that are expected to have a material impact on the operations of our properties.

### Insurance

We have comprehensive liability, property and rental loss insurance with respect to our portfolio of properties. We believe that such insurance provides adequate coverage.

### REIT Qualification

We elected to be treated as a REIT commencing with the taxable year ended December 31, 2015 and expect to continue to operate so as to qualify as a REIT. So long as we qualify as a REIT, we generally will not be subject to U.S. federal income tax on net taxable income that we distribute annually to our shareholders. In order to qualify as a REIT for U.S. federal income tax purposes, we must continually satisfy tests concerning, including, but not limited to, the real estate qualification of sources of our income, the composition and values of our assets, the amounts we distribute to our shareholders and the diversity of ownership of our stock. In order to comply with REIT requirements, we may need to forego otherwise attractive opportunities and limit our expansion opportunities and the manner in which we conduct our operations. See “Risk Factors—Risks Related to Status as a REIT.”

### Financial Information about Industry Segments

We currently operate in a single reportable segment, which includes the acquisition, ownership, development, redevelopment, management and leasing of retail properties. We review operating and financial results for each property on an individual basis and do not distinguish or group our properties based on geography, size, or type. We, therefore, aggregate all of our properties into one reportable segment due to their similarities with regard to the nature and economics of the properties, tenants and operational process.

### Employees

As of February 22, 2019, we had 69 full-time employees. Our employees are not covered by a collective bargaining agreement, and we consider our employee relations to be satisfactory.

Available Information

Our principal offices are located at 500 Fifth Avenue, New York, New York 10110 and our telephone number is (212) 355-7800. Our website address is [www.seritage.com](http://www.seritage.com). Our reports electronically filed with or furnished to the Securities and Exchange Commission (“SEC”) pursuant to Section 13(a) or 15(d) of the Exchange Act can be accessed through this site, free of charge, as soon as reasonably practicable after we electronically file or furnish such reports. These filings are also available on the SEC’s website at [www.sec.gov](http://www.sec.gov). Our website also contains copies of our corporate governance guidelines and code of business conduct and ethics as well as the charters of our audit, compensation and nominating and corporate governance committees. The information on our website is not part of this or any other report we file with or furnish to the SEC.

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## ITEM 1A. RISK FACTORS

Certain factors may have a material adverse effect on our business, financial condition and results of operations. You should consider carefully the risks and uncertainties described below, in addition to other information contained in this Annual Report, including our consolidated financial statements and related notes. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business. If any of the following risks actually occurs, our business, financial condition, results of operations, and future prospects could be materially and adversely affected. In that event, the trading price of our common shares of beneficial interest could decline, and you could lose part or all of your investment.

### Risks Related to Our Business and Operations

Sears Holdings' bankruptcy could result in a material adverse effect on our business, financial condition or results of operations.

A significant number of our real estate properties have been leased to Sears Holdings and a significant amount of our in-place rental revenues have been derived from the Master Lease and the JV Master Leases. As of December 31, 2018, we leased space at 86 Wholly Owned Properties to Sears Holdings pursuant to the Master Lease and 19 JV Properties pursuant to JV Master Leases. Taking into account certain recapture and transaction activity, we leased space at 77 Wholly Owned Properties and 19 JV Properties to Sears Holdings under the Master Lease and JV Master Leases, respectively, as of December 31, 2018.

As a result of Sears Holdings' bankruptcy, our business, financial condition or results of operations could also be materially adversely affected. Sears Holdings' recent bankruptcy is expected to diminish the rental revenue we receive from properties subject to our Master Lease with Sears Holdings and could force us to "take back" tenant space as a result of a default or a rejection of the lease by Sears Holdings in bankruptcy.

The inability or unwillingness of Sears Holdings to meet rent obligations and other obligations could materially adversely affect our business, financial condition or results of operations, including a reduction in operating cash flow that can be used to pay the interest, principal and other costs and expenses under our financings, or to pay cash dividends to Seritage shareholders. Any claims against Sears Holdings are subject to statutory limitations that would likely result in our receipt of rental revenues that are substantially less than the contractually specified rent we are owed under their leases or no payments at all. In addition, any claim we have for unpaid past rent will likely not be paid in full. Federal law may prohibit us from evicting Sears Holdings based solely upon its recent bankruptcy filing. We may also be unable to re-lease a terminated or rejected space or re-lease it on comparable or more favorable terms. If we do re-lease rejected space, we may incur costs for brokerage, marketing and tenant expenses.

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. In addition, each JV is subject to similar limitations on enforcements of remedies and risks under its respective JV Master Lease as currently in effect, which could reduce the value of our investment in, or distributions to us by, one or more of the JVs.

There can be no assurance as to how Sears Holdings will perform during the pendency of its bankruptcy. Outcomes not currently foreseen by us may occur, any of which could have a material and adverse impact on our business, results of operations and financial condition.

In addition, although we believe that the Master Lease is a "true lease" for purposes of bankruptcy law, it is possible that a bankruptcy court could re-characterize the lease transaction set forth in the Master Lease as a secured lending transaction. If the Master Lease is judicially recharacterized as a secured lending transaction, we would not be treated as the owner of the property and could lose certain rights as the owner in the bankruptcy proceeding. In addition, each

JV is subject to this risk with respect to its JV Master Lease, which could reduce the value of our investment in, or distribution to us by, one or more of the JVs.

We will continue to have material exposure to Sears Holdings as a tenant unless and until the Master Lease is rejected and the Holdco Master Lease becomes effective.

On February 11, 2019, Holdco, an affiliate of ESL Investments, Inc., completed the Holdco Acquisition. In connection with the Holdco Acquisition, Holdco acquired certain designation rights (which rights must be exercised by April 12, 2019) with respect to certain executory contracts and leases of Sears Holdings, including our Master Lease with Sears Holdings. On February 28, 2019, we and certain affiliates of Holdco executed the Holdco Master Lease. A condition to the performance and obligations provided for in the Holdco Master Lease is the rejection of the Master Lease. On February 28, 2019, Sears Holdings filed a notice with the Bankruptcy Court seeking an order of the Bankruptcy Court approving the rejection of the Master Lease. The rejection will become effective by either (i) the Bankruptcy Court issues an order approving the rejection of the Master Lease or (ii) the Master Lease is deemed to be rejected pursuant to the operation of the Bankruptcy Code. As a result of this condition there can be no assurance as to the commencement of our and Holdco's performance and obligations provided for in the Holdco Master Lease and/or the timing thereof.

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If the Holdco Master Lease becomes effective, we will have material exposure to Holdco as a tenant until we further diversify the tenancy of our portfolio, and an event that has a material adverse effect on Holdco's business, financial condition or results of operations could have a material adverse effect on our business, financial condition or results of operations.

Upon the effectiveness of the Holdco Master Lease, the inability or unwillingness of Holdco to meet rent obligations and other obligations could materially adversely affect our business, financial condition or results of operations, including a reduction in operating cash flow that can be used to pay the interest, principal and other costs and expenses under our financings, or to pay cash dividends to Seritage shareholders.

Under the Holdco Master Lease, Holdco 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 Holdco.

Our exposure to rental payments from Holdco as a material source of our rental income in future periods may limit our ability to enforce our rights under the Holdco Master Lease. In addition, we may be limited in our ability to enforce our rights under the Holdco 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 Holdco to comply with the terms of the Holdco 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 Holdco. 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.

There can be no assurance as to how Holdco will perform in the future. Outcomes not currently foreseen by us may occur, any of which could have a material and adverse impact on our business, results of operations and financial condition.

The future bankruptcy or insolvency of any of our tenants, including Holdco, could result in the termination of such tenant's lease and material losses to us.

The future bankruptcy or insolvency of any of our tenants, including Holdco, could diminish the rental revenue we receive from that property or could force us to "take back" tenant space as a result of a default or a rejection of the lease by a tenant in bankruptcy. Any claims against bankrupt tenants for unpaid future rent are subject to statutory limitations that would likely result in our receipt of rental revenues that are substantially less than the contractually specified rent we are owed under their leases or no payments at all. In addition, any claim we have for unpaid past rent may not be paid in full. Federal law may prohibit us from evicting a tenant based solely upon its recent bankruptcy filing (or a tenant in the event of such tenant's bankruptcy or insolvency). We may also be unable to re-lease a terminated or rejected space or re-lease it on comparable or more favorable terms. If we do re-lease rejected space, we may incur costs for brokerage, marketing and tenant expenses.

Bankruptcy laws afford certain protections to tenants that may also affect the treatment of master leases, such as the Holdco Master Lease or JV Master Leases. Subject to certain restrictions, a tenant under a master lease generally is required to assume or reject the master lease as a whole, rather than making the decision on a property-by-property basis. This prevents the tenant from assuming only the better performing properties and terminating the master lease with respect to the poorer performing properties.

As noted above, on February 28, 2019, we and certain affiliates of Holdco executed the Holdco Master Lease with respect to 51 Wholly Owned Properties. While we believe that our Holdco Master Lease and the JV Master Leases constitute unitary leases that would need to be assumed or rejected as a whole in any bankruptcy proceeding, whether



or not a bankruptcy court would require that a master lease be assumed or rejected as a whole depends upon a “facts and circumstances” analysis considering a number of factors, including the parties’ intent, the nature and purpose of the relevant documents, whether there was separate and distinct consideration for each property included in the master lease, the provisions contained in the relevant documents and applicable state law. If a bankruptcy court were to allow the Holdco Master Lease or a JV Master Lease to be rejected in part, certain underperforming leases related to properties we or the applicable JV as a landlord under a JV Master Lease, respectively, own could be rejected by the tenant in bankruptcy while tenant-favorable leases are allowed to remain in place, thereby adversely affecting payments to us derived from the properties.

In addition, although we believe that the Holdco Master Lease is a “true lease” for purposes of bankruptcy law, it is possible that a bankruptcy court could re-characterize the lease transaction set forth in the Holdco Master Lease as a secured lending transaction. If the Holdco Master Lease is judicially recharacterized as a secured lending transaction, we would not be treated as the owner of the property and could lose certain rights as the owner in the bankruptcy proceeding.

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Holdco's right to terminate the Holdco Master Lease with respect to a portion of our properties could negatively impact our business, results of operations and financial condition.

Under the terms of the Holdco Master Lease, beginning in the second year of the term of the Holdco Master Lease, Holdco has the right to terminate without payment of a termination fee: (i) up to 16 properties in the second year of the Holdco Master Lease term, (ii) up to 12 properties in the third year of the Holdco Master Lease term, (iii) up to 10 properties in the fourth year of the Holdco Master Lease term, and (iv) thereafter, the remaining properties. While Holdco will otherwise be obligated to pay a termination fee, the value of some of these properties could be materially adversely affected if we are not able to re-lease such properties at the same rates which Holdco would have been paying in a timely manner or at all, and this may negatively impact our business, results of operations and financial condition.

In addition, Sears Holdings has the right to terminate a portion of the JV Master Leases with each of the GGP JVs, the Simon JV and the Macerich JV if, with respect to a JV Property owned by the applicable JV, the property is EBITDA negative, which could reduce the value of our investment in, or distributions to us by, one or more of the JVs.

We may not be able to renew leases or re-lease space at our properties, or lease space in newly recaptured properties, and property vacancies could result in significant capital expenditures.

When leases for our properties expire, or when the Master Lease, the Holdco Master Lease or a JV Master Lease, as applicable, is recaptured or terminated with respect to particular properties, the premises may not be re-leased in a timely manner or at all, or the terms of re-leasing, including the cost of allowances and concessions to tenants, may be less favorable than the then-existing lease terms. The loss of a tenant through lease expiration or other circumstances may require us to spend (in addition to other re-letting expenses) significant amounts of capital to renovate the property before it is suitable for a new tenant and cause us to incur significant costs in the form of ongoing expenses for property maintenance, taxes, insurance and other expenses. Many of the leases we will enter into or acquire may be for properties that are especially suited to the particular business of the tenants operating on those properties. Because these properties have been designed or physically modified for a particular tenant, if the current lease is terminated or not renewed, we may be required to renovate the property at substantial costs, decrease the rent we charge or provide other concessions to re-lease the property. In addition, if we are required or otherwise determine to sell the property, we may have difficulty selling it to a party other than the tenant due to the special purpose for which the property may have been designed or modified. This potential illiquidity may limit our ability to quickly modify our portfolio in response to changes in economic or other conditions, including tenant demand. Also, we may not be able to lease new properties to an appropriate mix of tenants or for rents that are consistent with our expectations. To the extent that our leasing plans are not achieved or we incur significant capital expenditures as a result of property vacancies, our business, results of operations and financial condition could be materially adversely affected.

A court could deem aspects of the transactions with Sears Holdings to be a fraudulent conveyance and void the transaction or impose substantial liabilities upon us.

During the Sears Holdings bankruptcy proceedings, the Official Committee of Unsecured Creditors of Sears Holdings (the "UCC") and others, including the Restructuring Subcommittee of the Board of Directors of Sears Holdings, have alleged that the 2015 transactions between us and Sears Holdings constituted a fraudulent conveyance, and have indicated an intent to pursue litigation challenging the 2015 transactions on that and other grounds. The approval of the Holdco Acquisition by the Bankruptcy Court expressly preserved claims relating to the 2015 transactions between us and Sears Holdings.

A court could deem aspects of the transactions with Sears Holdings (such as the acquisition of properties from Sears Holdings) to be a fraudulent conveyance. Fraudulent conveyances include transfers made or obligations incurred with the actual intent to hinder, delay or defraud current or future creditors, or transfers made or obligations incurred in

exchange for less than reasonably equivalent value when the debtor was, or was rendered, insolvent, inadequately capitalized or unable to pay its debts as they become due. To remedy a fraudulent conveyance, a court could void the challenged transfer or obligation, requiring us to return consideration that we received, or impose substantial liabilities upon us for the benefit of unpaid creditors of the debtor that made the fraudulent conveyance, which could adversely affect our financial condition and our results of operations. Among other things, the court could require our shareholders to return to Sears Holdings or its creditors some or all of the securities issued in the distribution. Whether a transaction is a fraudulent conveyance may vary depending upon, among other things, the jurisdiction whose law is being applied.

Real estate investments are relatively illiquid.

Our properties represent a substantial portion of our total consolidated assets, and these investments are relatively illiquid. Significant expenditures associated with each equity investment, such as mortgage payments, real estate taxes, insurance, and repair and maintenance costs, are generally not reduced when circumstances cause a reduction in income from the investment. If income from a property declines while the related expenses do not decline, our income and cash available to us would be adversely affected. If it becomes necessary or desirable for us to dispose of one or more of our mortgaged properties, we might not be able to obtain a release of the lien on the mortgaged property without payment of the associated debt or other costs and expenses. As a result, our ability to sell one or more of our properties or investments in real estate in response to any changes in economic or other conditions may be limited. If we want to sell a property, we may not be able to dispose of it in the desired time period or at a sale price that would exceed the cost of our investment in that property.

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The number of potential buyers for certain properties that we may seek to sell may be limited by the presence of such properties in retail or mall complexes owned or managed by other property owners. In addition, our ability to sell or dispose of certain properties may be hindered by the fact that such properties may be subject to the Master Lease, the Holdco Master Lease or a JV Master Lease, as the terms of such master lease or the fact that Holdco or Sears Holdings, as applicable, is the lessee may make such properties less attractive to a potential buyer than alternative properties that may be for sale. Furthermore, if we decide to sell any of our properties, we may provide financing to purchasers and bear the risk that the purchasers may default, which may delay or prevent our use of the proceeds of the sales for other purposes or the distribution of such proceeds to our shareholders.

Both we and our tenants face a wide range of competition that could affect our ability to operate profitably.

The presence of competitive alternatives, both to our properties and the businesses that lease our properties, affects our ability to lease space and the level of rents we can obtain. Our properties operate in locations that compete with other retail properties and also compete with other forms of retailing, such as catalogs and e-commerce websites. Competition may also come from strip centers, outlet centers, lifestyle centers and malls, and both existing and future development projects. New construction, renovations and expansions at competing sites could also negatively affect our properties. In addition, we compete with other retail property companies for tenants and qualified management. These other retail property companies may have relationships with tenants that we do not have since we have a limited operating history, including with respect to national chains that may be desirable tenants. If we are unable to successfully compete, our business, results of operations and financial condition could be materially adversely affected. See also "Item 1. Business – Competition."

In addition, the retail business is highly competitive and if our tenants fail to differentiate their shopping experiences, create an attractive value proposition or execute their business strategies, they may terminate, default on, or fail to renew their leases with us, and our results of operations and financial condition could be materially adversely affected. Furthermore, we believe that the increase in digital and mobile technology usage has increased the speed of the transition from shopping at physical locations to web-based purchases and that our tenants, including Holdco, may be negatively affected by these changing consumer spending habits. If our tenants are unsuccessful in adapting their businesses, and, as a result terminate, default on, or fail to renew their leases with us, our results of operations and financial condition could be materially adversely affected.

Our pursuit of investments in and redevelopment of properties, and investments in and acquisitions or development of additional properties, may be unsuccessful or fail to meet our expectations.

We intend to grow our business through investments in, and acquisitions or development of, properties, including through the recapture and redevelopment of space at many of our properties. However, our industry is highly competitive, and we face competition from other REITs, investment companies, private equity and hedge fund investors, sovereign funds, lenders, and other investors, some of whom are significantly larger and have greater resources and lower costs of capital. This competition will make it more challenging to identify and successfully capitalize on acquisition and development opportunities that meet our investment objectives. If we are unable to finance acquisitions or other development opportunities on commercially favorable terms, our business, financial condition or results of operations could be materially adversely affected. Additionally, the fact that we must distribute 90% of our net taxable income in order to maintain our qualification as a REIT may limit our ability to rely upon rental payments from leased properties or subsequently acquired properties in order to finance acquisitions. As a result, if debt or equity financing is not available on acceptable terms, further acquisitions or other development opportunities might be limited or curtailed.

Investments in, and acquisitions of, properties we might seek to acquire entail risks associated with real estate investments generally, including (but not limited to) the following risks and as noted elsewhere in this section:

- we may be unable to acquire a desired property because of competition;

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- even if we are able to acquire a desired property, competition from other potential acquirers may significantly increase the purchase price;
- even if we enter into agreements for the acquisition of properties, these agreements are subject to customary conditions to closing, including completion of due diligence investigations to our satisfaction;
- we may incur significant costs and divert management attention in connection with evaluation and negotiation of potential acquisitions, including ones that we are subsequently unable to complete;
- we may acquire properties that are not initially accretive to our results upon acquisition, and we may not successfully manage and lease those properties to meet our expectations;
- we may be unable to finance the acquisition on favorable terms in the time period we desire, or at all;

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- even if we are able to finance the acquisition, our cash flow may be insufficient to meet our required principal and interest payments;
- we may spend more than budgeted to make necessary improvements or renovations to acquired properties;
- we may be unable to quickly and efficiently integrate new acquisitions, particularly the acquisition of portfolios of properties, into our existing operations;
- market conditions may result in higher than expected vacancy rates and lower than expected rental rates; and
- we may acquire properties subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities.

In addition, we intend to redevelop a significant portion of the properties purchased from Sears Holdings in prior years in order to make space available for lease to additional retail tenants and potentially other third-party lessees for other uses. The redevelopment of these properties involves the risks associated with real estate development activities generally. Our redevelopment strategies also involve additional risks, including the risk that Holdco may terminate or fail to renew leases with us for the applicable portion of the redeveloped space as a result of our redevelopment activities. If we are unable to successfully redevelop properties or to lease the redeveloped properties to third parties on acceptable terms, our business, results of operations and financial condition could be materially adversely affected.

Current and future redevelopment may not yield expected returns.

We expect to undertake redevelopment, expansion and reinvestment projects involving our properties as part of our long-term strategy. Likewise, each JV expects to undertake redevelopment, expansion and reinvestment projects involving its JV Properties, with respect to which we may be required to make additional capital contributions to the applicable JV under certain circumstances. These projects are subject to a number of risks, including (but not limited to):

- abandonment of redevelopment activities after expending resources to determine feasibility;
- loss of rental income, as well as payments of maintenance, repair, real estate taxes and other charges, whether from Holdco related to space that is recaptured pursuant to the Holdco Master Lease or from Sears Holdings related to space that is recaptured pursuant to the Master Lease or any JV Master Leases, and which may not be re-leased to third parties;
- restrictions or obligations imposed pursuant to other agreements;
- construction and/or lease-up costs (including tenant improvements or allowances) and delays and cost overruns, including construction costs that exceed original estimates;
- failure to achieve expected occupancy and/or rent levels within the projected time frame or at all;
- inability to operate successfully in new markets where new properties are located;
- inability to successfully integrate new or redeveloped properties into existing operations;
- difficulty obtaining financing on acceptable terms or paying operating expenses and debt service costs associated with redevelopment properties prior to sufficient occupancy and commencement of rental obligations under new leases;
- changes in zoning, building and land use laws, and conditions, restrictions or limitations of, and delays or failures to obtain, necessary zoning, building, occupancy, land use and other governmental permits;
- changes in local real estate market conditions, including an oversupply of, or a reduction in demand for, retail space or retail goods, and the availability and creditworthiness of current and prospective tenants;
- negative perceptions by retailers or shoppers of the safety, convenience and attractiveness of the property;
- exposure to fluctuations in the general economy due to the significant time lag between commencement and completion of redevelopment projects; and
- vacancies or ability to rent space on favorable terms, including possible market pressures to offer tenants rent abatements, tenant improvements, early termination rights or below-market renewal options.

If any of these events occur at any time during the process with respect to any project, overall project costs may significantly exceed initial cost estimates, which could result in reduced returns or losses from such investments. In addition, we may not have sufficient liquidity to fund such projects, and delays in the completion of a redevelopment project may provide various tenants the right to withdraw from a property.



Rising expenses could reduce cash flow and funds available for future development.

If any property is not fully occupied or becomes vacant in whole or in part, or if rents are being paid in an amount that is insufficient to cover operating costs and expenses, we could be required to expend funds with respect to that property for operating expenses. Our properties are subject to increases in tax rates and tax assessments, utility costs, insurance costs, repairs, maintenance and administrative expenses, and other operating expenses. We may also incur significant expenditures as a result of deferred maintenance for the properties we have already acquired (subject to reserved funds to cover certain of these costs) and other properties we may acquire in the future. While properties under the Holdco Master Lease and the JV Master Leases are generally subject to a triple-net lease basis (subject to proportionate sharing of operating expenses with respect to space not leased by Holdco or Sears Holdings, respectively), renewals of leases or future leases may not be negotiated on that basis, in which event we may have to pay those costs. If we are unable to lease properties on a triple-net-lease basis or on a basis requiring the tenants to pay all or some of such expenses, or if tenants fail to pay required tax, utility and other impositions and other operating expenses, we could be required to pay those costs which could adversely affect funds available for future development or cash available for distributions.

Recent changes in federal tax law could materially adversely affect our business, financial condition and profitability by increasing our tax or tax compliance costs.

On December 20, 2017, the U.S. Congress passed H.R. 1, known as the “Tax Cuts and Jobs Act” (the “TCJA”), which was signed into law on December 22, 2017. The enactment of the TCJA has given rise to numerous interpretive issues and ambiguities and future legislation may be enacted to clarify or modify the TCJA. Any such future legislation, as well as any regulations or other interpretive guidance, may have a material and adverse impact on us.

Real estate related taxes may increase, and if these increases are not passed on to tenants, our income will be reduced.

Some local real property tax assessors may seek to reassess some of our properties as a result of our acquisitions and/or redevelopment of properties. Generally, from time to time, our property taxes increase as property values or assessment rates change or for other reasons deemed relevant by the assessors. An increase in the assessed valuation of a property for real estate tax purposes will result in an increase in the related real estate taxes on that property. Although the Master Lease and the Holdco Master Lease permit, and some third-party tenant leases may also permit, us to pass through such tax increases to the tenants for payment, there is no assurance that renewal leases or future leases will be negotiated on the same basis. Increases not passed through to tenants will reduce our income and the cash available for distributions to our shareholders.

Changes in building and/or zoning laws may require us to update a property in the event of recapture or prevent us from fully restoring a property in the event of a substantial casualty loss and/or require us to meet additional or more stringent construction requirements.

Due to changes in, among other things, applicable building and zoning laws, ordinances and codes that may affect certain of our properties that have come into effect after the initial construction of the properties, certain properties may not comply fully with current building and/or zoning laws, including electrical, fire, health and safety codes and regulations, use, lot coverage, parking and setback requirements, but may qualify as permitted non-conforming uses. Such changes in building and zoning laws may require updating various existing physical conditions of buildings in connection with our recapture, renovation, and/or redevelopment of properties. In addition, such changes in building and zoning laws may limit our or our tenants’ ability to restore the premises of a property to its previous condition in the event of a substantial casualty loss with respect to the property or the ability to refurbish, expand or renovate such property to remain compliant, or increase the cost of construction in order to comply with changes in building or zoning codes and regulations. If we are unable to restore a property to its prior use after a substantial casualty loss or are required to comply with more stringent building or zoning codes and regulations, we may be unable to re-lease the space at a comparable effective rent or sell the property at an acceptable price, which may materially and adversely



affect us.

Our real estate assets may be subject to impairment charges.

On a periodic basis, we must assess whether there are any indicators that the value of our real estate assets and other investments may be impaired. If an impairment indicator is identified, a property's value is considered to be impaired only if management's estimate of current and projected operating cash flows (undiscounted and unlevered), taking into account the anticipated and probability weighted holding periods, are less than the carrying value of the property. In our estimate of cash flows model, we consider factors such as expected future operating income, trends and prospects, the effects of demand, competition and other factors. If we are evaluating the potential sale of an asset or development alternatives, the undiscounted future cash flows consider the most likely course of action at the balance sheet date based on current plans, intended holding periods and available market information. We are required to make subjective assessments as to whether there are impairments in the value of our real estate assets and other investments. These assessments may have a direct impact on our earnings because recording an impairment charge results in an immediate negative adjustment to earnings. We may take impairment charges in the future related to the impairment of our assets, and any future impairment could have a material adverse effect on our results of operations in the period in which the impairment charge is taken.

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Properties in our portfolio may be subject to ground leases; if we are found to be in breach of these ground leases or are unable to renew them, we could be materially and adversely affected.

We currently have one property in our wholly-owned portfolio that is on land subject to a ground lease. Accordingly, we only own a long-term leasehold in the land underlying this property, and we own the improvements thereon only during the term of the ground lease. In the future, our portfolio may include additional properties subject to ground leases or similar interests. If we are found to be in breach of a ground lease, we could lose the right to use the property and could also be liable to the ground lessor for damages. In addition, unless we can purchase a fee interest in the underlying land or extend the terms of these leases before their expiration, which we may be unable to do, we will lose our right to operate these properties and our interest in the improvements upon expiration of the leases. Our ability to exercise options to extend the term of our ground lease is subject to the condition that we are not in default under the terms of the ground lease at the time that we exercise such options, and we may not be able to exercise our options at such time. In addition, three JV Properties are currently ground leased or leased and, therefore, subject to similar risks. Furthermore, we may not be able to renew our ground lease or future ground leases upon their expiration (after the exercise of all renewal options). If we were to lose the right to use a property due to a breach or non-renewal or final expiration of the ground lease, we would be unable to derive income from such property, which could materially and adversely affect our business, financial conditions or results of operations.

Certain properties within our portfolio are subject to restrictions pursuant to reciprocal easement agreements, operating agreements, or similar agreements, some of which contain a purchase option or right of first refusal or right of first offer in favor of a third party.

Many of the properties in our portfolio are, and properties that we acquire in the future may be, subject to use restrictions and/or operational requirements imposed pursuant to ground leases, restrictive covenants or conditions, reciprocal easement agreements or operating agreements (collectively, "Property Restrictions") that could adversely affect our ability to redevelop the properties or lease space to third parties. Such Property Restrictions could include, for example, limitations on alterations, changes, expansions, or reconfiguration of properties; limitations on use of properties, including for retail uses only; limitations affecting parking requirements; restrictions on exterior or interior signage or facades; or access to an adjoining mall, among other things. In certain cases, consent of the other party or parties to such agreements may be required when altering, reconfiguring, expanding, redeveloping or re-leasing properties. Failure to secure such consents when necessary may harm our ability to execute leasing, redevelopment or expansion strategies, which could adversely affect our business, financial condition or results of operations. In certain cases, a third party may have a purchase option or right of first refusal or right of first offer that is activated by a sale or transfer of the property, or a change in use or operations, including a closing of the Sears operation or cessation of business operations, on the encumbered property.

Economic conditions may affect the cost of borrowing, which could materially adversely affect our business.

Our business is affected by a number of factors that are largely beyond our control but may nevertheless have a significant negative impact on us. These factors include, but are not limited to:

- interest rates and credit spreads;
- the availability of credit, including the price, terms and conditions under which it can be obtained;
  - a decrease in consumer spending or sentiment, including as a result of increases in savings rates and tax increases, and any effect that this may have on retail activity;
- the actual and perceived state of the real estate and retail markets, market for dividend-paying stocks and public capital markets in general; and
- unemployment rates, both nationwide and within the primary markets in which we operate.

In addition, economic conditions such as inflation or deflation could materially adversely affect our business, financial condition and results of operations. Deflation may have an impact on our ability to repay our debt. Deflation may delay consumption and thus weaken tenant sales, which may reduce our tenants' ability to pay rents. Deflationary

pressure on retailers may diminish their ability to rent our space and decrease our ability to re-lease the space on favorable terms to us. In an inflationary economic environment, increased inflation may have a pronounced negative impact on the interest expense we pay in connection with our indebtedness and our general and administrative expenses, as these costs could increase at a rate higher than rents we collect. Also, inflation may adversely affect tenant leases with stated rent increases, which could be lower than the increase in inflation at any given time. Inflation could also have an adverse effect on consumer spending, which could impact our tenants' sales and, in turn, our own results of operations. Restricted lending practices may impact our ability to obtain financing for our properties and may also negatively impact our tenants' ability to obtain credit. Decreases in consumer demand can have a direct impact on our tenants and the rents we receive.

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Compliance with the Americans with Disabilities Act may require us to make expenditures that adversely affect our cash flows.

The Americans with Disabilities Act (the “ADA”) has separate compliance requirements for “public accommodations” and “commercial facilities,” but generally requires that buildings be made accessible to people with disabilities. Compliance with the ADA requirements could require removal of access barriers, and non-compliance could result in imposition of fines by the United States government or an award of damages to private litigants, or both. While the tenants to whom our properties are leased are generally obligated by law or lease to comply with the ADA provisions applicable to the property being leased to them, if required changes involve other property not being leased to such tenants, if the required changes include greater expenditures than anticipated, or if the changes must be made on a more accelerated basis than anticipated, the ability of these tenants to cover costs could be adversely affected. Moreover, certain third-party leases may require the landlord to comply with the ADA with respect to the building as a whole and/or the tenant’s space. As a result of any of the foregoing circumstances, we could be required to expend funds to comply with the provisions of the ADA, which could adversely affect our results of operations and financial condition.

Environmental, health, safety and land use laws and regulations may limit or restrict some of our operations.

As the owner or operator of various real properties and facilities, we must comply with various federal, state and local environmental, health, safety and land use laws and regulations. We and our properties are subject to such laws and regulations relating to the use, storage, disposal, emission and release of hazardous and non-hazardous substances and employee health and safety, as well as zoning restrictions. Historically, Sears Holdings did not incur significant expenditures to comply with these laws with respect to the substantial majority of the space at the properties that were subject to the Master Lease. However, a substantial portion of our properties that have resulted in certain remediation activities currently include, or previously included, automotive care center facilities and retail fueling facilities, and/or above-ground or underground storage tanks, and are or were subject to laws and regulations governing the handling, storage and disposal of hazardous substances contained in some of the products or materials used or sold in the automotive care center facilities (such as gasoline, motor oil, fluid in hydraulic lifts, antifreeze, solvents and lubricants), the recycling/disposal of batteries and tires, air emissions, wastewater discharges and waste management. In addition to these products, the equipment in use or previously used at such properties, such as service equipment, car lifts, oil/water separators, and storage tanks, has been subject to increasing environmental regulation relating to, among other things, the storage, handling, use, disposal and transportation of hazardous materials. There are also federal, state and local laws, regulations and ordinances that govern the use, removal and/or replacement of underground storage tanks in the event of a release on, or an upgrade or redevelopment of, certain properties. Such laws, as well as common-law standards, may impose liability for any releases of hazardous substances associated with the underground storage tanks and may provide for third parties to seek recovery from owners or operators of such properties for damages associated with such releases. If hazardous substances are released from any underground storage tanks on any of our properties, we may be materially and adversely affected. In a few states, transfers of some types of sites are conditioned upon clean-up of contamination prior to transfer. If any of our properties are subject to such contamination, we may be subject to substantial clean-up costs before we are able to sell or otherwise transfer the property.

The Master Lease contains requirements that Sears Holdings indemnify us from certain environmental liabilities; however, following Sears Holdings’ bankruptcy, there can be no assurance that we would be able to collect any amounts due under such indemnification obligations. Under the Holdco Master Lease, Holdco is required to indemnify us from certain environmental liabilities at certain properties, including removal and remediation of all affected facilities and equipment constituting the automotive care center facilities, and each JV Master Lease as currently in effect includes a similar requirement of Sears Holdings. Although existing and future third-party leases are expected to require tenants generally to indemnify us for such tenants’ non-compliance with environmental laws as a result of their occupancy, such tenants typically will not be required to indemnify us for environmental non-compliance arising prior to their occupancy. In such cases, we may incur costs and expenses under such leases or

as a matter of law. The amount of any environmental liabilities could exceed the amounts for which Holdco, Sears Holdings or other third parties would be required to indemnify us (or the applicable JV) or their financial ability to do so. In addition, under the terms of the agreements governing our indebtedness, we have deposited funds in a reserve account that will be used to fund costs incurred in correcting certain environmental and other conditions. The amount of such funds may not be sufficient to correct the environmental and other conditions to which they are expected to be applied.

In addition, additional laws which may be passed in the future, or a finding of a violation of or liability under existing laws, could require us and/or one or more of the JVs to make significant expenditures and otherwise limit or restrict some of our or its or their operations, which could have an adverse effect on our business, financial condition and results of operations.

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Environmental compliance costs and liabilities associated with real estate properties owned by us may materially and adversely affect us.

Our properties may be subject to known and unknown environmental liabilities under various federal, state and local laws and regulations relating to human health and the environment. Certain of these laws and regulations may impose joint and several liability on certain statutory classes of persons, including owners or operators, for the costs of investigation or remediation of contaminated properties. These laws and regulations apply to past and present business operations on the properties, and the use, storage, handling and recycling or disposal of hazardous substances or wastes. We may face liability regardless of our knowledge of the contamination, the timing of the contamination, the cause of the contamination or the party responsible for the contamination of the property.

We may be held primarily or jointly and severally liable for costs relating to the investigation and clean-up of any of our properties from which there has been a release or threatened release of a regulated material as well as other affected properties, regardless of whether we knew of or caused the release.

As the owner or operator of real property, we may also incur liability based on various building conditions. For example, buildings and other structures on properties that we currently own or operate or those we acquire or operate in the future contain, may contain, or may have contained, asbestos-containing material (or "ACM"). Environmental, health and safety laws require that ACM be properly managed and maintained and may impose fines or penalties on owners, operators or employers for non-compliance with those requirements. These requirements include special precautions, such as removal, abatement or air monitoring, if ACM would be disturbed during maintenance, renovation or demolition of a building, potentially resulting in substantial costs. In addition, we may be subject to liability for personal injury or property damage sustained as a result of exposure to ACM or releases of ACM into the environment. In addition, the presence of significant mold or other airborne contaminants at any of our properties could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants or increase ventilation and/or expose us to liability from our tenants, employees of our tenants, or others if property damage or personal injury occurs.

In addition to these costs, which are typically not limited by law or regulation and could exceed a property's value, we could be liable for certain other costs, including governmental fines, and injuries to persons, property or natural resources. Further, some environmental laws create a lien on the contaminated site in favor of the government for damages and the costs the government incurs in connection with such contamination. Any such costs or liens could have a material adverse effect on our business or financial condition.

Although we intend to require our tenants to undertake to indemnify us for certain environmental liabilities, including environmental liabilities they cause, the amount of such liabilities could exceed the financial ability of the tenant to indemnify us. The presence of contamination or the failure to remediate contamination may adversely affect our ability to sell or lease the real estate or to borrow using the real estate as collateral.

Each JV is subject to similar risks relating to environmental compliance costs and liabilities associated with its JV Properties, which may reduce the value of our investment in, or distributions to us by, one or more JVs, or require that we make additional capital contributions to one or more JVs.

Possible terrorist activity or other acts of violence could adversely affect our financial condition and results of operations.

Terrorist attacks or other acts of violence may result in declining economic activity, which could harm the demand for goods and services offered by our tenants and the value of our properties and might adversely affect the value of an investment in our securities. Such a resulting decrease in retail demand, could make it difficult for us to renew or re-lease our properties at lease rates equal to or above historical rates. Terrorist activities or violence also could directly affect the value of our properties through damage, destruction or loss, and the availability of insurance for

such acts, or of insurance generally, might be lower or cost more, which could increase our operating expenses and adversely affect our financial condition and results of operations. To the extent that our tenants are affected by future attacks, their businesses similarly could be adversely affected, including their ability to continue to meet obligations under their existing leases. These acts might erode business and consumer confidence and spending and might result in increased volatility in national and international financial markets and economies. Any one of these events might decrease demand for real estate, decrease or delay the occupancy of our new or redeveloped properties, and limit our access to capital or increase our cost of raising capital.

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Cybersecurity incidents could cause a disruption to our operations, a compromise of confidential information and damage to our business relationships, all of which could negatively impact our business, financial condition and operating results.

Seritage is susceptible to cybersecurity risks that include, among other things, theft, unauthorized monitoring, release, misuse, loss, destruction or corruption of confidential and highly restricted data; denial of service attacks; unauthorized access to relevant systems, compromises to networks or devices; or operational disruption or failures in the physical infrastructure or operating systems of Seritage's information systems. Seritage's information systems are essential to the operation of our business and our ability to perform day-to-day operations, including for the secure processing, storage and transmission of confidential and personal information. Seritage must continuously monitor and develop its systems to protect its technology infrastructure and data from misappropriation, corruption and disruption. Cybersecurity risks may also impact properties in which we invest on behalf of clients and tenants of those properties, which could result in a loss of value in our clients' investment. In addition, due to Seritage's interconnectivity with third-party service providers and other entities with which Seritage conducts business, Seritage could be adversely impacted if any of them is subject to a successful cyber incident. Although we and our service providers have implemented processes, procedures and controls to help mitigate these risks, there can be no assurance that these measures will be effective or that security breaches or disruptions will not occur. The result of these incidents may include disrupted operations, liability for loss or misappropriation of data, stolen assets or information, increased cybersecurity protection and insurance costs, increased compliance costs, litigation, regulatory enforcement actions and damage to our reputation or business relationships.

We may have future capital needs and may not be able to obtain additional financing on acceptable terms.

As of December 31, 2018, we had aggregate outstanding indebtedness of \$1.6 billion. We may incur additional indebtedness in the future to refinance our existing indebtedness, to finance newly acquired properties or capital contributions to joint ventures, or to fund retenuing and redevelopment projects. Our existing debt and any significant additional indebtedness could require a substantial portion of our cash flow to make interest and principal payments. Demands on our cash resources from debt service will reduce funds available to us to pay dividends, make capital expenditures and acquisitions or carry out other aspects of our business strategy. Our indebtedness may also limit our ability to adjust rapidly to changing market conditions, make us more vulnerable to general adverse economic and industry conditions and create competitive disadvantages for us compared to other companies with relatively lower debt levels. Increased future debt service obligations may limit our operational flexibility, including our ability to acquire properties, finance or refinance our properties, contribute properties to joint ventures or sell properties as needed.

Upon the earlier of such time as the Bankruptcy Court issues an order approving the rejection of the Master Lease or the time of its deemed rejection pursuant to the Bankruptcy Code and the effectiveness of the Holdco Master Lease, we would be in breach of certain financial metrics applicable to us under the agreements governing our Term Loan Facility, as a result of which the lender has the right to require us to provide mortgages to the lender under the Term Loan Facility with respect to certain properties, and the lender will have the right to consent to certain asset sales and transactions with joint ventures.

Moreover, our ability to obtain additional financing and satisfy our financial obligations under indebtedness outstanding from time to time will depend upon our future operating performance, which is subject to then-prevailing general economic, real estate and credit market conditions, including interest rate levels and the availability of credit generally, and financial, business and other factors, many of which are beyond our control. A prolonged worsening of credit market conditions would have a material adverse effect on our ability to obtain financing on favorable terms, if at all.

We may be unable to obtain additional financing or financing on favorable terms or our operating cash flow may be insufficient to satisfy our financial obligations under any indebtedness outstanding from time to time. Among other



things, the absence of an investment grade credit rating or any credit rating downgrade could increase our financing costs and could limit our access to financing sources. If financing is not available when needed, or is available only on unfavorable terms, we may be unable to enhance our properties or develop new properties, complete acquisitions or otherwise take advantage of business opportunities or respond to competitive pressures, any of which could have a material adverse effect on our business, financial condition and results of operations. A decrease in available liquidity could also impair our ability to pay dividends to our shareholders.

If additional funds are raised through the issuance of equity securities, our shareholders may experience significant dilution. Additionally, sales of substantial amounts of Class A common shares in the public market, or the perception that such sales could occur, could adversely affect the market price of Class A common shares, may make it more difficult for our shareholders to sell their common shares at a time and price that they deem appropriate, and could impair our future ability to raise capital through an offering of our equity securities.

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We may incur mortgage indebtedness and other borrowings, which may increase our business risks.

We may incur mortgage debt and pledge all or some of our real properties as security for that debt to finance newly acquired properties or capital contributions to joint ventures, or to fund retreating and redevelopment projects. As noted above, upon the rejection of the Master Lease and the effectiveness of the Holdco Master Lease, we would be in breach of certain financial metrics applicable to us under the agreements governing our Term Loan Facility, as a result of which the lender has the right to require us to provide mortgages to the lender under the Term Loan Facility with respect to certain properties. This restriction, together with the other provisions of the Term Loan Facility, will limit our ability to obtain additional secured financing using such properties as collateral. The Company may also borrow if it needs funds or deems it necessary or advisable to assure that it maintains its qualification as a REIT for U.S. federal income tax purposes. If there is a shortfall between the cash flow from a property and the cash flow needed to service mortgage debt on a property, then the amount available for distributions to shareholders may be reduced. In addition, incurring mortgage debt increases the risk of loss since defaults on indebtedness secured by a property may result in lenders initiating foreclosure actions. In that case, we could lose the property securing the loan that is in default. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds. In such event, the Company may be unable to pay the amount of distributions required in order to maintain its REIT status. If any mortgages contain cross-collateralization or cross-default provisions, a default on a single property could affect multiple properties. If any properties are foreclosed upon due to a default, our ability to pay cash distributions to our shareholders may be adversely affected.

Covenants in our term loan facility may limit our operational flexibility and a covenant breach or default could adversely affect our business and financial condition.

Our term loan facility includes certain financial metrics to govern certain collateral and covenant exceptions set forth in the agreement, including: (i) a total fixed charge coverage ratio of not less than 1.00 to 1.00 for each fiscal quarter beginning with the fiscal quarter ending September 30, 2018 through the fiscal quarter ending June 30, 2021, and not less than 1.20 to 1.00 for each fiscal quarter thereafter; (ii) an unencumbered fixed charge coverage ratio of not less than 1.05 to 1.00 for each fiscal quarter beginning with the fiscal quarter ending September 30, 2018 through the fiscal quarter ending June 30, 2021, and not less than 1.30 to 1.00 for each fiscal quarter thereafter; (iii) a total leverage ratio of not more than 65%; (iv) an unencumbered ratio of not more than 60%; and (v) a minimum net worth of at least \$1.2 billion. Any failure to satisfy any of these financial metrics will limit our ability to dispose of assets via sale or joint venture and may trigger a requirement for us to provide mortgage collateral to our lender, but will not result in an event of default, mandatory amortization, cash flow sweep or similar provision. Upon the rejection of the Master Lease and the effectiveness of the Holdco Master Lease, we would be in breach of one or more of the financial metrics described above, as a result of which we may be required to provide mortgages to the lender under the Term Loan Facility with respect to certain properties, and the lender will have the right to consent to certain asset sales and transactions with joint ventures. The term loan facility also includes certain limitations relating to, among other activities, our ability to: sell assets or merge, consolidate or transfer all or substantially all of its assets; incur additional debt; incur certain liens; enter into, terminate or modify certain material leases and/or the material agreements for the Company's properties; make certain investments (including limitations on joint ventures) and other restricted payments; pay distributions on or repurchase the Company's capital stock; and enter into certain transactions with affiliates.

The term loan facility also provides for a \$400 million incremental facility. Our ability to access the incremental facility is subject to (i) our achieving rental income from non-Sears Holdings tenants, on an annualized basis (after giving effect to certain signed but not open leases) for the fiscal quarter ending prior to the date of incurrence of the incremental facility, of not less than \$200 million and (ii) our good faith projection that rental income from non-Sears Holdings tenants (after giving effect to certain signed but not open leases) for the succeeding four consecutive fiscal quarters (beginning with the fiscal quarter during which the incremental facility is accessed) will be not less than \$200

million.

We have limited operating history as a REIT and an independent public company, and our inexperience may impede our ability to successfully manage our business or implement effective internal controls.

We have limited operating history owning, leasing or developing properties independent from Sears Holdings or operating as a REIT. Similarly, we have limited operating history as an independent public company. We cannot assure you that our past experience will be sufficient to successfully operate our company as a REIT and an independent public company. The Company is required to implement substantial control systems and procedures in order to maintain its qualification as a REIT, satisfy its periodic and current reporting requirements under applicable SEC regulations and comply with the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the NYSE listing standards. As a result, our management and other personnel need to devote a substantial amount of time to comply with these rules and regulations and establish the corporate infrastructure and controls demanded of a publicly traded REIT. These costs and time commitments could be substantially more than we currently expect. If our finance and accounting organization is unable for any reason to respond adequately to the increased demands, the quality and timeliness of our financial reporting may suffer, and we could experience significant deficiencies or material weaknesses in our disclosure controls and procedures or our internal control over financial reporting.

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An inability to establish effective disclosure controls and procedures and internal control over financial reporting or remediate existing deficiencies could cause us to fail to meet our reporting obligations under the Exchange Act, or result in material weaknesses, material misstatements or omissions in our Exchange Act reports, any of which could cause investors to lose confidence in our company, which could have an adverse effect on our revenues and results of operations or the market price of Class A common shares, par value \$0.01 per share, Class B non-economic common shares of beneficial interest, par value \$0.01 per share (“Class B non-economic common shares”), and Class C non-voting common shares of beneficial interest, par value \$0.01 per share (“Class C non-voting common shares”).

Our rights and the rights of our shareholders to take action against our trustees and officers are limited.

As permitted by the Maryland REIT Law, the Company’s Declaration of Trust limits the liability of its trustees and officers to Seritage and its shareholders for money damages, except for liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- a final judgment based upon a finding of active and deliberate dishonesty by the trustee or officer that was material to the cause of action adjudicated.

In addition, the Company’s Declaration of Trust authorizes it and Seritage’s bylaws obligate it to indemnify its present and former trustees and officers for actions taken by them in those capacities and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding to the maximum extent permitted by Maryland law, and we have entered into indemnification agreements with our trustees and executive officers. As a result, the Company and our shareholders may have more limited rights against our trustees and officers than might otherwise exist absent the provisions in our Declaration of Trust and bylaws or that might exist with other companies. Accordingly, in the event that actions taken by any of our trustees or officers are immune or exculpated from, or indemnified against, liability but which impede our performance, the Company and our shareholders’ ability to recover damages from that trustee or officer will be limited.

Seritage’s Declaration of Trust and bylaws, Maryland law, and the partnership agreement of Operating Partnership contain provisions that may delay, defer or prevent an acquisition of Class A common shares or a change in control.

The Company’s Declaration of Trust and bylaws, Maryland law and the partnership agreement of Operating Partnership contain a number of provisions, the exercise or existence of which could delay, defer or prevent a transaction or a change in control that might involve a premium price for our shareholders or otherwise be in their best interests, including the following:

• The Company’s Declaration of Trust Contains Restrictions on the Ownership and Transfer of Seritage Shares of Beneficial Interest. In order for us to qualify as a REIT, no more than 50% of the value of all outstanding common shares may be owned, beneficially or constructively, by five or fewer individuals at any time during the last half of each taxable year other than 2015, the first taxable year for which we elected to be taxed as a REIT. Additionally, at least 100 persons must beneficially own Class A common shares during at least 335 days of a taxable year (other than the first taxable year for which we elect to be taxed as a REIT). The Company’s Declaration of Trust, with certain exceptions, authorizes the Board of Trustees to take such actions as are necessary and desirable to preserve its qualification as a REIT. For this and other purposes, subject to certain exceptions, our Declaration of Trust provides that no person may beneficially or constructively own more than 9.6%, in value or in number of shares, whichever is more restrictive, of all outstanding shares, or all outstanding common shares (including our Class A common shares, our Class B non-economic common shares and our Class C non-voting common shares), of beneficial interest of the Company. We refer to these restrictions collectively as the “ownership limits.” The constructive ownership rules under the Code are complex and may cause shares owned directly or constructively by a group of related individuals or entities to be deemed to be constructively owned by one individual or entity. As a result, the acquisition of less than 9.6% of the outstanding shares of beneficial interest of our shares by an individual or entity could cause that individual or entity or another individual or entity to own, beneficially or constructively, the Company’s shares of beneficial interest in violation of the ownership limits. In addition, because we have multiple classes of common

shares, the acquisition of Class A common shares may result in a shareholder inadvertently owning, beneficially or constructively, the Company's shares of beneficial interest in violation of the ownership limits. Our Declaration of Trust also prohibits any person from owning Class A common shares that would result in our being "closely held" under Section 856(h) of the Code or otherwise cause us to fail to qualify as a REIT. Any attempt to own or transfer Class A common shares or any of our other shares of beneficial interest in violation of these restrictions or other restrictions on ownership or transfer in our Declaration of Trust may result in the transfer being automatically void. The Company's Declaration of Trust also provides that Class A common shares in excess of the ownership limits will be transferred to a trust for the exclusive benefit of a designated charitable beneficiary, and that any person who acquires Class A common shares in violation of the ownership limits will not be entitled to any dividends on the shares or be entitled to vote the shares or receive any proceeds from the subsequent sale of the shares in excess of the lesser of the price paid by such person for the shares (or, if such person did not give value for such shares, the market price on the day the shares were transferred to the trust) or the amount realized from the sale. We or our designee will have the right to purchase the shares from the trustee at this calculated price as well. The ownership limits and other restrictions on ownership and transfer in our Declaration of Trust may have the effect of preventing, or may be relied upon to prevent, a third party from acquiring control of us if the Board of Trustees does not grant an exemption from the ownership limits, even if our shareholders believe the change in control is in their best interests.

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• The Company's Board of Trustees Has the Power to Cause Us to Issue Additional Shares of Beneficial Interest and Classify and Reclassify Any Unissued Class A Common Shares without Shareholder Approval. The Company has issued and outstanding, in addition to the Class A common shares, Class B non-economic common shares having, in the aggregate, approximately 3.6% of the voting power of the Company, all of which are held by ESL Partners, L.P. and Edward S. Lampert. We have also issued 2,800,000 shares of Series A Cumulative Redeemable Preferred Shares (the "Series A Preferred Shares") that are senior to our common shares with respect to priority of dividend payments and rights upon liquidation, dissolution or winding up. Our Declaration of Trust authorizes us to issue additional authorized but unissued common shares or preferred shares of beneficial interest. In addition, the Board of Trustees may, without shareholder approval, (i) amend the Declaration of Trust to increase or decrease the aggregate number of shares of beneficial interest or the number of shares of beneficial interest of any class or series that we have authority to issue and (ii) classify or reclassify any unissued common shares or preferred shares of beneficial interest and set the preferences, rights and other terms of the classified or reclassified shares. As a result, the Board of Trustees may establish a class or series of common shares or preferred shares of beneficial interest that could delay or prevent a transaction or a change in control that might involve a premium price for Class A common shares or otherwise be in the best interests of our shareholders.

• The Board of Trustees Is Divided into Three Classes and Trustee Elections Require a Vote of 75% of the Class A Common Shares and Class B Non-Economic Common Shares Entitled to Vote. The Board of Trustees is divided into three classes of trustees, with each class to be as nearly equal in number as possible. As a result, approximately one-third of the Board of Trustees will be elected at each annual meeting of shareholders, with, in both contested and uncontested elections, trustees elected by the vote of 75% of the votes of the Class A common shares and Class B non-economic common shares (voting together as a single class) entitled to be cast in the election of trustees. In the event that an incumbent trustee does not receive a sufficient percentage of votes cast for election, he or she will continue to serve on the Board of Trustees until a successor is duly elected and qualifies. The classification of trustees and requirement that trustee nominees receive a vote of 75% of the votes of the Class A common shares and Class B non-economic common shares (voting together as a single class) entitled to be cast in the election of trustees may have the effect of making it more difficult for shareholders to change the composition of the Board of Trustees. The requirement that trustee nominees receive a vote of 75% of the votes of the Class A common shares and Class B non-economic common shares (voting together as a single class) entitled to be cast in the election of trustees may also have the effect of making it more difficult for shareholders to elect trustee nominees that do not receive the votes of shares of beneficial interest held by ESL, which controls approximately 6.1% of the voting power of the Company.

• The Partnership Agreement of Operating Partnership Provides Holders of Operating Partnership Units Approval Rights over Certain Change in Control Transactions Involving the Company or Operating Partnership. Pursuant to the partnership agreement of Operating Partnership, certain transactions, including mergers, consolidations, conversions or other combinations or extraordinary transactions or transactions that constitute a "change of control" of the Company or Operating Partnership, as defined in the partnership agreement, will require the approval of the partners (other than the Company and entities controlled by it) holding a majority of all the outstanding Operating Partnership units held by all partners (other than the Company and entities controlled by it). These provisions could have the effect of delaying or preventing a change in control. ESL holds all of the Operating Partnership units not held by the Company and entities controlled by it.

- Certain Provisions of Maryland Law May Limit the Ability of a Third Party to Acquire Control of Us. Certain provisions of the Maryland General Corporation Law (the "MGCL") applicable to Maryland REITs may have the effect of inhibiting a third party from acquiring us or of impeding a change of control of the Company under circumstances that otherwise could provide Class A common shareholders with the opportunity to realize a premium over the then-prevailing market price of such shares or otherwise be in the best interest of shareholders, including:
  - o "business combination" provisions that, subject to certain exceptions and limitations, prohibit certain business combinations between a Maryland REIT and an "interested shareholder" (defined generally as any person who beneficially owns, directly or indirectly, 10% or more of the voting power of the Company's outstanding voting shares or an affiliate or associate of the Maryland REIT who, at any time within the two-year period immediately prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then-outstanding

shares of the Company) or an affiliate of any interested shareholder and the Maryland REIT for five years after the most recent date on which the shareholder becomes an interested shareholder, and thereafter imposes two supermajority shareholder voting requirements on these combinations;

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o “control share” provisions that provide that, subject to certain exceptions, holders of “control shares” of our company (defined as voting shares that, if aggregated with all other shares owned or controlled by the acquirer, would entitle the acquirer to exercise one of three increasing ranges of voting power in electing trustees) acquired in a “control share acquisition” (defined as the direct or indirect acquisition of issued and outstanding “control shares”) have no voting rights with respect to the control shares except to the extent approved by our shareholders by the affirmative vote of at least two-thirds of all of the votes entitled to be cast on the matter, excluding all interested shares; and

o Additionally, Title 3, Subtitle 8 of the MGCL permits the Board of Trustees, without shareholder approval and regardless of what is currently provided in our Declaration of Trust or bylaws, to implement certain takeover defenses.

The Board of Trustees has, by resolution, exempted from the provisions of the Maryland Business Combination Act all business combinations (a) between us and (i) Sears Holdings or its affiliates or (ii) ESL or FCM and/or Fairholme Clients and their respective affiliates and (b) between us and any other person, provided that such business combination is first approved by the Board of Trustees (including a majority of our trustees who are not affiliates or associates of such person). In addition, our bylaws contain a provision opting out of the Maryland control share acquisition act.

We may experience uninsured or underinsured losses, or insurance proceeds may not otherwise be available to us which could result in a significant loss of the capital we have invested in a property, decrease anticipated future revenues or cause us to incur unanticipated expense.

While the Master Lease, the Holdco Master Lease and other existing third-party leases require, and new lease agreements are expected to require, that comprehensive general insurance and hazard insurance be maintained by the tenants with respect to their premises, and we have obtained casualty insurance with respect to our properties, there are certain types of losses, generally of a catastrophic nature, such as earthquakes, hurricanes and floods, that may be uninsurable or not economically insurable. Insurance coverage (net of deductibles) may not be effective or be sufficient to pay the full current market value or current replacement cost of a loss. Inflation, changes in building and zoning codes and ordinances, environmental considerations, and other factors also might make it infeasible to use insurance proceeds to restore or replace the property after such property has been damaged or destroyed. Under such circumstances, the insurance proceeds received might not be adequate to restore the economic position with respect to such property or to comply with the requirements of our mortgages and Property Restrictions. Moreover, the holders of any mortgage indebtedness may require some or all property insurance proceeds to be applied to reduce such indebtedness, rather than being made available for property restoration.

If we experience a loss that is uninsured or that exceeds our policy coverage limits, we could lose the capital invested in the damaged properties as well as the anticipated future cash flows from those properties. In addition, if the damaged properties were subject to recourse indebtedness, Property Restrictions or ground leases, we could continue to be liable for the indebtedness or subject to claims for damages even if these properties were irreparably damaged.

In addition, even if damage to our properties is covered by insurance, a disruption of our business or that of our tenants caused by a casualty event may result in the loss of business and/or tenants. The business interruption insurance we or our tenants carry may not fully compensate us for the loss of business or tenants due to an interruption caused by a casualty event. Further, if one of our tenants has insurance but is underinsured, that tenant may be unable to satisfy its payment obligations under its lease with us or its other payment or other obligations.

A disruption in the financial markets may make it more difficult to evaluate the stability, net assets and capitalization of insurance companies and any insurer’s ability to meet its claim payment obligations. A failure of an insurance company to make payments to us upon an event of loss covered by an insurance policy, losses in excess of our policy coverage limits or disruptions to our business or the business of our tenants caused by a casualty event could adversely affect our business, financial condition and results of operations.



Each JV may also experience uninsured or underinsured losses, and also faces other risks related to insurance that are similar to those we face, which could reduce the value of our investment in, or distributions to us by, one or more JVs, or require that we make additional capital contributions to one or more JVs.

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Conflicts of interest may exist or could arise in the future between the interests of Seritage shareholders and the interests of holders of Operating Partnership units, and the partnership agreement of Operating Partnership grants holders of Operating Partnership units certain rights, which may harm the interests of Seritage shareholders.

Conflicts of interest may exist or could arise in the future as a result of the relationships between Seritage and its affiliates, on the one hand, and Operating Partnership or any of its partners, on the other. Seritage's trustees and officers have duties to Seritage under Maryland law in connection with their oversight and management of the company. At the same time, Seritage, as general partner of Operating Partnership, will have duties and obligations to Operating Partnership and its limited partners under Delaware law, as modified by the partnership agreement of Operating Partnership in connection with the management of Operating Partnership.

For example, without the approval of the majority of the Operating Partnership units not held by Seritage and entities controlled by it, Seritage will be prohibited from taking certain extraordinary actions, including change of control transactions of Seritage or Operating Partnership.

ESL owns a substantial percentage of the Operating Partnership Units, which may be exchanged for cash or, at the election of Seritage, Class A common shares, and which will result in certain transactions involving Seritage or Operating Partnership requiring the approval of ESL.

ESL owns approximately 36.1% of the Operating Partnership units, with the remainder of the units held by the Company. In addition, ESL will have the right to acquire additional Operating Partnership units in order to allow it to maintain its relative ownership interest in Operating Partnership if Operating Partnership issues additional units to the Company under certain circumstances, including if we issue additional equity and contribute the funds to Operating Partnership to fund acquisitions or redevelopment of properties, among other uses. In addition, ESL will have the right to require the Operating Partnership to redeem its Operating Partnership units in whole or in part in exchange for cash or, at the election of the Company, Class A common shares, except as described below. Due to the ownership limits set forth in our Declaration of Trust, ESL may dispose of some or all of the Class A common shares it beneficially owns prior to exercising its right to require Operating Partnership to redeem Operating Partnership units, and the partnership agreement of Operating Partnership will permit ESL (and only ESL) to transfer its Operating Partnership units to one or more underwriters to be exchanged for Class A common shares in connection with certain dispositions in order to achieve the same effect as would occur if ESL were to exchange a larger portion of its Operating Partnership units for Class A common shares and then dispose of those shares in an underwritten offering. Sales of a substantial number of Class A common shares in connection with or to raise cash proceeds to facilitate, such a redemption, or the perception that such sales may occur, could adversely affect the market price of the Class A common shares.

In addition, the partnership agreement of Operating Partnership requires the approval of a majority of the Operating Partnership units not held by the Company and entities controlled by it for certain transactions and other actions, including certain modifications to the partnership agreement, withdrawal or succession of the Company as general partner of Operating Partnership, limits on the right of holders of Operating Partnership units to redeem their units, tax elections and certain other matters. Because ESL currently owns a majority of the outstanding Operating Partnership units not held by the Company and entities controlled by it, ESL's approval will be required in order for the general partner to undertake such actions unless ESL no longer owns a majority of such units. If ESL refuses to approve any such action, our business could be materially adversely affected. Furthermore, ESL owns approximately 2.7% of the outstanding Class A common shares, as well as Class B non-economic common shares having, in the aggregate, 6.1% of the voting power of the Company. In any of these matters, the interests of ESL may differ from or conflict with the interests of our other shareholders.

ESL exerts substantial influence over us and Holdco, and its interests may differ from or conflict with the interests of our other shareholders.

ESL beneficially owns approximately 36.1% of the Operating Partnership units, and approximately 2.7% of the outstanding Class A common shares and Class B non-economic common shares having, in the aggregate, 6.1% of the voting power of Seritage. Sears Holdings was, and Holdco is, an affiliate of ESL. In addition, Mr. Lampert, who previously served as the Chairman of the Board and Chief Executive Officer of Sears Holdings, and is the Chairman and Chief Executive Officer of ESL, serves as the Chairman of the Seritage Board of Trustees. As a result, ESL and its affiliates have substantial influence over us, Sears Holdings and Holdco. In any matter affecting us, including our relationship with Sears Holdings or Holdco, the interests of ESL may differ from or conflict with the interests of our other shareholders.

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## Edgar Filing: Seritage Growth Properties - Form 10-K

The businesses of each of the GGP JVs, the Simon JV, and the Macerich JV are similar to our business and the occurrence of risks that adversely affect us could also adversely affect our investment in the GGP JVs, the Simon JV and/or the Macerich JV.

The GGP JVs are joint ventures that own and operate certain JV Properties, which consist of nine properties formerly owned or leased by Sears Holdings, the Simon JV is a joint venture that owns and operates certain other JV Properties, which consist of five other properties formerly owned by Sears Holdings and the Macerich JV is a joint venture that owns and operates the remaining JV Properties, which consist of nine other properties formerly owned by Sears Holdings. A substantial majority of the space at the JV Properties is leased by the applicable JV to Sears Holdings under the applicable JV Master Lease. Except with respect to the rent amounts and the properties covered, the general formats of the JV Master Leases are similar to one another and to the Master Lease and the Holdco Master Lease, including with respect to the lessor's right to recapture space leased to Sears Holdings (other than at one property owned by the Macerich JV) and Sears Holdings' right to terminate a portion of the lease as to certain properties. As a result, each JV's business is similar to our business, and each JV is subject to many of the same risks that we face. The occurrence of risks that adversely affect us could also adversely affect one or more JVs and reduce the value of our investment in, or distributions to us from, one or more JVs, or require that we make additional capital contributions to one or more JVs.

In addition, our influence over each JV may be limited by the fact that day-to-day operation of the GGP JVs, the Simon JV and the Macerich JV, and responsibility for leasing and redevelopment activities related to the JV Properties owned by the GGP JVs, the Simon JV and the Macerich JV, as applicable, are generally delegated to GGP, Simon and Macerich, respectively, subject to certain exceptions. The JV Properties owned by the GGP JVs are located at malls owned and operated by GGP, the JV Properties owned by the Simon JV are located at malls owned and operated by the Simon JV and the JV Properties owned by the Macerich JV are located at malls owned and operated by the Macerich JV. As a result, conflicts of interest may exist or could arise in the future between the interests of GGP, Simon or Macerich and our interests as a holder of 50% interests in the GGP JVs, the Simon JV and the Macerich JV, respectively, including, for example, with respect to decisions as to whether to lease to third parties space at a JV Property or other space at the mall at which such JV Property is located.

We have historically depended on Sears Holdings to provide certain services at properties where Sears Holdings is the sole or primary tenant and may have difficulty finding replacement services or be required to pay increased costs to replace these services after our agreements with Sears Holdings are terminated.

We entered into various agreements that effected the purchase and sale of the acquired properties and the lease or sublease of a substantial majority of the acquired properties to Sears Holdings, including, among others, the Master Lease. The Master Lease governs the terms of the use and operation of properties leased by us to Sears Holdings, including our redevelopment and recapture rights and Sears Holdings' lease termination rights. In addition, the Subscription, Distribution and Purchase and Sale Agreement provides for, among other things, our responsibility for liabilities relating to our business and the responsibility of Sears Holdings for liabilities unrelated to our business. The Subscription, Distribution and Purchase and Sale Agreement also contains indemnification obligations and ongoing commitments of us and Sears Holdings.

If Sears Holdings is unable to meet its obligations under the Master Lease and the Subscription, Distribution and Purchase and Sale Agreement as a result of its bankruptcy or otherwise, we may be forced to seek replacement services from alternate providers. These replacement services may be more costly to us or of lower quality, and the transition process to a new service provider may result in interruptions to our business or operations, which could harm our financial condition or results of operations.

We will continue to depend on Holdco to provide certain services at properties where Holdco is the sole or primary tenant and may have difficulty finding replacement services or be required to pay increased costs to replace these services after our agreements with Holdco expire or are terminated.

On February 28, 2019, we and certain affiliates of Holdco executed the Holdco Master Lease. A condition to the performance and obligations provided for in the Holdco Master Lease is the rejection of the Master Lease. On February 28, 2019, Sears Holdings filed a notice with the Bankruptcy Court seeking an order of the Bankruptcy Court approving the rejection of the Master Lease. The rejection will become effective by either (i) the Bankruptcy Court issues an order approving the rejection of the Master Lease or (ii) the Master Lease is deemed to be rejected pursuant to the operation of the Bankruptcy Code. The Holdco Master Lease governs the terms of the use and operation of properties leased by us to Holdco, including our redevelopment and recapture rights and Holdco's lease termination rights, and the repair, maintenance and redevelopment-related services Holdco may provide to us. The agreements between us and certain affiliates of Holdco also govern our various interim and ongoing relationships.

If the Holdco Master Lease expires or is terminated, or if Holdco is unable to meet its obligations under the Holdco Master Lease as a result of bankruptcy or otherwise, we may be forced to seek replacement services from alternate providers. These replacement services may be more costly to us or of lower quality, and the transition process to a new service provider may result in interruptions to our business or operations, which could harm our financial condition or results of operations.

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Sears Holdings has agreed to indemnify us for certain liabilities. However, these indemnities may be insufficient to insure us against the full amount of such liabilities, and Sears Holdings' ability to satisfy its indemnification obligations may be impaired in the future.

Pursuant to the Subscription, Distribution and Purchase and Sale Agreement and the Master Lease, Sears Holdings has agreed to indemnify us for certain liabilities. However, third parties could seek to hold us responsible for any of the liabilities that Sears Holdings has agreed to retain, and Sears Holdings may be unable to fully satisfy its indemnification obligations. Moreover, even if we ultimately succeed in recovering from Sears Holdings any amounts for which we are held liable, we may be temporarily required to bear these losses while seeking recovery from Sears Holdings. Any liabilities in excess of amounts for which we receive timely indemnification from Sears Holdings could have a material adverse effect on our business and financial condition. Given that Sears Holdings has filed for bankruptcy, it is uncertain whether we could recover any damages pursuant to an indemnity granted to us by Sears Holdings.

Holdco has agreed to indemnify us for certain liabilities. However, these indemnities may be insufficient to insure us against the full amount of such liabilities, and Holdco's ability to satisfy its indemnification obligations may be impaired in the future.

Pursuant to the Holdco Master Lease, Holdco has agreed to indemnify us for certain liabilities. However, third parties could seek to hold us responsible for any of the liabilities that Holdco has agreed to retain, and Holdco may be unable to fully satisfy its indemnification obligations. Moreover, even if we ultimately succeed in recovering from Holdco any amounts for which we are held liable, we may be temporarily required to bear these losses while seeking recovery from Holdco. Any liabilities in excess of amounts for which we receive timely indemnification from Holdco could have a material adverse effect on our business and financial condition.

#### Risks Related to Status as a REIT

If we do not qualify to be taxed as a REIT, or fail to remain qualified as a REIT, we will be subject to U.S. federal income tax as a regular corporation and could face a substantial tax liability, which would reduce the amount of cash available for distribution to our shareholders.

We elected to be taxed as a REIT for U.S. federal income tax purposes commencing with our initial taxable year ended December 31, 2015 and have operated, and expect to continue to operate, to qualify as a REIT. In connection with the Transaction, and the December 2017 offering of Series A Preferred Shares, we received opinions of counsel concluding that we have been organized in conformity with the requirements for qualification as a REIT and our current and/or proposed method of operation should enable us to satisfy the requirements for qualification as a REIT as of the respective dates. Investors should be aware, however, that opinions of counsel are not binding on the IRS or any court, and that each opinion was expressed as of the date it was issued and has not been updated. We believe we have continued to operate in conformity with the requirements to qualify as a REIT and that we continue to satisfy all requirements to maintain our REIT status. However, qualification as a REIT involves the application of highly technical and complex provisions of the Code, for which only a limited number of judicial and administrative interpretations exist.

If we were to fail to qualify as a REIT in any taxable year, and no available relief provision applied, we would be subject to U.S. federal income tax, including, for any taxable year ending on or before December 31, 2017, any applicable alternative minimum tax, on our taxable income at regular corporate rates (which, in the case of U.S. federal income tax, is a maximum of 35% for periods ending on or before December 31, 2017 and 21% thereafter), and dividends paid to our shareholders would not be deductible by us in computing our taxable income. Any resulting corporate tax liability could be substantial and would reduce the amount of cash available for distribution to our shareholders, which in turn could have an adverse impact on the value of Class A common shares. Unless we were entitled to relief under certain Code provisions, we also would be disqualified from re-electing to be taxed as a REIT

for the four taxable years following the year in which we failed to qualify as a REIT.

Qualifying as a REIT involves highly technical and complex provisions of the Code.

Qualification as a REIT involves the application of highly technical and complex Code provisions for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize our REIT qualification. Our qualification as a REIT depends on the satisfaction of certain asset, income, organizational, distribution, shareholder ownership and other requirements on a continuing basis. In addition, our ability to satisfy the requirements to qualify as a REIT may depend in part on the actions of third parties over which we have no control or only limited influence, including in cases where we own an equity interest in an entity that is classified as a partnership for U.S. federal income tax purposes.

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We could fail to qualify to be taxed as a REIT if income we receive is not treated as qualifying income.

Under applicable provisions of the Code, we will not be treated as a REIT unless we satisfy various requirements, including requirements relating to the sources of our gross income. Rents we receive or accrue from tenants may not be treated as qualifying rent for purposes of these requirements if the applicable lease is not respected as a true lease for U.S. federal income tax purposes and is instead treated as a service contract, joint venture, financing, or some other type of arrangement. We believe that the Master Lease should be respected as a true lease for U.S. federal income tax purposes and we believe that the Holdco Master Lease is drafted in a manner such that it should also be respected as a true lease for U.S. federal income tax purposes. If, contrary to expectations, the Master Lease or the Holdco Master Lease is not respected as a true lease for U.S. federal income tax purposes, we may fail to qualify to be taxed as a REIT. Furthermore, our qualification as a REIT depends on the satisfaction of certain asset, income, organizational, distribution, shareholder ownership and other requirements on a continuing basis. Our ability to satisfy the asset tests depends upon our analysis of the characterization and fair market values of our assets, some of which are not susceptible to a precise determination, and for some of which we will not obtain independent appraisals.

In addition, subject to certain exceptions, rents we receive or accrue from our tenants will not be treated as qualifying rent for purposes of these requirements if we or an actual or constructive owner of 10% or more of the Class A common shares actually or constructively owns 10% or more of the total combined voting power of all classes of stock of such tenant entitled to vote or 10% or more of the total value of all classes of stock of such tenant. Our Declaration of Trust provides for restrictions on ownership and transfer of Class A common shares, including restrictions on such ownership or transfer that would cause the rents we receive or accrue from a tenant to be treated as non-qualifying rent for purposes of the REIT gross income requirements. Nevertheless, such restrictions may not be effective in ensuring that rents we receive or accrue from our tenants will be treated as qualifying rent for purposes of REIT qualification requirements.

Dividends payable by REITs do not qualify for the reduced tax rates available for certain “qualified dividends,” but would generally qualify for a partial deduction with respect to certain taxpayers.

The maximum U.S. federal income tax rate applicable to income from “qualified dividends” payable by U.S. corporations to U.S. shareholders that are individuals, trusts and estates is currently 20%. Dividends payable by REITs, however, generally are not eligible for the reduced rates. Although these rules do not adversely affect the taxation of REITs, the more favorable rates applicable to regular corporate qualified dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the shares of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including the Class A common shares. However, for taxable years beginning after December 31, 2017 and ending before January 1, 2026, a U.S. shareholder that is an individual, trust or estate would generally be entitled to deduct up to 20% of certain ordinary REIT dividends, effectively reducing the rate at which such ordinary REIT dividends are subject to tax. U.S. shareholders should consult their own tax advisors regarding all aspects of such rules and their potential application to dividends from us.

REIT distribution requirements could adversely affect our ability to execute our business plan.

We generally must distribute annually at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gains, in order for us to qualify to be taxed as a REIT (assuming that certain other requirements are also satisfied) so that U.S. federal corporate income tax does not apply to earnings that we distribute. To the extent that we satisfy this distribution requirement and qualify for taxation as a REIT but distribute less than 100% of our REIT taxable income, determined without regard to the dividends paid deduction and including any net capital gains, we will be subject to U.S. federal corporate income tax on our undistributed net taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we distribute to our shareholders in a calendar year is less than a minimum amount specified under U.S. federal tax laws. We declared a dividend on our Class A and Class C common shares for the first quarter of 2019 but have



announced that we do not intend to pay any dividends on our Class A and Class A common shares for the rest of 2019. We intend to, at a minimum, make distributions to our shareholders to comply with the REIT requirements of the Code.

From time to time, we may generate taxable income greater than our cash flow as a result of differences in timing between the recognition of taxable income and the actual receipt of cash or the effect of nondeductible capital expenditures, the creation of reserves or required debt or amortization payments. If we do not have other funds available in these situations, we could be required to borrow funds on unfavorable terms, sell assets at disadvantageous prices or distribute amounts that would otherwise be invested in future acquisitions to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the REIT distribution requirement and to avoid corporate income tax and the 4% excise tax in a particular year; alternatively, we may distribute taxable stock dividends to our shareholders in the form of additional shares of stock – see “We may from time to time make distributions to our shareholders in the form of taxable stock dividends, which could result in shareholders incurring tax liability without receiving sufficient cash to pay such tax”. These alternatives could increase our costs or reduce our equity. Thus, compliance with the REIT requirements may hinder our ability to grow, which could adversely affect the value of Class A common shares.

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Restrictions in our indebtedness, including restrictions on our ability to incur additional indebtedness or make certain distributions, could preclude us from meeting the 90% distribution requirement. Decreases in funds from operations due to unfinanced expenditures for acquisitions of properties or increases in the number of Class A common shares outstanding without commensurate increases in funds from operations each would adversely affect our ability to maintain distributions to our shareholders. Moreover, the failure of tenants to make rental payments under any applicable lease could materially impair our ability to make distributions. Consequently, we may be unable to make distributions at the anticipated distribution rate or any other rate.

We may from time to time make distributions to our shareholders in the form of taxable stock dividends, which could result in shareholders incurring tax liability without receiving sufficient cash to pay such tax.

Although we have no current intention to do so, we may in the future distribute taxable stock dividends to our shareholders in the form of additional shares of our stock. Taxable shareholders receiving such dividends will be required to include the full amount of the dividend as ordinary income to the extent of our current and accumulated earnings and profits for U.S. federal income tax purposes. As a result, shareholders may be required to pay income taxes with respect to such dividends in excess of the cash distributions received. If a U.S. shareholder sells our shares that it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our shares at the time of the sale. Furthermore, with respect to certain non-U.S. shareholders, we may be required to withhold U.S. federal income tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in its common stock.

Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow.

Even if we remain qualified for taxation as a REIT, we may be subject to certain U.S. federal, state, local and foreign taxes on our income and assets, including taxes on any undistributed income and state, local or foreign income, property and transfer taxes. For example, in order to meet the REIT qualification requirements, we may hold some of our assets or conduct certain of our activities through one or more taxable REIT subsidiaries (“TRSs”) or other subsidiary corporations that will be subject to federal, state and local corporate-level income taxes as regular C corporations. In addition, we may incur a 100% excise tax on transactions with a TRS if they are not conducted on an arm’s-length basis. Any of these taxes would decrease cash available for distribution to our shareholders.

Complying with REIT requirements may cause us to liquidate or forgo otherwise attractive opportunities.

To qualify to be taxed as a REIT, we must ensure that, at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and “real estate assets” (as defined in the Code), including certain mortgage loans and securities. The remainder of our investments (other than government securities, qualified real estate assets and securities issued by a TRS) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our total assets (other than government securities, qualified real estate assets and securities issued by a TRS) can consist of the securities of any one issuer, and no more than 20% of the value of our total assets can be represented by securities of one or more TRSs. If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate or forgo otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to our shareholders.

In addition to the asset tests set forth above, to qualify to be taxed as a REIT, we must continually satisfy tests concerning, among other things, the sources of our income, the amounts we distribute to our shareholders and the ownership of our shares of beneficial interest. We may be unable to pursue investments that would be otherwise

advantageous to us in order to satisfy the source-of-income or asset-diversification requirements for qualifying as a REIT. Thus, compliance with the REIT requirements may hinder our ability to make certain attractive investments.

Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities.

The REIT provisions of the Code substantially limit our ability to hedge our assets and liabilities. Any income from a hedging transaction that we enter into to manage risk of interest rate changes with respect to borrowings made or to be made to acquire or carry real estate assets (or that we enter into to manage risk with respect to a prior hedge entered into in connection with property that has been disposed of or liabilities that have been extinguished) does not constitute "gross income" for purposes of the 75% or 95% gross income tests that apply to REITs, provided that certain identification requirements are met. To the extent that we enter into other types of hedging transactions or fail to properly identify such transaction as a hedge, the income is likely to be treated as non-qualifying income for purposes of both of the gross income tests. As a result of these rules, we may be required to limit our use of advantageous hedging techniques or implement those hedges through a TRS. This could increase the cost of our hedging activities because our TRS may be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in our TRS will generally not provide any tax benefit, except that such losses could theoretically be carried back or forward against past or future taxable income in the TRS.

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Recent changes in federal tax law pursuant to the TCJA affected the taxation of us and may affect the desirability of investing in a REIT relative to a regular non-REIT corporation.

The TCJA reduced the relative competitive advantage of operating as a REIT as compared with operating as a regular non-REIT corporation by reducing the maximum tax rate applicable to regular corporations from 35% to 21% beginning on January 1, 2018. On the other hand, the TCJA also decreased the U.S. federal income tax rate applicable to non-corporate shareholders on ordinary REIT dividends by lowering the maximum applicable individual rate from 39.6% to 37% and permitting non-corporate shareholders of REITs to deduct 20% of ordinary REIT dividends from taxable income for the taxable years beginning after December 31, 2017 and ending before January 1, 2026 (as discussed above). The TCJA also limited the utilization of net operating loss carryforwards generally incurred after December 31, 2017 by a REIT and any TRS of a REIT to 80% of taxable income in the taxable year in which the carryforward is applied. This could cause a REIT in certain circumstances to have greater taxable income and thus increase the amount of distributions needed to satisfy the 90% distribution requirement and avoid incurring REIT-level tax. The TCJA also provided a new limitation on the deduction of “business interest” (i.e., interest paid or accrued on indebtedness allocable to a trade or business). A taxpayer engaged in certain businesses relating to real property may elect out of the business interest provision; however, the requirements of this election may be onerous to implement and would require the REIT to utilize potentially disadvantageous depreciation methods on some or all of its assets, including certain “qualified improvement property.” We will determine whether or not to make such an election in its sole discretion and based on all the facts and circumstances.

Legislative or other actions affecting REITs or other entities could have a negative effect on us.

The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Department of the Treasury (the “Treasury”). Changes to the tax laws or interpretations thereof, with or without retroactive application, could materially and adversely affect our investors or us. We cannot predict how changes in the tax laws might affect our investors or us. New legislation, Treasury regulations, administrative interpretations or court decisions could significantly and negatively affect our ability to qualify as a REIT or the U.S. federal income tax consequences to us and our investors of such qualification.

#### Risks Related to Ownership of our Securities

The market price and trading volume of our securities may be volatile.

The market price of our securities may be volatile, and the trading volume in our securities may fluctuate and cause significant price variations to occur. Some of the factors that could negatively affect the market price of our securities or result in fluctuations in the price or trading volume of our securities include:

- the bankruptcy of Sears Holdings;
- actual or anticipated variations in our quarterly results of operations or distributions;
- changes in our funds from operations or earnings estimates;
- publication of research reports about us or the real estate or retail industries;
- increases in market interest rates that may cause purchasers of our securities to demand a higher yield;
- changes in market valuations of similar companies;
- adverse market reaction to any additional debt we may incur in the future;
- actions by ESL, or by institutional shareholders;
- speculation in the press or investment community about our company or industry or the economy in general;
- adverse performance by Holdco, as successor to Sears Holdings;
- the occurrence of any of the other risk factors presented in this filing;
- specific real estate market and real estate economic conditions; and
- general market and economic conditions.



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We have issued Series A Preferred Shares, which, along with future offerings of debt or preferred equity securities, rank senior to our common shares for purposes of distributions or upon liquidation, may adversely affect the market price of our common shares.

We have issued 2,800,000 Series A Cumulative Redeemable Preferred Shares, which are senior to our common shares for purposes of distributions or upon liquidation. The Series A Preferred Shares may limit our ability to make distributions to holders of our common shares.

In the future, we may attempt to increase our capital resources by making additional offerings of debt or preferred equity securities, including medium-term notes, trust preferred securities, senior or subordinated notes and preferred shares. Upon liquidation, holders of our debt securities, Series A Preferred Shares and any additional preferred shares and lenders with respect to other borrowings may receive distributions of our available assets prior to the holders of our common shares. Any additional equity offerings may dilute the holdings of our existing shareholders or reduce the market price of our common shares, or both. Holders of our common shares are not entitled to preemptive rights or other protections against dilution, and will have no voting rights in connection with the issuance of these securities. Our Series A Preferred Shares have, and any additional preferred shares of beneficial interest issued could have, a preference on liquidating distributions or a preference on distribution payments that could limit our ability to make a distribution to the holders of our common shares. Since our decision to issue securities in any future offering will depend in part on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our shareholders bear the risk of our future offerings reducing the market price of our common shares and diluting their holdings in us.

The transactions with Sears Holdings and Holdco could give rise to disputes or other unfavorable effects, which could have a material adverse effect on our business, financial condition or results of operations.

Disputes with third parties could arise out of our historical transactions with Sears Holdings or future transactions with Holdco, and we could experience unfavorable reactions from employees, ratings agencies, regulators or other interested parties. These disputes and reactions of third parties could have a material adverse effect on our business, financial condition or results of operations. In addition, disputes between us and Sears Holdings or Holdco could arise in connection with any of our past or future agreements with those counterparties.

During the Sears Holdings bankruptcy proceedings, the UCC and others, including the Restructuring Subcommittee of the Board of Directors of Sears Holdings, have alleged that the 2015 transaction between us and Sears Holdings constituted a fraudulent conveyance, and have indicated an intent to pursue litigation challenging the 2015 transaction on that and other grounds. The approval of the Holdco Acquisition by the Bankruptcy Court expressly preserved claims relating to the 2015 transaction between us and Sears Holdings.

The number of shares available for future sale could adversely affect the market price of Class A common shares.

We cannot predict whether future issuances of Class A common shares, the availability of Class A common shares for resale in the open market or the conversion of Class C non-voting common shares into Class A common shares will decrease the market price per share of Class A common shares. Sales of a substantial number of Class A common shares in the public market, or the perception that such sales might occur, could adversely affect the market price of the Class A common shares.

Our earnings and cash distributions will affect the market price of Class A common shares.

We believe that the market value of a REIT's equity securities is based primarily upon market perception of the REIT's growth potential and its current and potential future cash distributions, whether from operations, sales, acquisitions, development or refinancing, and is secondarily based upon the value of the underlying assets. For these reasons, Class A common shares may trade at prices that are higher or lower than the net asset value per share. To the extent

we retain operating cash flow for investment purposes, working capital reserves or other purposes rather than distributing the cash flow to shareholders, these retained funds, while increasing the value of our underlying assets, may negatively impact the market price of Class A common shares. Our failure to meet market expectations with regard to future earnings and cash distributions would likely adversely affect the market price of Class A common shares.

The Series A Preferred Shares have not been rated.

The Series A Preferred Shares have not been rated, and may never be rated, by any nationally recognized statistical rating organization, which may negatively affect their market value and your ability to sell such shares. It is possible, however, that one or more rating agencies might independently determine to assign a rating to the Series A Preferred Shares or that we may elect to obtain a rating of the Series A Preferred Shares in the future. Furthermore, we may elect to issue other securities for which we may seek to obtain a rating. If any ratings are assigned to the Series A Preferred Shares in the future or if we issue other securities with a rating, such ratings, if they are lower than market expectations or are subsequently lowered or withdrawn, could adversely affect the market

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for or the market value of the Series A Preferred Shares. Ratings only reflect the views of the issuing rating agency or agencies, and such ratings could at any time be revised downward or withdrawn entirely at the discretion of the issuing rating agency. Any such downward revision or withdrawal of a rating could have an adverse effect on the market price of the Series A Preferred Shares. Further, a rating is not a recommendation to purchase, sell or hold any particular security, including the Series A Preferred Shares. In addition, ratings do not reflect market prices or suitability of a security for a particular investor and any future rating of the Series A Preferred Shares may not reflect all risks related to us and our business, or the structure or market value of the Series A Preferred Shares.

An active trading market may not develop for the Series A Preferred Shares or, even if it does develop, may not continue, which may negatively affect the market value of, and the ability of holders of our Series A Preferred Shares to transfer or sell, their shares.

Since the Series A Preferred Shares have no stated maturity date, investors seeking liquidity will be limited to selling their shares in the secondary market. The Series A Preferred Shares are listed on the NYSE under the symbol "SRG PrA," but there can be no assurance that an active trading market on the NYSE for the Series A Preferred Shares will develop or continue, in which case the market price of the Series A Preferred Shares could be materially and adversely affected and the ability to transfer or sell Series A Preferred Shares would be limited. The market price of the shares will depend on many factors, including:

- prevailing interest rates;
- the market for similar securities;
- investors' perceptions of us;
- our issuance of additional preferred equity or indebtedness;
- general economic and market conditions; and
- our financial condition, results of operations, business and prospects.

The Series A Preferred Shares are subordinate in right of payment to our existing and future debt, and the interests of the holders of Series A Preferred Shares could be diluted by the issuance of additional preferred shares, including additional Series A Preferred Shares, and by other transactions.

The Series A Preferred Shares rank junior to all of our existing and future debt and to other non-equity claims on us and our assets available to satisfy claims against us, including claims in bankruptcy, liquidation or similar proceedings. Our future debt may include restrictions on our ability to pay dividends to preferred shareholders. As of December 31, 2018, our total indebtedness was \$1.6 billion. In addition, we may incur additional indebtedness in the future. Our declaration of trust currently authorizes the issuance of up to 10,000,000 shares of preferred shares in one or more classes or series. Our board of trustees has the power to reclassify unissued common shares and preferred shares and to amend our declaration of trust, without any action by our shareholders, to increase the aggregate number of shares of beneficial interest of any class or series, including preferred shares, that we are authorized to issue. The issuance of additional preferred shares on parity with or senior to the Series A Preferred Shares with respect to the payment of dividends and the distribution of assets in the event of any liquidation, dissolution or winding up would dilute the interests of the holders of the Series A Preferred Shares, and any issuance of preferred shares senior to the Series A Preferred Shares or of additional indebtedness could adversely affect our ability to pay dividends on, redeem or pay the liquidation preference on the Series A Preferred Shares. Other than the limited conversion right afforded to holders of Series A Preferred Shares that may occur in connection with a Change of Control, none of the provisions relating to the Series A Preferred Shares contain any provisions relating to or limiting our indebtedness or affording the holders of the Series A Preferred Shares protection in the event of a highly leveraged or other transaction, including a merger or the sale, lease or conveyance of all or substantially all our assets or business, that might adversely affect the holders of the Series A Preferred Shares, so long as the rights of holders of the Series A Preferred Shares are not materially and adversely affected.

Dividends on our preferred shares, including the Series A Preferred Shares, are discretionary. We cannot guarantee that we will be able to pay dividends in the future or what the actual dividends will be for any future period.



Future dividends on our preferred shares, including the Series A Preferred Shares, will be authorized by our board of trustees and declared by us at the discretion of our board of trustees and will depend on, among other things, our results of operations, cash flow from operations, financial condition and capital requirements, any debt service requirements and any other factors our board of trustees deems relevant. Accordingly, we cannot guarantee that we will be able to make cash dividends on our preferred shares or what the actual dividends will be for any future period. However, until we declare payment and pay or set apart the accrued dividends on the Series A Preferred Shares, our ability to pay dividends and make other distributions on our common shares and non-voting shares (including redemptions) will be limited by the terms of the Series A Preferred Shares.

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Holders of Series A Preferred Shares will have limited voting rights.

Holders of the Series A Preferred Shares have limited voting rights. Our common shares and our non-economic shares are currently the only shares of beneficial interest of our company with full voting rights. Voting rights for holders of Series A Preferred Shares exist primarily with respect to the right to elect two additional trustees to our board of trustees in the event that six quarterly dividends (whether or not consecutive) payable on the Series A Preferred Shares are in arrears, and with respect to voting on amendments to our declaration of trust or articles supplementary relating to the Series A Preferred Shares that would materially and adversely affect the rights of holders of the Series A Preferred Shares or create additional classes or series of our shares that are senior to the Series A Preferred Shares with respect to the payment of dividends and the distribution of assets in the event of any liquidation, dissolution or winding up of our affairs. Other than in limited circumstances, holders of Series A Preferred Shares will not have any voting rights.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

There are no unresolved comments from the staff of the SEC as of the date of this Annual Report.

## ITEM 2. PROPERTIES

As of December 31, 2018, our portfolio included 206 Wholly Owned Properties totaling approximately 31.6 million square feet of GLA across 48 states and Puerto Rico, and 50% interests in 26 JV Properties totaling over 4.7 million square feet of GLA across 13 states. The following tables set forth certain information regarding our Wholly Owned Properties and JV Properties based on signed leases as of December 31, 2018, including signed but not yet open leases (“SNO leases”):

## Wholly Owned Properties

|    | City                 | State | Holdco<br>Master | GLA (2)   |         |             | Not<br>Leased | Significant Tenants<br>(2) | Leased (2)   |       |   |
|----|----------------------|-------|------------------|-----------|---------|-------------|---------------|----------------------------|--|-------|---|
|    |                      |       |                  | Lease (1) | Total   | Diversified |               |                            | Sears/Kmart  |       |   |
| 1  | Anchorage            | AK    |                  |           | 158,600 | 129,100     | —             | 29,500                     | Guitar Center,<br>Nordstrom Rack,<br>Planet Fitness,<br>Safeway                                | 81.4  | % |
| 2  | Cullman              | AL    |                  |           | 88,500  | 88,500      | —             | —                          | Bargain Hunt, Tractor<br>Supply, Planet Fitness  | 100.0 | % |
| 3  | North Little<br>Rock | AR    | X                |           | 177,100 | 6,300       | 160,500       | 10,300                     | Sears, Longhorn<br>Steakhouse  | 94.2  | % |
| 4  | Flagstaff            | AZ    |                  |           | 66,200  | —           | —             | 66,200                     | n/a  | 0.0   | % |
| 5  | Mesa                 | AZ    |                  |           | 121,900 | 12,000      | 109,900       | —                          | Sears  | 100.0 | % |
| 6  | Peoria               | AZ    |                  |           | 104,400 | 104,400     | —             | —                          | At Home  | 100.0 | % |
| 7  | Phoenix              | AZ    |                  |           | 144,200 | 12,000      | 132,200       | —                          | Sears  | 100.0 | % |
| 8  | Phoenix              | AZ    |                  |           | 151,200 | 151,200     | —             | —                          | At Home  | 100.0 | % |
| 9  | Prescott             | AZ    | X                |           | 102,300 | —           | 102,300       | —                          | Sears  | 100.0 | % |
| 10 | Sierra Vista         | AZ    |                  |           | 94,700  | —           | 94,700        | —                          | Sears  | 100.0 | % |
| 11 | Tucson               | AZ    |                  |           | 218,900 | 50,600      | —             | 168,300                    | Round One<br>Entertainment   | 23.1  | % |
| 12 | Yuma                 | AZ    |                  |           | 90,400  | —           | 90,400        | —                          | Sears  | 100.0 | % |
| 13 | Antioch              | CA    |                  |           | 95,200  | —           | —             | 95,200                     | n/a  | 0.0   | % |
| 14 | Big Bear Lake        | CA    | X                |           | 80,400  | 4,000       | 69,300        | 7,100                      | Kmart, Subway,<br>Wells Fargo Bank   | 91.2  | % |
| 15 | Carson               | CA    |                  |           | 182,900 | 153,000     | —             | 29,900                     | Burlington Stores,<br>Chipotle, Gold's<br>Gym, Ross Dress for<br>Less                          | 83.7  | % |
| 16 | Chula Vista          | CA    | X                |           | 250,100 | —           | 250,100       | —                          | Sears  | 100.0 | % |
| 17 | Citrus Heights       | CA    |                  |           | 289,500 | —           | —             | 289,500                    | n/a  | 0.0   | % |
| 18 | Delano               | CA    |                  |           | 86,100  | —           | 86,100        | —                          | Kmart  | 100.0 | % |
| 19 | El Cajon             | CA    |                  |           | 244,900 | 187,700     | —             | 57,200                     | Ashley Furniture,<br>Bob's Discount<br>Furniture, Burlington<br>Stores, Extra Space<br>Storage | 76.6  | % |
| 20 | El Centro            | CA    |                  |           | 139,700 | 52,600      | 87,100        | —                          | Hobby Lobby, Sears   | 100.0 | % |
| 21 | Fairfield            | CA    |                  |           | 169,500 | 45,100      | —             | 124,400                    | Dave & Busters   | 26.6  | % |
| 22 | Florin               | CA    |                  |           | 272,700 | 12,000      | 260,700       | —                          | Sears  | 100.0 | % |

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|    |                 |    |   |         |         |         |         |   |       |   |
|----|-----------------|----|---|---------|---------|---------|---------|---|-------|---|
| 23 | Fresno          | CA | X | 217,600 | 43,400  | 174,200 | —       | Ross Dress for Less, dd's Discounts, Sears    | 100.0 | % |
| 24 | McKinleyville   | CA | X | 94,800  | —       | 94,800  | —       | Kmart   | 100.0 | % |
| 25 | Merced          | CA |   | 92,600  | 36,000  | 56,600  | —       | Burlington Stores, Sears                      | 100.0 | % |
| 26 | Montclair       | CA | X | 174,700 | —       | 174,700 | —       | Sears   | 100.0 | % |
| 27 | Moreno Valley   | CA | X | 169,400 | —       | 169,400 | —       | Sears   | 100.0 | % |
| 28 | Newark          | CA |   | 145,800 | —       | —       | 145,800 | n/a   | 0.0   | % |
| 29 | North Hollywood | CA | X | 161,900 | 74,900  | 87,000  | —       | Burlington Stores, Ross Dress for Less, Sears | 100.0 | % |
| 30 | Palm Desert     | CA | X | 136,500 | —       | 136,500 | —       | Sears   | 100.0 | % |
| 31 | Ramona          | CA | X | 107,600 | 14,700  | 87,000  | 5,900   | Kmart, Dollar Tree                            | 94.5  | % |
| 32 | Riverside       | CA | X | 214,200 | 12,200  | 202,000 | —       | Sears, Bank of America                        | 100.0 | % |
| 33 | Riverside       | CA |   | 132,600 | 38,100  | —       | 94,500  | Jack in the Box, Stater Brothers              | 28.7  | % |
| 34 | Roseville       | CA |   | 131,500 | 118,200 | —       | 13,300  | AAA, Cinemark, Round One Entertainment        | 89.9  | % |
| 35 | Salinas         | CA | X | 133,000 | —       | 133,000 | —       | Sears   | 100.0 | % |
| 36 | San Bernardino  | CA | X | 264,700 | —       | 264,700 | —       | Sears   | 100.0 | % |
| 37 | San Bruno       | CA | X | 276,600 | 8,700   | 267,900 | —       | Sears, Lands' End                             | 100.0 | % |
| 38 | San Jose        | CA | X | 262,500 | —       | 262,500 | —       | Sears   | 100.0 | % |
| 39 | Santa Maria     | CA | X | 108,600 | —       | 108,600 | —       | Sears   | 100.0 | % |
| 40 | Santa Paula     | CA | X | 71,300  | —       | 71,300  | —       | Kmart   | 100.0 | % |

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Wholly Owned Properties

|    | City           | State | Lease (1) | GLA (2) |             | Sears/Kmart Leased | Not Leased | Significant Tenants (2)   | Leased (2) |   |
|----|----------------|-------|-----------|---------|-------------|--------------------|------------|---|------------|---|
|    |                |       |           | Total   | Diversified |                    |            |   |            |   |
|    |                |       |           |         |             |                    |            |   |            |   |
| 41 | Temecula       | CA    | X         | 120,100 | 48,700      | 65,200             | 6,200      | Round One Entertainment, Sears  | 94.8       | % |
| 42 | Thousand Oaks  | CA    |           | 164,000 | 113,700     | —                  | 50,300     | Dave & Busters, DSW, Nordstrom Rack                                       | 69.3       | % |
| 43 | Ventura        | CA    | X         | 178,600 | 18,700      | 159,900            | —          | Lands' End, Sears   | 100.0      | % |
| 44 | West Covina    | CA    | X         | 142,000 | —           | 142,000            | —          | Sears   | 100.0      | % |
| 45 | Westminster    | CA    |           | 197,900 | —           | —                  | 197,900    | n/a   | 0.0        | % |
| 46 | Lakewood       | CO    |           | 153,000 | 12,000      | 141,000            | —          | Sears   | 100.0      | % |
| 47 | Thornton       | CO    |           | 186,800 | 57,000      | —                  | 129,800    | Vasa Fitness  | 30.5       | % |
| 48 | Waterford      | CT    |           | 149,300 | 7,500       | 141,800            | —          | Lands' End, Sears   | 100.0      | % |
| 49 | Rehoboth Beach | DE    | X         | 123,300 | 58,100      | 65,200             | —          | andThat!, Chick-Fil-A, Kmart, PetSmart                                    | 100.0      | % |
| 50 | Boca Raton     | FL    |           | 178,500 | 4,200       | —                  | 174,300    | Washington Mutual   | 2.4        | % |
| 51 | Bradenton      | FL    |           | 99,900  | —           | 99,900             | —          | Sears   | 100.0      | % |
| 52 | Bradenton      | FL    | X         | 82,900  | —           | 82,900             | —          | Kmart   | 100.0      | % |
| 53 | Clearwater     | FL    |           | 211,200 | 87,500      | —                  | 123,700    | Nordstrom Rack, Whole Foods   | 41.4       | % |
| 54 | Doral          | FL    |           | 212,900 | —           | 212,900            | —          | Sears   | 100.0      | % |
| 55 | Ft. Myers      | FL    | X         | 146,800 | —           | 146,800            | —          | Sears   | 100.0      | % |
| 56 | Gainesville    | FL    |           | 139,100 | 139,100     | —                  | —          | University of Florida   | 100.0      | % |
| 57 | Hialeah        | FL    | X         | 197,400 | 38,600      | 158,800            | —          | Forever 21, Goodwill, Panera Bread, Sears                                 | 100.0      | % |
| 58 | Hialeah        | FL    |           | 106,300 | 106,300     | —                  | —          | Aldi, Bed, Bath & Beyond, Ross Dress for Less                             | 100.0      | % |
| 59 | Kissimmee      | FL    |           | 148,900 | 36,400      | —                  | 112,500    | Big Lots  | 24.4       | % |
| 60 | Lakeland       | FL    |           | 156,200 | —           | 156,200            | —          | Sears   | 100.0      | % |
| 61 | Melbourne      | FL    |           | 102,600 | —           | 102,600            | —          | Sears   | 100.0      | % |
| 62 | Miami          | FL    |           | 173,300 | 24,000      | —                  | 149,300    | n/a   | 13.8       | % |
| 63 | Miami          | FL    | X         | 170,100 | —           | 170,100            | —          | Sears   | 100.0      | % |
| 64 | North Miami    | FL    |           | 119,900 | 113,900     | —                  | 6,000      | Aldi, Burlington Stores, Michaels Stores, PetSmart, Ross Dress for Less   | 95.0       | % |
| 65 | Ocala          | FL    |           | 146,200 | —           | 146,200            | —          | Sears   | 100.0      | % |
| 66 | Orange Park    | FL    |           | 87,400  | 87,400      | —                  | —          | Freddy's Frozen Custard, Old Time Pottery                                 | 100.0      | % |
| 67 | Orlando        | FL    |           | 130,400 | 120,300     | —                  | 10,100     | Floor & Décor, Longhorn Steakhouse, Olive Garden, Orchard Supply Hardware | 92.3       | % |

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|    |                |    |   |         |         |         |         |   |       |   |
|----|----------------|----|---|---------|---------|---------|---------|---|-------|---|
| 68 | Panama City    | FL |   | 139,300 | —       | 139,300 | —       | Sears   | 100.0 | % |
| 69 | Pensacola      | FL |   | 127,900 | 101,700 | —       | 26,200  | BJ's Wholesale Club   | 79.5  | % |
| 70 | Plantation     | FL |   | 184,300 | 110,600 | —       | 73,700  | GameTime, Lazy Dog, Powerhouse Gym, Whiskey Cake  | 60.0  | % |
| 71 | Sarasota       | FL |   | 204,500 | —       | —       | 204,500 | n/a   | 0.0   | % |
| 72 | St. Petersburg | FL | X | 120,600 | 12,000  | 108,600 | —       | Kmart   | 100.0 | % |
| 73 | St. Petersburg | FL |   | 147,800 | 144,000 | —       | 3,800   | Chili's Grill & Bar, Dick's Sporting Goods, Five Below, Longhorn Steakhouse, Lucky's Market, PetSmart, Pollo Tropical | 97.4  | % |
| 74 | Savannah       | GA |   | 167,300 | 11,600  | —       | 155,700 | Golden Corral   | 6.9   | % |
| 75 | Honolulu       | HI |   | 76,100  | 76,100  | —       | —       | Long's Drugs (CVS), PetSmart, Ross Dress for Less   | 100.0 | % |
| 76 | Algona         | IA | X | 99,300  | —       | 99,300  | —       | Kmart   | 100.0 | % |
| 77 | Cedar Rapids   | IA |   | 146,000 | 19,900  | —       | 126,100 | Planet Fitness  |       |   |
| 78 | Charles City   | IA | X | 96,600  | —       | 96,600  | —       | Kmart   | 100.0 | % |
| 79 | Webster City   | IA |   | 40,800  | —       | 40,800  | —       | Kmart   | 100.0 | % |
| 80 | Boise          | ID |   | 123,600 | —       | 123,600 | —       | Sears   | 100.0 | % |

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Wholly Owned Properties

|     | City            | State | Lease (1) | GLA (2) |             |             | Leased  | Significant Tenants (2)  | Leased (2) |   |
|-----|-----------------|-------|-----------|---------|-------------|-------------|---------|--|------------|---|
|     |                 |       |           | Total   | Diversified | Sears/Kmart |         |  |            |   |
|     |                 |       |           |         |             |             |         |  |            |   |
| 81  | Chicago         | IL    |           | 371,700 | 53,000      | —           | 318,700 | 24 Hour Fitness  | 14.3       | % |
| 82  | Chicago         | IL    |           | 293,700 | 38,000      | —           | 255,700 | 24 Hour Fitness  | 12.9       | % |
| 83  | Chicago         | IL    |           | 129,300 | 88,700      | —           | 40,600  | China Town Buffet, Chuck E Cheese  | 68.6       | % |
| 84  | Homewood        | IL    |           | 196,100 | 196,100     | —           | —       | Wal-Mart   | 100.0      | % |
| 85  | Joliet          | IL    |           | 204,600 | 38,000      | 166,600     | —       | 24 Hour Fitness, Sears   | 100.0      | % |
| 86  | Lombard         | IL    |           | 139,300 | 139,300     | —           | —       | The Dump   | 100.0      | % |
| 87  | North Riverside | IL    | X         | 202,500 | 70,100      | 119,600     | 12,800  | Round One Entertainment, Sears   | 93.7       | % |
| 88  | Orland Park     | IL    |           | 160,000 | 83,900      | —           | 76,100  | 24 Hour Fitness, AMC   | 52.4       | % |
| 89  | Springfield     | IL    |           | 131,400 | 109,500     | —           | 21,900  | Binny's Beverage Depot, Burlington Stores, Orange Theory Fitness, Outback Steakhouse | 83.3       | % |
| 90  | Steger          | IL    |           | 87,400  | —           | —           | 87,400  | n/a  | 0.0        | % |
| 91  | Elkhart         | IN    |           | 86,600  | 86,600      | —           | —       | Big R Stores   | 100.0      | % |
| 92  | Ft. Wayne       | IN    |           | 93,400  | 12,000      | —           | 81,400  | Chick-Fil-A, BJ's Brewhouse  | 12.8       | % |
| 93  | Merrillville    | IN    |           | 170,900 | 141,800     | —           | 29,100  | At Home, Dollar Tree, Sherwin-Williams   | 83.0       | % |
| 94  | Leavenworth     | KS    |           | 83,600  | —           | —           | 83,600  | n/a  | 0.0        | % |
| 95  | Overland Park   | KS    |           | 215,000 | 12,000      | —           | 203,000 | n/a  | 5.6        | % |
| 96  | Hopkinsville    | KY    |           | 92,900  | 64,600      | —           | 28,300  | n/a  | 69.5       | % |
| 97  | Paducah         | KY    |           | 97,300  | 66,800      | —           | 30,500  | Burlington Stores, Ross Dress for Less   | 68.7       | % |
| 98  | Lafayette       | LA    |           | 194,900 | —           | —           | 194,900 | n/a  | 0.0        | % |
| 99  | New Iberia      | LA    |           | 114,600 | 114,600     | —           | —       | Rouse Supermarkets, Ross Dress for Less  | 100.0      | % |
| 100 | Braintree       | MA    |           | 89,800  | 84,900      | —           | 4,900   | Nordstrom Rack, Saks Off 5th, Ulta Beauty  | 94.5       | % |
| 101 | Saugus          | MA    | X         | 210,800 | 11,700      | 133,300     | 65,800  | Lands' End, Longhorn Steakhouse, Sears   | 68.8       | % |
| 102 | Bowie           | MD    |           | 131,000 | 7,500       | 123,500     | —       | BJ's Brewhouse, Sears  | 100.0      | % |
| 103 | Cockeysville    | MD    |           | 137,100 | 46,300      | —           | 90,800  | HomeGoods, Michaels Stores   | 33.8       | % |
| 104 | Edgewater       | MD    | X         | 117,100 | 30,100      | 87,000      | —       | Kmart, Tractor Supply Company  | 100.0      | % |
| 105 | Madawaska       | ME    |           | 49,700  | —           | 49,700      | —       | Kmart  | 100.0      | % |
| 106 | Alpena          | MI    |           | 118,200 | —           | —           | 118,200 | n/a  | 0.0        | % |
| 107 | Jackson         | MI    |           | 152,700 | 8,500       | —           | 144,200 | Panera Bread, Pizza Hut  | 5.6        | % |

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|     |                  |    |         |         |         |         |   |       |   |
|-----|------------------|----|---------|---------|---------|---------|---|-------|---|
| 108 | Lincoln Park     | MI | 301,700 | 3,800   | 297,900 | —       | Bank of America, Sears  | 100.0 | % |
| 109 | Manistee         | MI | 94,700  | —       | —       | 94,700  | n/a   | 0.0   | % |
| 110 | Roseville        | MI | 367,900 | 191,100 | —       | 176,800 | At Home, Chick-fil-A, Diehard Auto Center, Hobby Lobby, Red Robin | 51.9  | % |
| 111 | Sault Ste. Marie | MI | 92,700  | —       | —       | 92,700  | n/a   | 0.0   | % |
| 112 | St. Clair Shores | MI | 103,000 | 103,000 | —       | —       | Kroger  | 100.0 | % |
| 113 | Troy             | MI | 384,100 | 103,700 | —       | 280,400 | At Home, Krispy Kreme   | 27.0  | % |
| 114 | Ypsilanti        | MI | 99,400  | 99,400  | —       | —       | At Home   | 100.0 | % |
| 115 | Burnsville       | MN | 161,700 | —       | —       | 161,700 | n/a   | 0.0   | % |
| 116 | Detroit Lakes    | MN | 87,100  | 8,000   | —       | 79,100  | Hometown Dealer   | 9.2   | % |
| 117 | Maplewood        | MN | 175,000 | —       | —       | 175,000 | n/a   | 0.0   | % |
| 118 | St. Paul         | MN | 217,900 | 1,600   | 216,300 | —       | Sears   | 100.0 | % |
| 119 | Cape Girardeau   | MO | 75,000  | 75,000  | —       | —       | Bargain Hunt, Orscheln Farm and Home                              | 100.0 | % |
| 120 | Florissant       | MO | 124,000 | 21,300  | 102,700 | —       | Chick-Fil-A, Kmart  | 100.0 | % |

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Wholly Owned Properties

|     | City           | State | Lease (1) | GLA (2) |             | Sears/Kmart Leased | Not Leased | Significant Tenants (2)   | Leased (2) |   |
|-----|----------------|-------|-----------|---------|-------------|--------------------|------------|---|------------|---|
|     |                |       |           | Total   | Diversified |                    |            |   | %          | % |
| 121 | Jefferson City | MO    |           | 97,700  | 97,700      | —                  | —          | Orscheln Farm and Home, Ruby Tuesday                                    | 100.0      | % |
| 122 | Springfield    | MO    |           | 112,900 | 112,900     | —                  | —          | At Home   | 100.0      | % |
| 123 | Columbus       | MS    |           | 166,700 | 45,400      | —                  | 121,300    | Bargain Hunt  | 27.2       | % |
| 124 | Havre          | MT    |           | 94,700  | —           | —                  | 94,700     | n/a   | 0.0        | % |
| 125 | Asheville      | NC    |           | 110,600 | 45,000      | —                  | 65,600     | Alamo Drafthouse  | 40.7       | % |
| 126 | Concord        | NC    |           | 171,300 | 33,800      | —                  | 137,500    | Sears Outlet  | 19.7       | % |
| 127 | Greensboro     | NC    |           | 171,700 | 133,200     | —                  | 38,500     | Floor & Décor, Gabriel Brothers, Sears Outlet                           | 77.6       | % |
| 128 | Minot          | ND    | X         | 110,400 | 2,300       | 108,100            | —          | Kmart, US Bank  | 100.0      | % |
| 129 | Kearney        | NE    |           | 64,900  | 64,900      | —                  | —          | Five Below, Marshall's, PetSmart, Ross Dress for Less                   | 100.0      | % |
| 130 | Manchester     | NH    |           | 114,100 | 80,400      | —                  | 33,700     | Dave & Buster's, Dick's Sporting Goods                                  | 70.5       | % |
| 131 | Nashua         | NH    | X         | 167,100 | —           | 167,100            | —          | Sears   | 100.0      | % |
| 132 | Portsmouth     | NH    |           | 127,000 | 6,900       | 120,100            | —          | Lands' End, Sears   | 100.0      | % |
| 133 | Salem          | NH    |           | 207,200 | 123,000     | —                  | 84,200     | Cinemark, Dick's Sporting Goods   | 59.4       | % |
| 134 | Middletown     | NJ    |           | 191,100 | 191,100     | —                  | —          | Investors Bank, ShopRite, Wendy's                                       | 100.0      | % |
| 135 | Watchung       | NJ    |           | 116,400 | 101,100     | —                  | 15,300     | Cinemark, HomeGoods, Sierra Trading Post, Ulta Beauty                   | 86.9       | % |
| 136 | Deming         | NM    |           | 96,600  | —           | —                  | 96,600     | n/a   | 0.0        | % |
| 137 | Henderson      | NV    |           | 143,500 | 143,500     | —                  | —          | At Home, Seafood City   | 100.0      | % |
| 138 | Las Vegas      | NV    | X         | 139,200 | 42,500      | 65,500             | 31,200     | Round One Entertainment, Sears  | 77.6       | % |
| 139 | Reno           | NV    |           | 183,700 | 41,300      | —                  | 142,400    | Round One Entertainment   | 22.5       | % |
| 140 | Albany         | NY    |           | 277,900 | 51,700      | —                  | 226,200    | BJ's Brewhouse, Whole Foods   | 18.6       | % |
| 141 | Clay           | NY    |           | 146,500 | —           | —                  | 146,500    | n/a   | 0.0        | % |
| 142 | East Northport | NY    |           | 179,700 | 166,500     | —                  | 13,200     | 24 Hour Fitness, AMC  | 92.7       | % |
| 143 | Hicksville     | NY    |           | 284,800 | 97,800      | —                  | 187,000    | 24 Hour Fitness, Chase Bank, Chipotle, Citigroup, iPic, Lands' End, Red | 34.3       | % |

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|     |                    |    |         |         |         |         |                                  |                                   |       |   |
|-----|--------------------|----|---------|---------|---------|---------|----------------------------------|-----------------------------------|-------|---|
|     |                    |    |         |         |         |         | Lobster, TD Bank                 |                                   |       |   |
| 144 | Johnson City       | NY | 155,100 | —       | —       | 155,100 | n/a                              | 0.0                               | %     |   |
| 145 | Olean              | NY | 118,000 | 55,400  | —       | 62,600  | Marshall's, Ollie's Bargain Hunt | 46.9                              | %     |   |
| 146 | Rochester          | NY | 128,500 | —       | —       | 128,500 | n/a                              | 0.0                               | %     |   |
| 147 | Sidney             | NY | X       | 94,400  | —       | 94,400  | —                                | Kmart                             | 100.0 | % |
| 148 | Victor             | NY | 123,000 | —       | —       | 123,000 | n/a                              | 0.0                               | %     |   |
| 149 | Yorktown Heights   | NY | 160,000 | 38,500  | 121,500 | —       | 24 Hour Fitness, Sears           | 100.0                             | %     |   |
| 150 | Canton             | OH | X       | 219,400 | 41,700  | 177,700 | —                                | Dave & Busters, Lands' End, Sears | 100.0 | % |
| 151 | Chapel Hill        | OH | 193,100 | —       | —       | 193,100 | n/a                              | 0.0                               | %     |   |
| 152 | Dayton             | OH | 192,500 | 6,900   | —       | 185,600 | Outback Steakhouse               | 3.6                               | %     |   |
| 153 | Kenton             | OH | 96,100  | —       | —       | 96,100  | n/a                              | 0.0                               | %     |   |
| 154 | Marietta           | OH | X       | 87,500  | —       | 87,500  | —                                | Kmart                             | 100.0 | % |
| 155 | Mentor             | OH | 208,700 | —       | —       | 208,700 | n/a                              | 0.0                               | %     |   |
| 156 | Middleburg Heights | OH | 351,600 | —       | —       | 351,600 | n/a                              | 0.0                               | %     |   |
| 157 | North Canton       | OH | X       | 87,100  | 2,900   | 84,200  | —                                | Burger King, Kmart                | 100.0 | % |
| 158 | Tallmadge          | OH | X       | 84,200  | —       | 84,200  | —                                | Kmart                             | 100.0 | % |
| 159 | Toledo             | OH | 209,900 | —       | —       | 209,900 | n/a                              | 0.0                               | %     |   |
| 160 | Oklahoma City      | OK | 223,700 | 50,000  | —       | 173,700 | Vasa Fitness                     | 22.4                              | %     |   |

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|     |                |    |         |         |         |         |  |                   |       |   |
|-----|----------------|----|---------|---------|---------|---------|--|-------------------|-------|---|
| 182 | Dallas         | TX | 205,300 | —       | 205,300 | —       | Sears  | 100.0             | %     |   |
| 183 | El Paso        | TX | 112,000 | 60,500  | —       | 51,500  | dd's Discount, Ross Dress for Less   | 54.0              | %     |   |
| 184 | Friendswood    | TX | 166,000 | —       | —       | 166,000 | n/a  | 0.0               | %     |   |
| 185 | Houston        | TX | 214,400 | 214,400 | —       | —       | MetroNational  | 100.0             | %     |   |
| 186 | Houston        | TX | 134,000 | 134,000 | —       | —       | At Home  | 100.0             | %     |   |
| 187 | Ingram         | TX | 168,400 | —       | 168,400 | —       | Sears  | 100.0             | %     |   |
| 188 | Irving         | TX | 88,200  | 17,000  | 67,500  | 3,700   | Sears  | 95.8              | %     |   |
| 189 | San Antonio    | TX | 198,900 | 141,900 | —       | 57,000  | Jared the Galleria of Jewelry, Long Horn Steakhouse, Orvis, Shake Shack, Tru Fit | 71.3              | %     |   |
| 190 | Shepherd       | TX | X       | 201,700 | —       | 201,700 | —  | Sears             | 100.0 | % |
| 191 | Valley View    | TX | 235,000 | 5,800   | —       | 229,200 | Jared the Galleria of Jewelry  | 2.5               | %     |   |
| 192 | Westwood       | TX | 213,600 | 213,600 | —       | —       | n/a  | 100.0             | %     |   |
| 193 | Layton         | UT | 176,800 | 160,900 | —       | 15,900  | Arby's, Vasa Fitness   | 91.0              | %     |   |
| 194 | West Jordan    | UT | 190,300 | 183,300 | —       | 7,000   | Burlington Stores  | 96.3              | %     |   |
| 195 | Alexandria     | VA | X       | 262,100 | 9,600   | 252,500 | —  | Lands' End, Sears | 100.0 | % |
| 196 | Chesapeake     | VA | 169,400 | —       | —       | 169,400 | n/a  | 0.0               | %     |   |
| 197 | Fairfax        | VA | 220,700 | 39,900  | 110,500 | 70,300  | Dave & Busters, Lands' End, Sears, Seasons 52                                    | 68.1              | %     |   |
| 198 | Virginia Beach | VA | 197,300 | 110,400 | —       | 86,900  | BB&T, DSW, The Fresh Market, Nordstrom Rack, REI, Smokey Bones                   | 56.0              | %     |   |
| 199 | Warrenton      | VA | 86,100  | 21,900  | —       | 64,200  | HomeGoods, Lands' End  | 25.4              | %     |   |
| 200 | Redmond        | WA | 267,400 | —       | —       | 267,400 | Lands' End, Red Robin  | 0.0               | %     |   |

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## Wholly Owned Properties

|     | City                            | State | GLA (2)   |            |             | Not         |            | Significant Tenants (2)                        | Leased (2) |
|-----|---------------------------------|-------|-----------|------------|-------------|-------------|------------|--|------------|
|     |                                 |       | Lease (1) | Total      | Diversified | Sears/Kmart | Leased     |  |            |
| 201 | Vancouver                       | WA    |           | 129,700    | 99,900      | —           | 29,800     | Hobby Lobby, Round One Entertainment           | 77.0%      |
| 202 | Greendale                       | WI    |           | 187,500    | 142,600     | —           | 44,900     | Dick's Sporting Goods, Round One Entertainment | 76.1%      |
| 203 | Madison                         | WI    |           | 142,400    | 54,300      | —           | 88,100     | Dave & Busters, Total Wine & More              | 38.1%      |
| 204 | Scott Depot                     | WV    |           | 90,100     | —           | —           | 90,100     | n/a  | 0.0%       |
| 205 | Gillette                        | WY    |           | 94,600     | 49,200      | —           | 45,400     | n/a  | 52.0%      |
| 206 | Riverton                        | WY    |           | 94,800     | —           | —           | 94,800     | n/a  | 0.0%       |
|     | Total - Wholly-Owned Properties |       |           | 31,602,200 | 9,471,300   | 11,248,800  | 10,882,100 |  | 65.6%      |

(1) Based on signed leases as of December 31, 2018, including SNO leases.

(2) Denotes property subject to the Holdco Master Lease. The Holdco Master Lease cannot become effective until the Master Lease is rejected.

(3) Property is subject to a ground lease.

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JV Properties

|    |                   | GLA (1) |               |         |             |             |            | Significant  |            |   |
|----|-------------------|---------|---------------|---------|-------------|-------------|------------|--|------------|---|
|    | City              | State   | Joint Venture | Total   | Diversified | Sears/Kmart | Not Leased | Tenants (1)  | Leased (1) |   |
| 1  | Natick (2)        | MA      | GGP I JV      | 190,800 | 54,600      | 88,400      | 47,800     | Dave & Busters, Lands' End, Sears                          | 74.9       | % |
| 2  | Norman (2)        | OK      | GGP I JV      | 66,800  | —           | 66,800      | —          | Sears  | 100        | % |
| 3  | Frisco            | TX      | GGP I JV      | 163,000 | —           | 163,000     | —          | Sears  | 100        | % |
| 4  | Lynnwood          | WA      | GGP I JV      | 177,600 | 49,200      | —           | 128,400    | Dave & Busters   | 27.7       | % |
| 5  | Northridge        | CA      | GGP II JV     | 291,800 | 142,000     | 149,800     | —          | Ashley Furniture, Dick's Sporting Goods, Gold's Gym, Sears | 100.0      | % |
| 6  | Altamonte Springs | FL      | GGP II JV     | 214,400 | 8,800       | —           | 205,600    | Seasons 52   | 4.1        | % |
| 7  | Naples            | FL      | GGP II JV     | 161,800 | 50,200      | —           | 111,600    | CMX Cinebistro   | 31.0       | % |
| 8  | Atlanta           | GA      | GGP II JV     | 218,800 | —           | —           | 218,800    | Lands' End   | 0.0        | % |
| 9  | Wayne             | NJ      | GGP II JV     | 281,200 | 92,000      | 126,400     | 62,800     | Cinemark, Dave & Busters, Sears                            | 77.7       | % |
| 10 | Chandler          | AZ      | Macerich JV   | 141,400 | 10,000      | 131,400     | —          | Firestone, Sears   | 100.0      | % |
| 11 | Glendale          | AZ      | Macerich JV   | 125,000 | —           | 125,000     | —          | Sears  | 100.0      | % |
| 12 | Cerritos          | CA      | Macerich JV   | 277,600 | —           | 277,600     | —          | Sears  | 100.0      | % |
| 13 | Modesto           | CA      | Macerich JV   | 148,400 | 34,600      | 113,800     | —          | Dave & Busters, Sears                                      | 100.0      | % |
| 14 | Danbury           | CT      | Macerich JV   | 178,400 | 70,000      | 108,400     | —          | Primark, Sears   | 100.0      | % |
| 15 | Deptford          | NJ      | Macerich JV   | 191,800 | 75,600      | 116,200     | —          | Dick's Sporting Goods, Lands' End, Republic Bank, Sears    | 100.0      | % |
| 16 | Freehold          | NJ      | Macerich JV   | 138,800 | 66,600      | 72,200      | —          | Primark, Sears   | 100.0      | % |
| 17 | Portland          | OR      | Macerich JV   | 220,000 | 14,200      | 205,800     | —          | Lands' End, Sears  | 100.0      | % |

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|    |                          |    |                     |           |         |           |           |  |       |   |
|----|--------------------------|----|---------------------|-----------|---------|-----------|-----------|--|-------|---|
| 18 | Lubbock                  | TX | Macerich JV         | 150,600   | —       | 150,600   | —         | Sears  | 100.0 | % |
| 19 | Santa Rosa               | CA | Simon JV            | 165,400   | 3,800   | 161,600   | —         | Lands' End,<br>Sears   | 100.0 | % |
| 20 | Ann Arbor                | MI | Simon JV            | 170,600   | 14,200  | 156,400   | —         | Lands' End,<br>Sears   | 100.0 | % |
| 21 | Nanuet                   | NY | Simon JV            | 221,400   | 7,600   | 213,800   | —         | Lands' End,<br>Sears   | 100.0 | % |
| 22 | Tulsa                    | OK | Simon JV            | 150,200   | —       | 150,200   | —         | Sears  | 100.0 | % |
| 23 | Austin                   | TX | Simon JV            | 164,600   | —       | 164,600   | —         | Sears  | 100.0 | % |
| 24 | Santa<br>Monica          | CA | Mark 302 JV         | 96,400    | —       | —         | 96,400    | n/a  | 0.0   | % |
| 25 | San Diego                | CA | UTC JV              | 226,200   | 52,800  | —         | 173,400   | Equinox  | 23.3  | % |
| 26 | West<br>Hartford         | CT | West<br>Hartford JV | 163,600   | 101,000 | —         | 62,600    | buybuy<br>Baby, Cost<br>Plus World<br>Market,<br>Olive<br>Garden,<br>REI, Saks<br>OFF Fifth,<br>Shake<br>Shack | 61.7  | % |
|    | Total - JV<br>Properties |    |                     | 4,696,600 | 847,200 | 2,742,000 | 1,107,400 |  | 76.4  | % |

(1) Based on signed leases as of December 31, 2018, including SNO leases.

(2) Property is subject to a lease or ground lease.

|     |  |  |  |            |            |            |            |  |      |   |
|-----|--|--|--|------------|------------|------------|------------|--|------|---|
| 232 | Grand Total - All Properties               |  |  | 36,298,800 | 10,318,500 | 13,990,800 | 11,989,500 |  | 67.0 | % |
| 232 | Grand Total - All Properties (at<br>share) |  |  | 33,950,500 | 9,894,900  | 12,619,800 | 11,435,800 |  | 66.3 | % |

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The following table sets forth information regarding the geographic diversification of our portfolio, with JV Properties presented at our proportional share, based on signed leases as of December 31, 2018, including SNO leases:

(in thousands except property count and PSF data)

| State        | Number<br>of<br>Properties | Annual<br>Rent | % of<br>Total<br>Annual<br>Rent | %<br>PSF |
|--------------|----------------------------|----------------|---------------------------------|----------|
| California   | 39                         | \$40,713       | 19.3 %                          | \$8.38   |
| Florida      | 26                         | 29,933         | 14.2 %                          | 11.17    |
| Texas        | 15                         | 12,889         | 6.1 %                           | 7.52     |
| New York     | 11                         | 12,183         | 5.8 %                           | 16.53    |
| Illinois     | 10                         | 12,133         | 5.8 %                           | 11.00    |
| New Jersey   | 5                          | 8,802          | 4.2 %                           | 15.55    |
| Pennsylvania | 7                          | 7,857          | 3.7 %                           | 11.04    |
| Puerto Rico  | 6                          | 7,085          | 3.4 %                           | 7.85     |
| Arizona      | 11                         | 5,797          | 2.7 %                           | 5.84     |
| Virginia     | 5                          | 5,301          | 2.5 %                           | 9.73     |
| Total Top 10 | 135                        | \$142,693      | 67.7 %                          | \$9.63   |
| Other (1)    | 97                         | 68,145         | 32.3 %                          | 8.85     |
| Total        | 232                        | \$210,838      | 100.0 %                         | \$9.36   |

(1) Includes 39 states.

The Master Lease, Holdco Master Lease and JV Master Leases

### The Master Lease

The Master Lease, which remains in effect unless and until its rejection, is a unitary, non-divisible lease as to all properties, with Sears Holdings' obligations as to each property cross-defaulted with all obligations of Sears Holdings with respect to all other properties. 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 other tenants in the same or other buildings, 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 is 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.

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, all outparcels or outlots and certain portions of parking areas and common areas. Upon exercise of this recapture right, we 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 diversified, non-Sears tenants on potentially superior terms determined by us and for our own account.



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The Master Lease also provides us 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 December 31, 2018, we had exercised recapture rights at 70 properties, including 17 properties at which we exercised partial recapture rights, 40 properties at which we exercised 100% recapture rights (24 of which were converted from partial recapture properties), and 13 properties at which we exercised our rights to recapture only automotive care centers or outparcels.

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As of December 31, 2018, the Company had exercised certain recapture rights under the Master Lease at 70 properties as follows:

| Property                    | Recapture Type        | Notice Date(s)                 |
|-----------------------------|-----------------------|--------------------------------|
| Saugus, MA                  | Partial + auto center | December 2018 / December 2016  |
| Hialeah, FL (Westland)      | Auto Center           | September 2018                 |
| Cape Girardeau, MO          | 100% (1)              | September 2018                 |
| Doral, FL                   | 100% (1)              | September 2018                 |
| Fairfax, VA                 | 100% (1)              | September 2018 / May 2016      |
| Gillette, WY                | 100% (1)              | September 2018                 |
| Happy Valley, OR            | 100% (1)              | September 2018                 |
| Houston, TX (Memorial City) | 100% (1)              | September 2018                 |
| Santa Cruz, CA              | 100% (1)              | September 2018 / December 2016 |
| Vancouver, WA               | 100% (1)              | September 2018                 |
| Fresno, CA                  | Partial               | May 2018                       |
| Asheville, NC               | 100% (1)              | March 2018                     |
| Chicago, IL (Six Corners)   | 100% (1)              | March 2018                     |
| Clearwater, FL              | 100% (1)              | March 2018                     |
| El Cajon, CA                | 100% (1)              | March 2018                     |
| Fairfield, CA               | 100% (1)              | March 2018 / December 2017     |
| Oklahoma City, OK           | Out parcel            | March 2018                     |
| Plantation, FL              | 100% (1)              | March 2018 / December 2017     |
| Redmond, WA                 | 100% (1)              | March 2018 / September 2017    |
| Reno, NV                    | 100% (1)              | March 2018                     |
| Tucson, AZ                  | 100% (1)              | March 2018                     |
| Anchorage, AK               | 100%                  | December 2017                  |
| Boca Raton, FL              | 100%                  | December 2017                  |
| Westminster, CA             | 100%                  | December 2017                  |
| Hicksville, NY              | 100%                  | December 2017                  |
| Orland Park, IL             | 100% (1)              | December 2017                  |
| Florissant, MO              | Out parcel            | December 2017                  |
| Salem, NH                   | Out parcel            | December 2017                  |
| Las Vegas, NV               | Partial               | December 2017                  |
| Yorktown Heights, NY        | Partial               | December 2017                  |
| Austin, TX (Tech Ridge)     | 100% (1)              | December 2017 / September 2017 |
| Ft. Wayne, IN               | Out parcel            | September 2017 / July 2016     |
| North Little Rock, AR       | Auto Center           | September 2017                 |
| St. Clair Shores, MI        | 100%                  | September 2017                 |
| Canton, OH                  | Partial               | June 2017                      |
| Dayton, OH                  | Auto center           | June 2017                      |
| North Riverside, IL         | Partial               | June 2017                      |
| Roseville, CA               | Auto center           | June 2017                      |
| Temecula, CA                | Partial               | June 2017                      |
| Watchung, NJ                | 100%                  | June 2017                      |
| Anderson, SC                | 100% (1)              | April 2017 / July 2016         |
| Aventura, FL                | 100%                  | April 2017                     |
| Carson, CA                  | 100% (1)              | April 2017 / December 2016     |
| Charleston, SC              | 100% (1)              | April 2017 / October 2016      |
| Hialeah, FL (freestanding)  | 100% (1)              | April 2017                     |

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|                                    |                       |               |
|------------------------------------|-----------------------|---------------|
| San Diego, CA (2)                  | 100% (1)              | April 2017    |
| Valley View, TX                    | 100%                  | April 2017    |
| Cockeysville, MD                   | Partial               | March 2017    |
| North Miami, FL                    | 100%                  | March 2017    |
| Olean, NY                          | Partial               | March 2017    |
| Guaynabo, PR                       | Partial               | December 2016 |
| Santa Monica, CA (3)               | 100%                  | December 2016 |
| Roseville, MI                      | Partial               | November 2016 |
| Troy, MI                           | Partial               | November 2016 |
| Rehoboth Beach, DE                 | Partial               | October 2016  |
| St. Petersburg, FL (Tyrone Square) | 100%                  | October 2016  |
| Warwick, RI                        | Auto center           | October 2016  |
| West Hartford, CT (4)              | 100%                  | October 2016  |
| Madison, WI                        | Partial               | July 2016     |
| North Hollywood, CA                | Partial               | July 2016     |
| Orlando, FL                        | 100%                  | July 2016     |
| West Jordan, UT                    | Partial + auto center | July 2016     |
| Albany, NY                         | Auto center           | May 2016      |

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| Property        | Recapture Type        | Notice Date(s) |
|-----------------|-----------------------|----------------|
| Bowie, MD       | Auto center           | May 2016       |
| Hagerstown, MD  | Auto center           | May 2016       |
| Wayne, NJ (5)   | Partial + auto center | May 2016       |
| San Antonio, TX | Auto center           | March 2016     |
| Braintree, MA   | 100%                  | November 2015  |
| Honolulu, HI    | 100%                  | December 2015  |
| Memphis, TN     | 100%                  | December 2015  |

- (1) The Company converted partial recapture rights at this property to 100% recapture rights and exercised such rights.
- (2) In May 2018, the Company contributed this property to the UTC JV and retained a 50.0% interest in the joint venture.
- (3) In March 2018, the Company contributed this asset to the Mark 302 JV and retained a 50.1% interest in the joint venture.
- (4) In May 2018, the Company contributed this property to the West Hartford JV and retained a 50.0% interest in the joint venture.
- (5) In July 2017, the Company contributed this asset to the GGP II JV and retained a 50.0% interest in the joint venture.

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.

As of December 31, 2018, Sears Holdings had terminated the Master Lease with respect to 87 stores totaling 11.7 million square feet of gross leasable area. The aggregate annual base rent at these stores was approximately \$40.7 million. Sears Holdings continued to pay the Company rent until it vacated the stores and also incurred aggregate termination fees of approximately \$77.3 million, an amount equal to one year of aggregate annual base rent plus one year of estimated real estate taxes and operating expenses.

As of December 31, 2018, the Company had commenced or completed redevelopment projects at 39 of the terminated properties and will continue to announce redevelopment activity as new leases are signed to occupy the space formerly occupied by Sears Holdings. During the year ended December 31, 2018, the Company sold ten of the terminated properties for \$40.1 million and recorded a gain of \$11.0 million which is included in gain on sale of real estate within the consolidated statements of operations.

The table below includes the 87 properties at which Sears Holdings had terminated the Master Lease as of December 31, 2018:

| Property      | Square Feet | Notice      | Termination   | Announced     |
|---------------|-------------|-------------|---------------|---------------|
|               |             |             |               | Redevelopment |
| Antioch, CA   | 95,200      | August 2018 | December 2018 |               |
| Columbus, MS  | 117,100     | August 2018 | December 2018 |               |
| Dayton, OH    | 148,800     | August 2018 | December 2018 | Q2 2017       |
| Flagstaff, AZ | 66,200      | August 2018 | December 2018 |               |

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|                 |         |             |               |                   |
|-----------------|---------|-------------|---------------|-------------------|
| Ft. Wayne, IN   | 213,600 | August 2018 | December 2018 | Q3 2016 / Q3 2017 |
| Jackson, MI     | 144,200 | August 2018 | December 2018 |                   |
| Manchester, NH  | 135,100 | August 2018 | December 2018 | Q4 2018           |
| Salem, NH       | 119,000 | August 2018 | December 2018 | Q4 2017           |
| Savannah, GA    | 155,700 | August 2018 | December 2018 |                   |
| Scott Depot, WV | 89,800  | August 2018 | December 2018 |                   |
| Steger, IL      | 87,400  | August 2018 | December 2018 |                   |
| Victor, NY      | 115,300 | August 2018 | December 2018 |                   |
| West Jordan, UT |         |             |               |                   |