

MACK CALI REALTY CORP
Form 10-Q
August 02, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2017

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 1-13274 Mack-Cali Realty Corporation

Commission File Number: 333-57103 Mack-Cali Realty, L.P.

Mack-Cali Realty Corporation

Mack-Cali Realty, L.P.

(Exact name of registrant as specified in its charter)

Maryland (Mack-Cali Realty Corporation)

Delaware (Mack-Cali Realty, L.P.)

(State or other jurisdiction of incorporation or organization)

22-3305147 (Mack-Cali Realty Corporation)

22-3315804 (Mack-Cali Realty, L.P.)

(I.R.S. Employer Identification No.)

Harborside 3, 210 Hudson St., Ste. 400, Jersey City, New Jersey

(Address of principal executive offices)

07311

(Zip Code)

(732) 590-1010

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety (90) days.

Mack-Cali Realty Corporation

YES NO

Mack-Cali Realty, L.P.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Mack-Cali Realty Corporation

YES NO

Mack-Cali Realty, L.P.

YES NO

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

Mack-Cali Realty Corporation:

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

Mack-Cali Realty, L.P.:

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging Growth Company
X
(Do not check if a smaller reporting 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.

Mack-Cali Realty Corporation
Mack-Cali Realty, L.P.

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

Mack-Cali Realty Corporation YES NO
Mack-Cali Realty, L.P. YES NO

As of July 31, 2017, there were 89,913,345 shares of Mack-Cali Realty Corporation's Common Stock, par value \$0.01 per share, outstanding.

Mack-Cali Realty, L.P. does not have any class of common equity that is registered pursuant to Section 12 of the Exchange Act.

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended June 30, 2017 of Mack-Cali Realty Corporation and Mack-Cali Realty, L.P. Unless stated otherwise or the context otherwise requires, references to the Operating Partnership mean Mack-Cali Realty, L.P., a Delaware limited partnership, and references to the General Partner mean Mack-Cali Realty Corporation, a Maryland corporation and real estate investment trust (REIT), and its subsidiaries, including the Operating Partnership. References to the Company, we, us and our mean collectively the General Partner, the Operating Partnership and those entities/subsidiaries consolidated by the General Partner.

The Operating Partnership conducts the business of providing leasing, management, acquisition, development, construction and tenant-related services for its General Partner. The Operating Partnership, through its operating divisions and subsidiaries, including the Mack-Cali property-owning partnerships and limited liability companies is the entity through which all of the General Partner's operations are conducted. The General Partner is the sole general partner of the Operating Partnership and has exclusive control of the Operating Partnership's day-to-day management.

As of June 30, 2017, the General Partner owned an approximate 89.6 percent common unit interest in the Operating Partnership. The remaining approximate 10.4 percent common unit interest is owned by limited partners. The limited partners of the Operating Partnership are (1) persons who contributed their interests in properties to the Operating Partnership in exchange for common units (each, a Common Unit) or preferred units of limited partnership interest in the Operating Partnership or (2) recipients of long term incentive plan units of the Operating Partnership pursuant to the General Partner's executive compensation plans.

A Common Unit of the Operating Partnership and a share of common stock of the General Partner (the Common Stock) have substantially the same economic characteristics in as much as they effectively share equally in the net income or loss of the Company. The General Partner owns a number of common units of the Operating Partnership equal to the number of issued and outstanding shares of the General Partner's common stock. Common unitholders (other than the General Partner) have the right to redeem their Common Units, subject to certain restrictions under the Second Amended and Restated Agreement of Limited Partnership of the Operating Partnership, as amended (the Partnership Agreement) and agreed upon at the time of issuance of the units that may restrict such right for a period of time, generally one year from issuance. The redemption is required to be satisfied in shares of Common Stock of the General Partner, cash, or a combination thereof, calculated as follows: one share of the General Partner's Common Stock, or cash equal to the fair market value of a share of the General Partner's Common Stock at the time of redemption, for each Common Unit. The General Partner, in its sole discretion, determines the form of redemption of Common Units (i.e., whether a common unitholder receives Common Stock of the General Partner, cash, or any combination thereof). If the General Partner elects to satisfy the redemption with shares of Common Stock of the General Partner as opposed to cash, the General Partner is obligated to issue shares of its Common Stock to the redeeming unitholder. Regardless of the rights described above, the common unitholders may not put their units for cash to the Company or the General Partner under any circumstances. With each such redemption, the General Partner's percentage ownership in the Operating Partnership will increase. In addition, whenever the General Partner issues shares of its Common Stock other than to acquire Common Units, the General Partner must contribute any net proceeds it receives to the Operating Partnership and the Operating Partnership must issue to the General Partner an equivalent number of Common Units. This structure is commonly referred to as an umbrella partnership REIT, or UPREIT.

The Company believes that combining the quarterly reports on Form 10-Q of the General Partner and the Operating Partnership into this single report provides the following benefits:

- enhance investors' understanding of the General Partner and the Operating Partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business of the Company;
- eliminate duplicative disclosure and provide a more streamlined and readable presentation because a substantial portion of the disclosure applies to both the General Partner and the Operating Partnership; and
- create time and cost efficiencies through the preparation of one combined report instead of two separate reports.

The Company believes it is important to understand the few differences between the General Partner and the Operating Partnership in the context of how they operate as a consolidated company. The financial results of the Operating Partnership are consolidated into the financial statements of the General Partner. The General Partner does not have any other significant assets, liabilities or operations, other than its interests in the Operating Partnership, nor does the Operating Partnership have employees of its own. The Operating Partnership, not the General Partner, generally executes all significant business relationships other than

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transactions involving the securities of the General Partner. The Operating Partnership holds substantially all of the assets of the General Partner, including ownership interests in joint ventures. The Operating Partnership conducts the operations of the business and is structured as a partnership with no publicly traded equity. Except for the net proceeds from equity offerings by the General Partner, which are contributed to the capital of the Operating Partnership in consideration of common or preferred units in the Operating Partnership, as applicable, the Operating Partnership generates all remaining capital required by the Company's business. These sources include working capital, net cash provided by operating activities, borrowings under the Company's unsecured revolving credit facility and unsecured term loan facilities, the issuance of secured and unsecured debt and equity securities and proceeds received from the disposition of properties and joint ventures.

Shareholders' equity, partners' capital and noncontrolling interests are the main areas of difference between the consolidated financial statements of the General Partner and the Operating Partnership. The limited partners of the Operating Partnership are accounted for as partners' capital in the Operating Partnership's financial statements as is the General Partner's interest in the Operating Partnership. The noncontrolling interests in the Operating Partnership's financial statements comprise the interests of unaffiliated partners in various consolidated partnerships and development joint venture partners. The noncontrolling interests in the General Partner's financial statements are the same noncontrolling interests at the Operating Partnership's level and include limited partners of the Operating Partnership. The differences between shareholders' equity and partners' capital result from differences in the equity issued at the General Partner and Operating Partnership levels.

To help investors better understand the key differences between the General Partner and the Operating Partnership, certain information for the General Partner and the Operating Partnership in this report has been separated, as set forth below:

- Item 1. Financial Statements (unaudited), which includes the following specific disclosures for the General Partner and the Operating Partnership:
 - Note 2. Significant Accounting Policies, where applicable;
 - Note 14. Redeemable Noncontrolling Interests;
 - Note 15. Mack-Cali Realty Corporation's Stockholders' Equity and Mack-Cali Realty, L.P.'s Partners' Capital;
 - Note 16. Noncontrolling Interests in Subsidiaries; and
 - Note 17. Segment Reporting, where applicable.

- Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations includes information specific to each entity, where applicable.

This report also includes separate Part I, Item 4. Controls and Procedures sections and separate Exhibits 31 and 32 certifications for each of the General Partner and the Operating Partnership in order to establish that the requisite certifications have been made and that the General Partner and Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934 and 18 U.S.C. §1350.

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MACK-CALI REALTY, L.P.

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MACK-CALI REALTY CORPORATION

MACK-CALI REALTY, L.P.

Part I Financial Information

Item 1. Financial Statements

The accompanying unaudited consolidated balance sheets, statements of operations, of comprehensive income, of changes in equity, and of cash flows and related notes thereto, have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. The financial statements reflect all adjustments consisting only of normal, recurring adjustments, which are, in the opinion of management, necessary for a fair statement for the interim periods.

The aforementioned financial statements should be read in conjunction with the notes to the aforementioned financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and notes thereto included in Mack-Cali Realty Corporation's and Mack-Cali Realty, L.P.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

The results of operations for the three and six-month periods ended June 30, 2017 are not necessarily indicative of the results to be expected for the entire fiscal year or any other period.

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	June 30, 2017	December 31, 2016
ASSETS		
Rental property		
Land and leasehold interests	\$ 721,753	\$ 661,335
Buildings and improvements	3,998,971	3,758,210
Tenant improvements	344,108	364,092
Furniture, fixtures and equipment	27,985	21,230
	5,092,817	4,804,867
Less accumulated depreciation and amortization	(1,131,799)	(1,332,073)
	3,961,018	3,472,794
Rental property held for sale, net	292,243	39,743
Net investment in rental property	4,253,261	3,512,537
Cash and cash equivalents	21,719	31,611
Investments in unconsolidated joint ventures	315,110	320,047
Unbilled rents receivable, net	105,547	101,052
Deferred charges, goodwill and other assets, net	316,984	267,950
Restricted cash	56,167	53,952
Accounts receivable, net of allowance for doubtful accounts of \$1,145 and \$1,335	7,706	9,617
Total assets	\$ 5,076,494	\$ 4,296,766
LIABILITIES AND EQUITY		
Senior unsecured notes, net	\$ 818,294	\$ 817,355
Unsecured revolving credit facility and term loans	770,388	634,069
Mortgages, loans payable and other obligations, net	1,361,537	888,585
Dividends and distributions payable	20,684	15,327
Accounts payable, accrued expenses and other liabilities	177,801	159,874
Rents received in advance and security deposits	53,939	46,442
Accrued interest payable	9,199	8,427
Total liabilities	3,211,842	2,570,079
Commitments and contingencies		
Redeemable noncontrolling interests	206,026	
Equity:		
Mack-Cali Realty Corporation stockholders' equity:		
Common stock, \$0.01 par value, 190,000,000 shares authorized, 89,913,919 and 89,696,713 shares outstanding	899	897
Additional paid-in capital	2,566,997	2,576,473
Dividends in excess of net earnings	(1,101,099)	(1,052,184)
Accumulated other comprehensive income	1,872	1,985
Total Mack-Cali Realty Corporation stockholders' equity	1,468,669	1,527,171
Noncontrolling interests in subsidiaries:		
Operating Partnership	170,510	178,570
Consolidated joint ventures	19,447	20,946
Total noncontrolling interests in subsidiaries	189,957	199,516

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Total equity	1,658,626	1,726,687
Total liabilities and equity	\$ 5,076,494	\$ 4,296,766

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

Table of Contents**MACK-CALI REALTY CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS** *(in thousands, except per share amounts) (unaudited)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
REVENUES				
Base rents	\$ 133,017	\$ 124,223	\$ 254,272	\$ 250,610
Escalations and recoveries from tenants	15,951	14,110	31,070	29,071
Real estate services	5,767	6,469	12,232	13,281
Parking income	5,052	3,532	9,281	6,688
Other income	2,979	893	5,798	2,500
Total revenues	162,766	149,227	312,653	302,150
EXPENSES				
Real estate taxes	21,217	22,418	42,309	45,644
Utilities	10,357	10,953	21,771	24,531
Operating services	27,092	24,024	54,183	50,756
Real estate services expenses	5,899	6,211	12,169	13,057
General and administrative	12,491	12,755	24,083	25,004
Acquisition-related costs		2,039		2,039
Depreciation and amortization	57,762	43,459	105,393	86,522
Total expenses	134,818	121,859	259,908	247,553
Operating income	27,948	27,368	52,745	54,597
OTHER (EXPENSE) INCOME				
Interest expense	(24,943)	(22,932)	(45,264)	(47,925)
Interest and other investment income (loss)	122	146	596	(523)
Equity in earnings (loss) of unconsolidated joint ventures	(3,298)	(614)	(3,349)	(2,168)
Gain on change of control of interests		5,191		15,347
Realized gains (losses) and unrealized losses on disposition of rental property, net	(38,954)	27,117	(33,448)	85,717
Gain on sale of investment in unconsolidated joint venture		5,670	12,563	5,670
Gain (loss) from extinguishment of debt, net		12,420	(239)	