American Assets Trust, Inc. Reports Second Quarter 2019 Financial Results

Net income available to common stockholders of $8.9 million and $20.0 million for the three and six months ended June 30, 2019, respectively, or $0.18 and $0.41 per diluted share, respectively
Acquisition of La Jolla Commons in San Diego, California for $525.0 million, less a seller credit of $11.5 million
Issued 10,925,000 shares of common stock in an underwritten public offering, our first follow-on equity offering, for net proceeds of $472.6 million

SAN DIEGO, California - 7/30/2019 - American Assets Trust, Inc. (NYSE: AAT) (the "company") today reported financial results for its second quarter ended June 30, 2019.

Second Quarter Highlights and Recent Developments

- **Net income available to common stockholders of $8.9 million and $20.0 million for the three and six months ended June 30, 2019, respectively, or $0.18 and $0.41 per diluted share, respectively**
- **Funds From Operations decreased 12% and 3% year-over-year to $0.51 and $1.06 per diluted share for the three and six months ended June 30, 2019, respectively, compared to the same periods in 2018**
- **Excluding lease termination fees, Funds From Operations would have decreased 3.3% year-over-year for both the three and six months ended June 30, 2019, to $0.50 and $0.99 per diluted share, respectively**
- **Same-store cash NOI decreased 5.1% and 2.3% year-over-year for the three and six months ended June 30, 2019, respectively, compared to the same periods in 2018**
- **Excluding lease termination fees, same-store cash NOI would have increased 1.2% and 1.3% year-over-year for the three and six months ended June 30, 2019, respectively, compared to the same periods in 2018**
- **Reaffirmed guidance range for full year 2019 FFO per diluted share of $2.18 to $2.26 per share**
- **Leased approximately 87,000 comparable office square feet at an average straight-line basis and cash-basis contractual rent increase of 27% and 18%, respectively, during the three months ended June 30, 2019**
- **Leased approximately 38,000 comparable retail square feet at an average straight-line basis and cash-basis contractual rent increase of 13% and 3%, respectively, during the three months ended June 30, 2019**
- **Entered into full building triple-net lease for approximately 55,000 square feet at newly renovated 830 building at Oregon Square which created an additional 22,000 square feet of leasable space**
- **Issued 10,925,000 shares of common stock in underwritten public offering for net proceeds of $472.6 million**
- **Closed a privately placed debt offering of $150 million of eleven-year senior guaranteed notes, due July 30, 2030, with a fixed interest rate of 3.91% and an effective interest rate of 3.88% net of settlement of a treasury lock contract**

La Jolla Commons Highlights

- **Acquisition of La Jolla Commons in San Diego, California for a net purchase price of $514 million**
- **Entered into new lease with S&P 500 member for approximately 73,000 square feet at La Jolla Commons at a lease rate approximately 10% above initial underwriting bringing La Jolla Commons to 96% leased, with lease stabilization a full year ahead of initial underwriting**

Financial Results

Net income attributable to common stockholders was $8.9 million, or $0.18 per basic and diluted share for the three months ended June 30, 2019 compared to $3.1 million, or $0.07 per basic and diluted share for the three months ended June 30, 2018. For the six months ended June 30, 2019, net income attributable to common stockholders was $20.0 million, or $0.41 per basic and diluted share compared to $2.6 million, or $0.06 per basic and diluted share, for the six months ended June 30, 2018. The year-over-year increase is primarily due to a decrease in depreciation expense at Waikele Center attributed to the redevelopment of the former Kmart space, an increase in lease termination fees at Carmel Mountain Plaza attributed to the termination of our former ground lease, and an increase in annualized base rents at City Center Bellevue.

During the second quarter of 2019, the company generated funds from operations ("FFO") for common stockholders of $33.8 million, or $0.51 per diluted share, compared to $37.2 million, or $0.58 per diluted share, for the second quarter of 2018. For the six months ended June 30, 2019, the company generated FFO for common stockholders of $69.5 million, or $1.06 per diluted share, compared to $69.7 million, or $1.09 per diluted share, for the six months ended June 30, 2018. The decrease in FFO from the corresponding periods in 2018 was primarily due to the expiration of the Kmart lease at Waikele Center on June 30, 2018 and a decrease in lease termination fees partially offset by the an increase in annualized based rents at City Center Bellevue, an increase in lease termination fees at Carmel Mountain Plaza attributed to the termination of our former ground lease, and the acquisition of La Jolla Commons on June 20, 2019.

FFO is a non-GAAP supplemental earnings measure which the company considers meaningful in measuring its operating performance. A reconciliation of FFO to net income is attached to this press release.

Leasing

The portfolio leased status as of the end of the indicated quarter was as follows:

	June 30, 2019	March 31, 2019	June 30, 2018
Total Portfolio			
Retail	97.5%	97.1%	96.7%
Office	93.7%	92.3%	93.8%
Multifamily	92.6%	93.9%	93.9%
Mixed-Use:			
Retail	98.2%	98.2%	95.9%
Hotel	91.7%	91.8%	94.0%
Same-Store Portfolio			
Retail (1)	97.1%	96.7%	97.9%
Office (2)	95.0%	94.1%	93.8%
Multifamily	92.6%	93.9%	95.9%

(1) Same-store retail leased percentages exclude Waikele Center, due to significant redevelopment activity.
(2) Same-store office leased percentages excludes Torrey Point, which was placed into operations and became available for occupancy in August 2018 and La Jolla Commons, which was acquired on June 20, 2019. Torrey Point and La Jolla Commons will be included in same-store office leased percentages commencing in the fourth quarter of 2019 and third quarter of 2020, respectively.

During the second quarter of 2019, the company signed 36 leases for approximately 244,300 square feet of retail and office space, as well as 460 multifamily apartment leases. Renewals accounted for 80% of the comparable retail leases, 63% of the comparable office leases and 46% of the residential leases.

Retail and Office

On a comparable space basis (i.e. leases for which there was a former tenant) during the second quarter 2019 and trailing four quarters ended June 30, 2019, our retail and office leasing spreads are shown below:

		Number of Leases Signed	Comparable Leased Sq. Ft.	Average Cash Basis % Change Over Prior Rent	Average Cash Contractual Rent Per Sq. Ft.	Prior Average Cash Contractual Rent Per Sq. Ft.	Straight-Line Basis % Change Over Prior Rent
Retail	Q2 2019	10	38,000	3.1%	$31.71	$30.75	12.5%
	Last 4 Quarters	52	216,000	7.0%	$39.81	$37.20	13.2%
Office	Q2 2019	16	87,000	17.5%	$51.70	$44.00	26.7%
	Last 4 Quarters	42	518,000	45.3%	$70.24	$48.33	66.6%

Multifamily

The average monthly base rent per leased unit for same-store properties for the second quarter of 2019 was $2,092 compared to an average monthly base rent per leased unit of $2,037 for the second quarter of 2018, an increase of approximately 3%.

Same-Store Cash Net Operating Income

For the three and six months ended June 30, 2019, same-store cash NOI decreased 5.1% and 2.3%, respectively, compared to the three and six months ended June 30, 2018. The same-store cash NOI by segment was as follows (in thousands):

	Three Months Ended (2) June 30,			Six Months Ended (2) June 30,		
	2019	2018	Change	2019	2018	Change
Cash Basis:						
Retail (1)	$ 14,861	$ 15,364	(3.3) %	$ 29,656	$ 30,653	(3.3) %
Office (1)	18,416	20,462	(10.0)	36,895	38,687	(4.6)
Multifamily	8,094	7,754	4.4	15,987	15,107	5.8
Mixed-Use	—	—	—	—	—	—
Same-store Cash NOI (3)	$ 41,371	$ 43,580	(5.1) %	$ 82,538	$ 84,447	(2.3) %

(1) Same-store cash NOI for the three and six months ended June 30, 2018 includes cash lease termination fees received of $2.7 million and $3.0 million, respectively. However, the lease termination fees for 2019 recognized at Carmel Mountain Plaza during the first quarter 2019 were non-cash lease termination fees.

(2) Same-store portfolio excludes (i) Waikele Center due to significant redevelopment activity; (ii) Torrey Point, which was placed into operations and became available for occupancy in August 2018; (iii) La Jolla Commons, which was acquired on June 20, 2019; (iv) Waikiki Beach Walk - Embassy Suites™ and Waikiki Beach Walk - Retail, due to significant spalling repair activity; and (v) land held for development.

(3) Excluding lease termination fees for the three and six months ended June 30, 2019, same-store cash NOI would have been 1.2% and 1.3%, respectively.

Same-store cash NOI is a non-GAAP supplemental earnings measure which the company considers meaningful in measuring its operating performance. A reconciliation of same-store cash NOI to net income is attached to this press release.

Balance Sheet and Liquidity

At June 30, 2019, the company had gross real estate assets of $3.1 billion and liquidity of $299.8 million, comprised of cash and cash equivalents of $44.8 million and $255.0 million of availability on its line of credit.

For the quarter ended June 30, 2019, we issued 519,382 shares of common stock through our at-the-market equity program at a weighted average price per share of $45.57, resulting in net proceeds of $23.4 million. We intend to use the proceeds primarily to fund development activities at Lloyd District Portfolio and Waikele Center.

For the quarter ended June 30, 2019, we issued 10,925,000 shares of common stock through an underwritten public offering at a price to the public per share of $44.75, resulting in net proceeds of $472.6 million. We used the net proceeds from the offering to fund the acquisition of La Jolla Commons.

Dividends

The company declared dividends on its shares of common stock of $0.28 per share for the second quarter of 2019. The dividends were paid on June 27, 2019.

In addition, the company has declared a dividend on its common stock of $0.28 per share for the third quarter of 2019. The dividend will be paid on September 26, 2019 to stockholders of record on September 12, 2019.

Guidance

The company reaffirms its guidance range for full year 2019 FFO per diluted share of $2.18 to $2.26 per share, a midpoint increase of 6% from 2018 FFO per diluted share of $2.09 per share. The company's guidance excludes any impact from future acquisitions, dispositions, equity issuances or repurchases, future debt financings or repayments.

The foregoing estimates are forward-looking and reflect management's view of current and future market conditions, including certain assumptions with respect to leasing activity, rental rates, occupancy levels, interest rates, credit spreads and the amount and timing of acquisition and development activities. The company's actual results may differ materially from these estimates.

Conference Call

The company will hold a conference call to discuss the results for the second quarter of 2019 on Wednesday, July 31, 2019 at 8:00 a.m. Pacific Time (“PT”). To participate in the event by telephone, please dial 1-877-868-5513 and use the pass code 8975435. A telephonic replay of the conference call will be available beginning at 2:00 p.m. PT on Wednesday, July 31, 2019 through Wednesday, August 7, 2019. To access the replay, dial 1-855-859-2056 and use the pass code 8975435. A live on-demand audio webcast of the conference call will be available on the company's website at www.americanassetstrust.com. A replay of the call will also be available on the company's website.

Supplemental Information

Supplemental financial information regarding the company's second quarter 2019 results may be found on the “Investors” page of the company's website at www.americanassetstrust.com. This supplemental information provides additional detail on items such as property occupancy, financial performance by property and debt maturity schedules.

Financial Information
American Assets Trust, Inc.
Consolidated Balance Sheets
(In Thousands, Except Share Data)

	June 30, 2019	December 31, 2018
Assets	(unaudited)	
Real estate, at cost		
Operating real estate	$ 3,056,767	$ 2,549,571
Construction in progress	83,461	71,228
Held for development	547	9,392
	3,140,775	2,630,191
Accumulated depreciation	(621,852)	(590,338)
Net real estate	2,518,923	2,039,853
Cash and cash equivalents	44,778	47,956
Restricted cash	9,702	9,316
Accounts receivable, net	10,104	9,289
Deferred rent receivables, net	42,098	39,815
Other assets, net	93,153	52,021
Total assets	$ 2,718,758	$ 2,198,250
Liabilities and equity		
Liabilities:		
Secured notes payable, net	$ 162,426	$ 182,572
Unsecured notes payable, net	1,045,949	1,045,863
Unsecured line of credit, net	93,540	62,337
Accounts payable and accrued expenses	54,652	46,616
Security deposits payable	7,907	8,844
Other liabilities and deferred credits, net	62,362	49,547
Total liabilities	1,426,836	1,395,779
Commitments and contingencies		
Equity:		
American Assets Trust, Inc. stockholders' equity		
Common stock, $0.01 par value, 490,000,000 shares authorized, 59,722,748 and 47,335,409 shares issued and outstanding at June 30, 2019 and December 31, 2018, respectively	597	474
Additional paid-in capital	1,438,768	920,661
Accumulated dividends in excess of net income	(135,497)	(128,778)
Accumulated other comprehensive income	5,876	10,620
Total American Assets Trust, Inc. stockholders' equity	1,309,744	802,977
Noncontrolling interests	(17,822)	(506)
Total equity	1,291,922	802,471
Total liabilities and equity	$ 2,718,758	$ 2,198,250

American Assets Trust, Inc.
Unaudited Consolidated Statements of Operations
(In Thousands, Except Shares and Per Share Data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Revenue:				
Rental income	$ 79,656	$ 76,892	$ 156,487	$ 153,093
Other property income	4,457	8,131	12,945	12,662
Total revenue	84,113	85,023	169,432	165,755
Expenses:				
Rental expenses	21,826	20,882	42,622	41,302
Real estate taxes	9,275	8,628	18,321	17,174
General and administrative	5,943	5,396	12,016	10,963
Depreciation and amortization	22,582	32,868	43,165	66,147
Total operating expenses	59,626	67,774	116,124	135,586
Operating income	24,487	17,249	53,308	30,169
Interest expense	(13,129)	(12,688)	(26,478)	(26,508)
Gain on sale of real estate	633	—	633	—
Other income (expense), net	(50)	(148)	(279)	61
Net income	11,941	4,413	27,184	3,722
Net income attributable to restricted shares	(92)	(216)	(185)	(144)
Net income attributable to unitholders in the Operating Partnership	(2,933)	(1,125)	(6,988)	(959)
Net income attributable to American Assets Trust, Inc. stockholders	$ 8,916	$ 3,072	$ 20,011	$ 2,619
Net income per share				
Basic income attributable to common stockholders per share	$ 0.18	$ 0.07	$ 0.41	$ 0.06
Weighted average shares of common stock outstanding - basic	50,135,978	46,939,449	48,578,872	46,937,645
Diluted income attributable to common stockholders per share	$ 0.18	$ 0.07	$ 0.41	$ 0.06
Weighted average shares of common stock outstanding - diluted	66,889,784	64,132,520	65,543,409	64,131,665
Dividends declared per common share	$ 0.28	$ 0.27	$ 0.56	$ 0.54

Reconciliation of Net Income to Funds From Operations

The company's FFO attributable to common stockholders and operating partnership unitholders and reconciliation to net income is as follows (in thousands except shares and per share data, unaudited):

	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Funds From Operations (FFO)		
Net income	$ 11,941	$ 27,184
Depreciation and amortization of real estate assets	22,582	43,165
Gain on sale of real estate	(633)	(633)
FFO, as defined by NAREIT	$ 33,890	$ 69,716
Less: Nonforfeitable dividends on restricted stock awards	(94)	(185)
FFO attributable to common stock and units	$ 33,796	$ 69,531
FFO per diluted share/unit	$ 0.51	$ 1.06
Weighted average number of common shares and units, diluted	66,890,084	65,543,584

Reconciliation of Same-Store Cash NOI to Net Income

The company's reconciliation of Same-Store Cash NOI to Net Income is as follows (in thousands, unaudited):

	Three Months Ended [(1)] June 30,		Six Months Ended [(1)] June 30,	
	2019	2018	2019	2018
Same-store cash NOI	$ 41,371	$ 43,580	$ 82,538	$ 84,447
Non-same-store cash NOI	9,241	10,867	17,111	20,636
Tenant improvement reimbursements [(2)]	5,904	3,090	6,895	3,958
Cash NOI	$ 56,516	$ 57,537	$ 106,544	$ 109,041
Non-cash revenue and other operating expenses [(3)]	(3,504)	(2,024)	1,945	(1,762)
General and administrative	(5,943)	(5,396)	(12,016)	(10,963)
Depreciation and amortization	(22,582)	(32,868)	(43,165)	(66,147)
Interest expense	(13,129)	(12,688)	(26,478)	(26,508)
Gain on sale of real estate	633	—	633	—
Other income (expense), net	(50)	(148)	(279)	61
Net income	$ 11,941	$ 4,413	$ 27,184	$ 3,722
Number of properties included in same-store analysis	24	23	24	23

(1) Same-store portfolio excludes (i) Waikele Center, due to significant redevelopment activity; (ii) Torrey Point, which was placed into operations and became available for occupancy in August 2018; (iii) La Jolla Commons, which was acquired on June 20, 2019; (iv) Waikiki Beach Walk - Embassy Suites™ and Waikiki Beach Walk - Retail, due to significant spalling repair activity and (v) land held for development.

(2) Tenant improvement reimbursements are excluded from same-store cash NOI to provide a more accurate measure of operating performance.

(3) Represents adjustments related to the straight-line rent income recognized during the period offset by cash received during the period and the provision for bad debts recorded for deferred rent receivable balances; the amortization of above (below) market rents, the amortization of lease incentives paid to tenants, the amortization of other lease intangibles, lease termination fees at Carmel Mountain Plaza, and straight-line rent expense for our leases of the Annex at The Landmark at One Market.

Reported results are preliminary and not final until the filing of the company's Form 10-Q with the Securities and Exchange Commission and, therefore, remain subject to adjustment.

Use of Non-GAAP Information

Funds from Operations

The company calculates FFO in accordance with the standards established by the National Association of Real Estate Investment Trusts, or NAREIT. FFO represents net income (computed in accordance with GAAP), excluding gains (or losses) from sales of depreciable operating property, impairment losses, real estate related depreciation and amortization (excluding amortization of deferred financing costs) and after adjustments for unconsolidated partnerships and joint ventures.

FFO is a supplemental non-GAAP financial measure. Management uses FFO as a supplemental performance measure because it believes that FFO is beneficial to investors as a starting point in measuring the company's operational performance. Specifically, in excluding real estate related depreciation and amortization and gains and losses from property dispositions, which do not relate to or are not indicative of operating performance, FFO provides a performance measure that, when compared year-over-year, captures trends in occupancy rates, rental rates and operating costs. The company also believes that, as a widely recognized measure of the performance of REITs, FFO will be used by investors as a basis to compare the company's operating performance with that of other REITs. However, because FFO excludes depreciation and amortization and captures neither the changes in the value of the company's properties that result from use or market conditions nor the level of capital expenditures and leasing commissions necessary to maintain the operating performance of the company's properties, all of which have real economic effects and could materially impact the company's results from operations, the utility of FFO as a measure of the company's performance is limited. In addition, other equity REITs may not calculate FFO in accordance with the NAREIT definition as the company does, and, accordingly, the company's FFO may not be comparable to such other REITs' FFO. Accordingly, FFO should be considered only as a supplement to net income as a measure of the company's performance. FFO should not be used as a measure of the company's liquidity, nor is it indicative of funds available to fund the company's cash needs, including the company's ability to pay dividends or service indebtedness. FFO also should not be used as a supplement to or substitute for cash flow from operating activities computed in accordance with GAAP.

Cash Net Operating Income

The company uses cash net operating income ("NOI") internally to evaluate and compare the operating performance of the company's properties. The company believes cash NOI provides useful information to investors regarding the company's financial condition and results of operations because it reflects only those income and expense items that are incurred at the property level, and when compared across periods, can be used to determine trends in earnings of the company's properties as this measure is not affected by (1) the non-cash revenue and expense recognition items, (2) the cost of funds of the property owner, (3) the impact of depreciation and amortization expenses as well as gains or losses from the sale of operating real estate assets that are included in net income computed in accordance with GAAP or (4) general and administrative expenses and other gains and losses that are specific to the property owner. The company believes the exclusion of these items from net income is useful because the resulting measure captures the actual revenue generated and actual expenses incurred in operating the company's properties as well as trends in occupancy rates, rental rates and operating costs. Cash NOI is a measure of the operating performance of the company's properties but does not measure the company's performance as a whole. Cash NOI is therefore not a substitute for net income as computed in accordance with GAAP.

Cash NOI, is a non-GAAP financial measure of performance. The company defines cash NOI as operating revenues (rental income, tenant reimbursements, lease termination fees, ground lease rental income and other property income) less property and related expenses (property expenses, ground lease expense, property marketing costs, real estate taxes and insurance), adjusted for non-cash revenue and operating expense items such as straight-line rent, amortization of lease intangibles, amortization of lease incentives and other adjustments. Cash NOI also excludes general and administrative expenses, depreciation and amortization, interest expense, other nonproperty income and losses, acquisition-related expense, gains and losses from property dispositions, extraordinary items, tenant improvements, and leasing commissions. Other REITs may use different methodologies for calculating cash NOI, and accordingly, the company's cash NOI may not be comparable to the cash NOIs of other REITs.

About American Assets Trust, Inc.
American Assets Trust, Inc. is a full service, vertically integrated and self-administered real estate investment trust, or REIT, headquartered in San Diego, California. The company has over 50 years of experience in acquiring, improving, developing and managing premier retail, office and residential properties throughout the United States in some of the nation's most dynamic, high-barrier-to-entry markets primarily in Southern California, Northern California, Oregon, Washington, Texas and Hawaii. The company's retail portfolio comprises approximately 3.1 million rentable square feet, and its office portfolio comprises approximately 3.4 million square feet. In addition, the company owns one mixed-use property (including approximately 97,000 rentable square feet of retail space and a 369-room all-suite hotel) and 2,112 multifamily units. In 2011, the company was formed to succeed to the real estate business of American Assets, Inc., a privately held corporation founded in 1967 and, as such, has significant experience, long-standing relationships and extensive knowledge of its core markets, submarkets and asset classes. For additional information, please visit www.americanassetstrust.com.

Forward Looking Statements
This press release may contain forward-looking statements within the meaning of the federal securities laws, which are based on current expectations, forecasts and assumptions that involve risks and uncertainties that could cause actual outcomes and results to differ materially. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by the use of forward-looking terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” or “potential” or the negative 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. While forward-looking statements reflect the company's good faith beliefs, assumptions and expectations, they are not guarantees of future performance. For a further discussion of these and other factors that could cause the company's future results to differ materially from any forward-looking statements, see the section entitled “Risk Factors” in the company's annual report on Form 10-K filed on February 15, 2019, and other risks described in documents subsequently filed by the company from time to time with the Securities and Exchange Commission. The company disclaims 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.

Source: American Assets Trust, Inc.

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