WEINGARTEN REALTY INVESTORS /TX/
Form 10-K
February 25, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
(Mark One)
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012
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 1-9876
Weingarten Realty Investors
(Exact name of registrant as specified in its charter)

TEXAS	74-1464203
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2600 Citadel Plaza Drive	
P.O. Box 924133	
Houston, Texas	77292-4133
(Address of principal executive offices)	(Zip Code)

(713) 866-6000
(Registrant’s telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares of Beneficial Interest, $0.03 par value	New York Stock Exchange
Series D Cumulative Redeemable Preferred Shares, $0.03 par value	New York Stock Exchange
Series F Cumulative Redeemable Preferred Shares, $0.03 par value	New York Stock Exchange
8.1% Notes due 2019	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES ý 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 ý
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 ý NO ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES ý NO ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 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. ý

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

YES ¨ NO ý

The aggregate market value of the common shares of beneficial interest held by non-affiliates on June 30, 2012 (based upon the closing sale price on the New York Stock Exchange of $26.34) was $2,928,767,669.

As of January 31, 2013, there were 121,510,267 common shares of beneficial interest outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement relating to its Annual Meeting of Shareholders to be held on April 30, 2013 have been incorporated by reference to Part III of this Form 10-K.

Table of Contents

TABLE OF CONTENTS

Table of Contents

Forward-Looking Statements

This annual report on Form 10-K, together with other statements and information publicly disseminated by us, contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and include this statement for purposes of complying with those safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words “believe,” “expect,” “intend,” “anticipate,” “estimate “project,” or similar expressions. You should not rely on forward-looking statements since they involve known and unknown risks, uncertainties and other factors, which are, in some cases, beyond our control and which could materially affect actual results, performances or achievements. Factors which may cause actual results to differ materially from current expectations include, but are not limited to, (i) disruptions in financial markets, (ii) general economic and local real estate conditions, (iii) the inability of major tenants to continue paying their rent obligations due to bankruptcy, insolvency or general downturn in their business, (iv) financing risks, such as the inability to obtain equity, debt, or other sources of financing on favorable terms, (v) changes in governmental laws and regulations, (vi) the level and volatility of interest rates, (vii) the availability of suitable acquisition opportunities, (viii) the ability to dispose properties, (ix) changes in expected development activity, (x) increases in operating costs, (xi) tax matters, including failure to qualify as a real estate investment trust, and (xii) investments through real estate joint ventures and partnerships, which involve risks not present in investments in which we are the sole investor. Accordingly, there is no assurance that our expectations will be realized. For further discussion of the factors that could materially affect the outcome of our forward-looking statements and our future results and financial condition, see “Item 1A. Risk Factors.”

PART I

ITEM 1. Business

General. Weingarten Realty Investors is a real estate investment trust (“REIT”) organized under the Texas Business Organizations Code. We, and our predecessor entity, began the ownership and development of shopping centers and other commercial real estate in 1948. Our primary business is leasing space to tenants in the shopping centers we own or lease. We also provide property management services for both joint ventures in which we are partners and for other outside owners for which we charge fees.

At December 31, 2012, we owned or operated under long-term leases, either directly or through our interest in real estate joint ventures or partnerships, a total of 292 developed income-producing properties and two properties under various stages of construction and development. The total number of centers includes 288 neighborhood and community shopping centers and six other operating properties located in 21 states spanning the country from coast to coast. The portfolio of properties contains approximately 53.7 million square feet of gross leasable area that is either owned by us or others.

We also owned interests in 38 parcels of land held for development that totaled approximately 27.5 million square feet.

At December 31, 2012, we employed 345 full-time persons; our principal executive offices are located at 2600 Citadel Plaza Drive, Houston, Texas 77008; and our phone number is (713) 866-6000. We also have 10 regional offices located in various parts of the United States (“U.S.”).

Financial Information about Segments. We are in the business of owning, managing and developing retail shopping centers. To a lesser extent, we own and manage other operating properties. See the Consolidated Financial Statements and Notes thereto included in Item 8 of this Annual Report on Form 10-K for further information regarding our reportable segments.

Investment and Operating Strategy. Our goal is to remain a leader in owning and operating top tier neighborhood and community shopping centers in the U.S. We expect to achieve this goal by strategically focusing on core operating fundamentals through continuing our hands-on leasing and management, selective redevelopment of the existing portfolio of properties, disciplined growth from strategic acquisitions and new developments, and disposition of assets that no longer meet our ownership criteria. We remain committed to maintaining a conservatively leveraged balance sheet, a well-staggered debt maturity schedule and strong credit agency ratings.

Table of Contents

We are continuing with a capital recycling plan that was announced in 2011, which has provided capital for growth opportunities and strengthened our operating fundamentals. During 2012, we successfully disposed of $706.3 million of real estate assets, both directly or through our interests in real estate joint ventures or partnerships, which includes the disposition of our industrial portfolio. This recycling program is ongoing, and we expect to complete dispositions in the range of $200 million to $300 million in 2013. By exiting the industrial real estate market, we have successfully accomplished our goal of positioning ourselves as a REIT dedicated to the retail real estate market. Also upon the completion of this plan, we believe our remaining portfolio of shopping centers will be among the strongest in our sector.

The proceeds generated by these dispositions were used to fund acquisitions and new development expenditures and to reduce outstanding debt, further deleveraging our balance sheet. We will continue to actively seek acquisitions and new development opportunities to grow our operations. Despite the substantial competition for quality acquisition opportunities, we have been able to close on $232.3 million during 2012. We will continue to identify select properties that meet our return hurdles and will actively evaluate other opportunities as they enter the market. For 2013, we expect to invest in acquisitions and new developments in a range similar to our dispositions of $200 million to $300 million.

We may either purchase or lease income-producing properties in the future, and may also participate with other entities in property ownership through partnerships, joint ventures or similar types of co-ownership. Equity investments may be subject to existing mortgage financing and other indebtedness or such financing may be incurred in connection with acquiring such investments.

We may invest in mortgages; however, we have traditionally invested in first mortgages to real estate joint ventures or partnerships in which we own an equity interest or to obtain control over a real estate asset that we desire to own. We may also invest in securities of other issuers for the purpose, among others, of exercising control over such entities, subject to the gross income and asset tests necessary for REIT qualification.

In acquiring and developing properties, we attempt to accumulate enough properties in a geographic area to allow for the establishment of a regional office, which enables us to obtain in-depth knowledge of the market from a leasing perspective and to have easy access to the property and our tenants from a management viewpoint.

For the year ended December 31, 2012, neighborhood and community shopping centers generated 98.3% of our total revenue as we have been exiting from the industrial real estate market. We expect to continue our focus on the future growth of the portfolio in neighborhood and community shopping centers in markets where we currently operate and may expand to other markets throughout the U.S.

Diversification from both a geographic and tenancy perspective is a critical component of our operating strategy. We continue to seek opportunities outside the Texas market, and approximately 28.1% of the building square footage of our properties is located in Texas, down from 32.7% in 2011. With respect to tenant diversification, our two largest tenants accounted for 3.2% and 2.1%, respectively, of our total rental revenues for the year ended December 31, 2012. No other tenant accounted for more than 1.9% of our total rental revenues. Our anchor tenants are supermarkets, value-oriented apparel/discount stores and other retailers or service providers who generally sell basic necessity-type goods and services. Through this challenging economic environment, we believe the stability of our anchor tenants, combined with convenient locations, attractive and well-maintained properties, high quality retailers and a strong tenant mix, should ensure the long-term success of our merchants and the viability of our portfolio.

We finance our growth and working capital needs in a conservative manner. Our senior debt credit ratings were BBB from Standard & Poors and Baa2 from Moody’s Investor Services as of December 31, 2012 and 2011. We intend to maintain a conservative approach to managing our balance sheet, which, in turn, gives us many options for raising debt or equity capital when needed. At December 31, 2012 and 2011, our ratio of earnings to combined fixed charges and preferred dividends as defined by the Securities and Exchange Commission (“SEC”), not based on funds from operations, was 1.27 to 1 and .75 to 1, respectively. We have also seen an improvement in our debt to total assets before depreciation ratio, which was 42.2% and 44.7% at December 31, 2012 and 2011, respsectively.

Our policies with respect to the investment and operating strategies discussed above are periodically reviewed by our Board of Trust Managers and may be modified without a vote of our shareholders.

2

Table of Contents

Location of Properties. Our properties are located in 21 states, primarily throughout the southern half of the country. As of December 31, 2012, we have 294 properties which were owned or operated under long-term leases either directly or through our interests in real estate joint ventures or partnerships. Net operating income from continuing operations generated by our properties located in Houston and its surrounding areas was 21.1% of total net operating income from continuing operations, and an additional 7.7% of net operating income from continuing operations is generated from properties that are located in other parts of Texas. We also have 38 parcels of land held for development, 10 of which are located in Houston and its surrounding areas and 10 of which are located in other parts of Texas. Because of our investments in Houston and its surrounding areas, as well as in other parts of Texas, the Houston and Texas economies affect, to a large degree, our business and operations.

Economic Factors. While downside risks still exist, most economic indicators suggest that the economic recovery is continuing to strengthen. Consumer confidence continues to rebound from historical low levels, credit availability is improving, and retail sales and the housing market showed growth through 2012. Sales will likely continue to trend upward though at a decreased rate, causing year over year comparisons to be more difficult. Overall, we expect improvement in gross sales to translate into a continued demand for retail space which should lead to slightly lower vacancy rates and more stable rents beyond 2013. With the majority of our shopping centers being supermarket-anchored and located in densely populated major metropolitan areas, our portfolio continues to out perform centers anchored by tenants with more discretionary product lines in the current economy.

Our market analysis has continued to identify stronger interest for top tier shopping centers where easier availability for credit has resulted in higher prices. Second and third tier properties have continued to see pricing constraints. In light of these trends, we have continued to dedicate internal resources to evaluate available assets in our key markets and to identify and purchase the best assets and properties with the strongest upside potential.

Competition. We compete with numerous other developers and real estate companies (both public and private), financial institutions and other investors engaged in the development, acquisition and operation of shopping centers in our trade areas. This results in competition for the acquisition of both existing income-producing properties and prime development sites. Competition for these acquisitions may also increase as credit availability improves resulting in additional pricing pressure.

We also compete for tenants to occupy the space that is developed, acquired and managed by our competitors or us. The principal competitive factors in attracting tenants in our market areas are location, price, anchor tenants and maintenance of properties. We believe our key competitive advantages include the favorable locations of our properties, knowledge of markets and customer bases, our ability to provide a retailer with multiple locations with anchor tenants and the practice of continuous maintenance and renovation of our properties.

Materials Available on Our Website. Copies of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports, as well as Reports on Forms 3, 4, 5 and SC 13G regarding our officers, trust managers or 10% beneficial owners, filed or furnished pursuant to Section 13(a), 15(d) or 16(a) of the Securities Exchange Act of 1934 are available free of charge through our website (www.weingarten.com) as soon as reasonably practicable after we electronically file the material with, or furnish it to, the SEC. We have also made available on our website copies of our Audit Committee Charter, Management Development and Executive Compensation Committee Charter, Governance and Nominating Committee Charter, Code of Conduct and Ethics, Code of Ethical Conduct for Officers and Senior Financial Associates and Governance Guidelines. In the event of any changes to these charters or the code or guidelines, changed copies will also be made available on our website. You may also read and copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549 or the SEC’s Internet site at www.sec.gov. Materials on our website are not part of our Annual Report on Form 10-K.

Financial Information. Additional financial information concerning us is included in the Consolidated Financial Statements located in Item 8 herein.

ITEM 1A. Risk Factors

The risks described below could materially and adversely affect our shareholders and our results of operations, financial condition, liquidity and cash flows. In addition to these risks, our operations may also be affected by additional factors not presently known or that we currently consider immaterial to our operations.

Table of Contents

Disruptions in the financial markets could affect our liquidity and have other adverse effects on us and the market price of our common shares of beneficial interest.

The U.S. and global equity and credit markets have experienced and may in the future experience significant price volatility, dislocations and liquidity disruptions, which could cause market prices of many stocks to fluctuate substantially and the spreads on prospective debt financings to widen considerably. These circumstances could materially impact liquidity in the financial markets, making terms for certain financings less attractive, and in certain cases result in the unavailability of certain types of financing. Uncertainties in the equity and credit markets may negatively impact our ability to access additional financing at reasonable terms or at all, which may negatively affect our ability to complete dispositions, form joint ventures or refinance our debt. A prolonged downturn in the equity or credit markets could cause us to seek alternative sources of potentially less attractive financing, and require us to adjust our business plan accordingly. In addition, these factors may make it more difficult for us to sell properties or adversely affect the price we receive for properties that we do sell, as prospective buyers may experience increased costs of financing or difficulties in obtaining financing. These events in the equity and credit markets may make it more difficult or costly for us to raise capital through the issuance of our common shares of beneficial interest ("common shares") or preferred shares. These disruptions in the financial markets also may have a material adverse effect on the market value of our common shares and preferred shares and other adverse effects on us or the economy generally. There can be no assurances that government responses to the disruptions in the financial markets will restore consumer confidence, stabilize the markets or increase liquidity and the availability of equity or credit financing.

Among the market conditions that may affect the value of our common shares and preferred shares and access to the capital markets are the following:

- The attractiveness of REIT securities as compared to other securities, including securities issued by other real estate companies, fixed income equity securities and debt securities;
- Changes in revenues or earnings estimates or publication of research reports and recommendations by financial analysts or actions taken by rating agencies with respect to our securities or those of other REITs;
- The degree of interest held by institutional investors;
- The market's perception of the quality of our assets and our growth potential;
- The ability of our tenants to pay rent to us and meet their other obligations to us under current lease terms;
- Our ability to re-lease space as leases expire;
- Our ability to refinance our indebtedness as it matures;
- Actual or anticipated quarterly fluctuations in our operating results and financial condition;
- Any changes in our distribution policy;
- Any future issuances of equity securities;
- Strategic actions by us or our competitors, such as acquisitions or restructurings;
- General market conditions and, in particular, developments related to market conditions for the real estate industry; and
- Domestic and international economic and political factors unrelated to our performance.

The volatility in the stock market can create price and volume fluctuations that may not necessarily be comparable to operating performance.

The economic performance and value of our shopping centers depend on many factors, each of which could have an adverse impact on our cash flows and operating results.

The economic performance and value of our properties can be affected by many factors, including the following:

- Changes in the national, regional and local economic climate;
- Changes in environmental regulatory requirements including, but not limited to, legislation on global warming;
- Local conditions such as an oversupply of space or a reduction in demand for real estate in the area;
- The attractiveness of the properties to tenants;

Table of Contents

- Competition from other available space;
- Our ability to provide adequate management services and to maintain our properties;
- Increased operating costs, if these costs cannot be passed through to tenants;
- The cost of periodically renovating, repairing and releasing spaces;
- The consequences of any armed conflict involving, or terrorist attack against, the U.S.;
- Our ability to secure adequate insurance;
- Fluctuations in interest rates;
- Changes in real estate taxes and other expenses; and
- Availability of financing on acceptable terms or at all.

Our properties consist primarily of neighborhood and community shopping centers and, therefore, our performance is linked to general economic conditions in the market for retail space. The market for retail space has been and may continue to be adversely affected by weakness in the national, regional and local economies where our properties are located, the adverse financial condition of some large retail companies, the ongoing consolidation in the retail sector, the excess amount of retail space in a number of markets and increasing consumer purchases through catalogs and the Internet. To the extent that any of these conditions occur, they are likely to affect market rents for retail space. In addition, we may face challenges in the management and maintenance of the properties or encounter increased operating costs, such as real estate taxes, insurance and utilities, which may make our properties unattractive to tenants.

Our acquisition activities may not produce the cash flows that we expect and may be limited by competitive pressures or other factors.

We intend to acquire existing commercial properties to the extent that suitable acquisitions can be made on advantageous terms. Acquisitions of commercial properties involve risks such as:

- Our estimates on expected occupancy and rental rates may differ from actual conditions;
- Our estimates of the costs of any redevelopment or repositioning of acquired properties may prove to be inaccurate;
- We may be unable to operate successfully in new markets where acquired properties are located, due to a lack of market knowledge or understanding of local economies;
- We may be unable to successfully integrate new properties into our existing operations; or
- We may have difficulty obtaining financing on acceptable terms or paying the operating expenses and debt service associated with acquired properties prior to sufficient occupancy.

In addition, we may not be in a position or have the opportunity in the future to make suitable property acquisitions on advantageous terms due to competition for such properties with others engaged in real estate investment. Our inability to successfully acquire new properties may have an adverse effect on our results of operations.

Turmoil in capital markets could adversely impact acquisition activities and pricing of real estate assets.

Volatility in the capital markets could impact the availability of debt financing due to numerous factors, including the tightening of underwriting standards by lenders and credit rating agencies and the significant inventory of unsold collateralized mortgage-backed securities in the market. These factors directly affect a lender’s ability to provide debt financing as well as increase the cost of available debt financing. As a result, we may not be able to obtain favorable debt financing in the future or at all. This may result in future acquisitions generating lower overall economic returns, which may adversely affect our results of operations and distributions to shareholders. Furthermore, any turmoil in the capital markets could adversely impact the overall amount of capital available to invest in real estate, which may result in price or value decreases of real estate assets.

Table of Contents

Our real estate assets may be subject to impairment charges.

Periodically, we assess whether there are any indicators that the value of our real estate assets, including any capitalized costs and any identifiable intangible assets, may be impaired. A property's value is impaired only if the estimate of the aggregate future cash flows (undiscounted and without interest charges) to be generated by the property are less than the carrying value of the property. In estimating cash flows, 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. Determining whether a property is impaired and, if impaired, the amount of write-down to fair value requires a significant amount of judgment by management and is based on the best information available to management at the time of evaluation. If market conditions deteriorate or management's plans for certain properties change, additional write-downs could be required in the future and any future impairment could have a material adverse effect on our results of operations in the period in which the charge is taken.

Reduction of rental income would adversely affect our profitability, our ability to meet our debt obligations and our ability to make distributions to our shareholders.

The substantial majority of our income is derived from rental income from real property. As a result, our performance depends on our ability to collect rent from tenants. Our income and funds for distribution would be negatively affected if a significant number of our tenants, or any of our major tenants (as discussed in more detail below):

- Delay lease commencements;
- Decline to extend or renew leases upon expiration;
- Fail to make rental payments when due; or
- Close stores or declare bankruptcy.

Any of these actions could result in the termination of the tenants' lease and the loss of rental income attributable to the terminated leases. In addition, lease terminations by an anchor tenant or a failure by that anchor tenant to occupy the premises could also result in lease terminations or reductions in rent by other tenants in the same shopping centers under the terms of some leases. In these events, we cannot be sure that any tenant whose lease expires will renew that lease or that we will be able to re-lease space on economically advantageous terms. Furthermore, certain costs remain fixed even though a property may not be fully occupied. The loss of rental revenues from a number of our tenants and our inability to replace such tenants, particularly in the case of a substantial tenant with leases in multiple locations, may adversely affect our profitability, our ability to meet debt and other financial obligations and our ability to make distributions to the shareholders.

We face significant competition in the leasing market, which may decrease or prevent increases in the occupancy and rental rates of our properties.

We compete with numerous developers, owners and operators of retail properties, many of which own properties similar to, and in the same market sectors as, our properties. If our competitors offer space at rental rates below current market rates, or below the rental rates we currently charge our tenants, we may lose existing or potential tenants, or we may be forced to reduce rental rates in order to attract new tenants and retain existing tenants when their leases expire. Also, if our competitors develop additional retail properties in locations near our properties, there may be increased competition for customer traffic and creditworthiness tenants, which may result in fewer tenants or decreased cash flows from tenants, or both, and may require us to make capital improvements to properties that we would not have otherwise made. As a result, our financial condition and our ability to make distributions to our shareholders may be adversely affected.

We may be unable to collect balances due from tenants in bankruptcy.

A tenant that files for bankruptcy protection may not continue to pay us rent. A bankruptcy filing by or relating to one of our tenants or a lease guarantor would bar all efforts by us to collect pre-bankruptcy debts from the tenant or the lease guarantor, or their property, unless the bankruptcy court permits us to do so. A tenant or lease guarantor bankruptcy could delay our efforts to collect past due balances under the relevant leases and could ultimately preclude collection of these sums. If a lease is rejected by a tenant in bankruptcy, we would have only a general unsecured claim for damages. As a result, it is likely that we would recover substantially less than the full value of any unsecured claims it holds, if at all.

Table of Contents

Our development and construction activities could adversely affect our operating results.

We intend to continue the selective development and construction of retail properties in accordance with our development and underwriting policies as opportunities arise. Our development and construction activities include risks that:

- We may abandon development opportunities after expending resources to determine feasibility;
- Construction costs of a project may exceed our original estimates;
- Occupancy rates and rents at a newly completed property may not be sufficient to make the property profitable;
- Rental rates could be less than projected;
- Project completion may be delayed because of a number of factors, including weather, labor disruptions, construction delays or delays in receipt of zoning or other regulatory approvals, adverse economic conditions, acts of terror or other acts of violence, or acts of God (such as fires, earthquakes or floods);
- Financing may not be available to us on favorable terms for development of a property;
- We may not complete construction and lease-up on schedule, resulting in increased debt service expense and construction costs; and
- We may not be able to obtain, or may experience delays in obtaining necessary zoning, land use, building, occupancy and other required governmental permits and authorizations.

Additionally, the time frame required for development, construction and lease-up of these properties means that we may have to wait years for a significant cash return. If any of the above events occur, the development of properties may hinder our growth and have an adverse effect on our results of operations, including additional impairment charges. In addition, new development activities, regardless of whether or not they are ultimately successful, typically require substantial time and attention from management.

There is a lack of operating history with respect to any recent acquisitions and development of properties, and we may not succeed in the integration or management of additional properties.

These properties may have characteristics or deficiencies currently unknown to us that affect their value or revenue potential. It is also possible that the operating performance of these properties may decline under our management. As we acquire additional properties, we will be subject to risks associated with managing new properties, including lease-up and tenant retention. In addition, our ability to manage our growth effectively will require us to successfully integrate any new acquisitions into our existing management structure. We may not succeed with this integration or effectively manage additional properties. Also, newly acquired properties may not perform as expected.

Real estate property investments are illiquid, and therefore, we may not be able to dispose of properties when desirable or on favorable terms.

Real estate property investments generally cannot be disposed of quickly. In addition, the Internal Revenue Code imposes restrictions on the ability of a REIT to dispose of properties that are not applicable to other types of real estate companies. Our ability to dispose of properties on advantageous terms depends on factors beyond our control, including competition from other sellers and the availability of attractive financing for potential buyers of our properties, and we cannot predict the various market conditions affecting real estate investments that will exist at any particular time in the future. Therefore, we may not be able to quickly vary our portfolio in response to economic or other conditions promptly or on favorable terms, which could cause us to incur extended losses and reduce our cash flows and adversely affect distributions to shareholders.

We have a high concentration of properties in the state of Texas, and adverse economic and other developments in that area could have a material adverse effect on us.

We are particularly susceptible to adverse economic and other developments in the state of Texas, including increased unemployment, industry slowdowns, business layoffs or downsizing, decrease consumer confidence, relocations of businesses, changes in demographics, increases in real estate and other taxes, increase regulations and natural disasters, any of which could have a material adverse effect on us.

Table of Contents

Our cash flows and operating results could be adversely affected by required payments of debt or related interest and other risks of our debt financing.

We are generally subject to risks associated with debt financing. These risks include:

- Our cash flow may not satisfy required payments of principal and interest;
- We may not be able to refinance existing indebtedness on our properties as necessary or the terms of the refinancing may be less favorable to us than the terms of existing debt;
- Required debt payments are not reduced if the economic performance of any property declines;
- Debt service obligations could reduce funds available for distribution to our shareholders and funds available for capital investment;
- Any default on our indebtedness could result in acceleration of those obligations and possible loss of property to foreclosure; and
- The risk that necessary capital expenditures for purposes such as re-leasing space cannot be financed on favorable terms.

If a property is mortgaged to secure payment of indebtedness and we cannot make the mortgage payments, we may have to surrender the property to the lender with a consequent loss of any prospective income and equity value from such property. Any of these risks can place strains on our cash flows, reduce our ability to grow and adversely affect our results of operations.

Credit ratings may not reflect all the risks of an investment in our debt or preferred shares and rating changes could adversely effect our revolving credit facility.

Our credit ratings are an assessment by rating agencies of our ability to pay our debts and preferred dividends when due. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of our debt and preferred shares. Credit ratings may be revised or withdrawn at any time by the rating agency in its sole discretion. Additionally, our revolving credit facility fees are based on our credit ratings. We do not undertake any obligation to maintain the ratings or to advise holders of our debt or preferred shares of any change in ratings. Each agency's rating should be evaluated independently of any other agency's rating.

There can be no assurance that we will be able to maintain our current credit ratings. Adverse changes in our credit ratings could impair our ability to obtain additional debt and equity financing on favorable terms, if at all, and could significantly reduce the market price of our publicly traded securities.

Rising interest rates could adversely affect our cash flows and adversely affect the market price of our debt and preferred shares.

We have indebtedness with interest rates that vary depending on market indices. Also, our credit facilities bear interest at variable rates. We may incur variable-rate debt in the future. Increases in interest rates on variable-rate debt would increase our interest expense, which would negatively affect net income and cash available for payment of our debt obligations and distributions to shareholders. In addition, an increase in interest rates could adversely affect the market value of our outstanding debt and preferred shares, as well as increase the cost of refinancing and the issuance of new debt or securities.

Our financial condition could be adversely affected by financial covenants.

Our credit facilities and public debt indentures under which our indebtedness is, or may be, issued contain certain financial and operating covenants, including, among other things, certain coverage ratios, as well as limitations on our ability to incur secured and unsecured indebtedness, restrictions on our ability to sell all or substantially all of our assets and engage in mergers and consolidations and certain acquisitions. These covenants could limit our ability to obtain additional funds needed to address cash shortfalls or pursue growth opportunities or transactions that would provide substantial return to our shareholders. In addition, a breach of these covenants could cause a default under or accelerate some or all of our indebtedness, which could have a material adverse effect on our financial condition.

Table of Contents

Property ownership through real estate partnerships and joint ventures could limit our control of those investments and reduce our expected return.

Real estate partnership or joint venture investments may involve risks not otherwise present for investments made solely by us, including the possibility that our partner or co-venturer might become bankrupt, that our partner or co-venturer might at any time have different interests or goals than us, and that our partner or co-venturer may take action contrary to our instructions, requests, policies or objectives. Other risks of joint venture investments could include impasse on decisions, such as a sale, because neither our partner or co-venturer nor we would have full control over the partnership or joint venture. These factors could limit the return that we receive from those investments or cause our cash flows to be lower than our estimates.

Volatility in market and economic conditions may impact our partners' ability to perform in accordance with our real estate joint venture and partnership agreements resulting in a change in control or the liquidation plans of its underlying properties.

Changes in control of our investments could result if any reconsideration events, such as amendments to our real estate joint venture and partnership agreements, changes in debt guarantees or changes in ownership due to required capital contributions, occur. Any changes in control will result in the revaluation of our investments to fair value, which could lead to an impairment. We are unable to predict whether, or to what extent, a change in control may result or the impact of adverse market and economic conditions may have to our partners.

If we fail to qualify as a REIT in any taxable year, we will be subject to U.S. federal income tax as a regular corporation and could have significant tax liability.

We intend to operate in a manner that allows us to qualify as a REIT for U.S. federal income tax purposes. However, REIT qualification requires us to satisfy numerous requirements (some on an annual or quarterly basis) established under highly technical and complex provisions of the Internal Revenue Code, for which there are a limited number of judicial or administrative interpretations. Our status as a REIT requires an analysis of various factual matters and circumstances that are not entirely within our control. Accordingly, it is not certain we will be able to qualify and remain qualified as a REIT for U.S. federal income tax purposes. Even a technical or inadvertent violation of the REIT requirements could jeopardize our REIT qualification. Furthermore, Congress or the Internal Revenue Service ("IRS") might change the tax laws or regulations and the courts might issue new rulings, in each case potentially having retroactive effect that could make it more difficult or impossible for us to qualify as a REIT. If we fail to qualify as a REIT in any tax year, then:

- We would be taxed as a regular domestic corporation, which, among other things, means that we would be unable to deduct distributions to our shareholders in computing our taxable income and would be subject to U.S. federal income tax on our taxable income at regular corporate rates;
- Any resulting tax liability could be substantial and would reduce the amount of cash available for distribution to shareholders, and could force us to liquidate assets or take other actions that could have a detrimental effect on our operating results; and
- Unless we were entitled to relief under applicable statutory provisions, we would be disqualified from treatment as a REIT for the four taxable years following the year during which we lost our qualification, and our cash available for distribution to our shareholders would, therefore, be reduced for each of the years in which we do not qualify as a REIT.

Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow. We may also be subject to certain U.S. federal, state and local taxes on our income and property either directly or at the level of our subsidiaries. Any of these taxes would decrease cash available for distribution to our shareholders.

Compliance with REIT requirements may negatively affect our operating decisions.

To maintain our status as a REIT for U.S. federal income tax purposes, we must meet certain requirements, on an ongoing basis, including requirements regarding our sources of income, the nature and diversification of our assets, the amounts we distribute to our shareholders and the ownership of our common shares. We may also be required to make distributions to our shareholders when we do not have funds readily available for distribution or at times when our funds are otherwise needed to fund capital expenditures.

Table of Contents

As a REIT, we must distribute at least 90% of our annual net taxable income (excluding net capital gains) to our shareholders. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our net taxable income, we will be subject to U.S. federal corporate income tax on our undistributed taxable income. From time to time, we may generate taxable income greater than our income for financial reporting purposes, or our net taxable income may be greater than our cash flow available for distribution to our shareholders. If we do not have other funds available in these situations, we could be required to borrow funds, sell a portion of our securities at unfavorable prices or find other sources of funds in order to meet the REIT distribution requirements.

Dividends paid by REITs generally do not qualify for reduced tax rates.

Effective January 1, 2013, the maximum U.S. federal income tax rate for qualified dividends paid to individual U.S. shareholders is 20%. Unlike dividends received from a corporation that is not a REIT, our distributions to individual shareholders generally are not eligible for the reduced rates and are, consequently, taxed at ordinary income rates.

Our common shares dividend policy may change in the future.

The timing, amount and composition of any future dividends to our common shareholders will be at the sole discretion of our Board of Trust Managers and will depend upon a variety of factors as to which no assurance can be given. Our ability to make dividends to our common shareholders depends, in part, upon our operating results, overall financial condition, the performance of our portfolio (including occupancy levels and rental rates), our capital requirements, access to capital, our ability to qualify for taxation as a REIT and general business and market conditions. Any change in our dividend policy could have an adverse effect on the market price of our common shares.

Our declaration of trust contains certain limitations associated with share ownership.

To maintain our status as a REIT, our declaration of trust prohibits any individual from owning more than 9.8% of our outstanding common shares. This restriction is likely to discourage third parties from acquiring control without the consent of our Board of Trust Managers, even if a change in control were in the best interests of our shareholders. Also, our declaration of trust requires the approval of the holders of 80% of our outstanding common shares and the approval by not less than 50% of the outstanding common shares not owned by any related person (a person owning more than 50% of our common shares) to consummate a business transaction such as a merger. There are certain exceptions to this requirement; however, the 80% approval requirement could make it difficult for us to consummate a business transaction even if it is in the best interest of our shareholders.

There may be future dilution of our common shares.

Our declaration of trust authorizes our Board of Trust Managers to, among other things, issue additional common or preferred shares or securities convertible or exchangeable into equity securities, without shareholder approval. We may issue such additional equity or convertible securities to raise additional capital. The issuance of any additional common or preferred shares or convertible securities could be substantially dilutive to holders of our common shares. Moreover, to the extent that we issue restricted shares, options, or warrants to purchase our common shares in the future and those options or warrants are exercised or the restricted shares vest, our shareholders may experience further dilution. Holders of our common shares have no preemptive rights that entitle them to purchase a pro rata share of any offering of shares of any class or series and, therefore, such sales or offerings could result in increased dilution to our shareholders.

We may issue debt and equity securities or securities convertible into equity securities, any of which may be senior to our common shares as to distributions and in liquidation, which could negatively affect the value of our common shares.

In the future, we may attempt to increase our capital resources by entering into unsecured or secured debt or debt-like financings, or by issuing additional debt or equity securities, which could include issuances of medium-term notes, senior notes, subordinated notes, secured debt, guarantees, preferred shares, hybrid securities, or securities convertible into or exchangeable for equity securities. In the event of our liquidation, our lenders and holders of our debt and preferred securities would receive distributions of our available assets before distributions to the holders of our common shares. Because any decision to incur debt and issue securities in future offerings may be influenced by market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing, or nature of our future financings. Further, market conditions could require us to accept less favorable terms for the issuance of our securities in the future.

Table of Contents

Loss of our key personnel could adversely affect the value of our common shares and operations.

We are dependent on the efforts of our key executive personnel. Although we believe qualified replacements could be found for these key executives, the loss of their services could adversely affect the value of our common shares and operations.

Changes in accounting standards may adversely impact our financial condition and results of operations.

The Financial Accounting Standards Board ("FASB"), in conjunction with the SEC, has several key projects on their agenda that could impact how we currently account for our material transactions, including lease accounting and other convergence projects with the International Accounting Standards Board. We believe that these and other potential proposals could have varying degrees of impact on us ranging from minimal to material. At this time, we are unable to predict with certainty which, if any, proposals may be passed or what level of impact any such proposal could have on us.

Compliance with the Americans with Disabilities Act and fire, safety and other regulations may require us to make unintended expenditures that adversely affect our cash flows.

All of our properties are required to comply with the Americans with Disabilities Act ("ADA"). 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 noncompliance could result in imposition of fines by the U.S. government or an award of damages to private litigants, or both. While the tenants to whom we lease properties are obligated by law to comply with the ADA provisions, and typically under tenant leases are obligated to cover costs associated with compliance, if required changes involve 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. As a result, we could be required to expend funds to comply with the provisions of the ADA, which could adversely affect the results of operations and financial condition and our ability to make distributions to shareholders. In addition, we are required to operate the properties in compliance with fire and safety regulations, building codes and other land use regulations, as they may be adopted by governmental agencies and bodies and become applicable to the properties. We may be required to make substantial capital expenditures to comply with those requirements, and these expenditures could have a material adverse effect on our ability to meet the financial obligations and make distributions to our shareholders.

An uninsured loss or a loss that exceeds the policies on our properties could subject us to lost capital or revenue on those properties.

Under the terms and conditions of the leases currently in force on our properties, tenants generally are required to indemnify and hold us harmless from liabilities resulting from injury to persons, air, water, land or property, on or off the premises, due to activities conducted on the properties, except for claims arising from our negligence or intentional misconduct or that of our agents. Tenants are generally required, at the tenant's expense, to obtain and keep in full force during the term of the lease, liability and property damage insurance policies. We have obtained comprehensive liability, casualty, property, flood and rental loss insurance policies on our properties. All of these policies may involve substantial deductibles and certain exclusions. In addition, we cannot assure the shareholders that the tenants will properly maintain their insurance policies or have the ability to pay the deductibles. Should a loss occur that is uninsured or in an amount exceeding the combined aggregate limits for the policies noted above, or in the event of a loss that is subject to a substantial deductible under an insurance policy, we could lose all or part of our capital invested in, and anticipated revenue from, one or more of the properties, which could have a material adverse effect on our operating results and financial condition, as well as our ability to make distributions to the shareholders.

We may be subject to liability under environmental laws, ordinances and regulations.

Under various federal, state and local laws, ordinances and regulations, we may be considered an owner or operator of real property or have arranged for the disposal or treatment of hazardous or toxic substances. As a result, we may become liable for the costs of disposal or treatment of hazardous or toxic substances released on or in our property. We may also be liable for certain other potential costs that could relate to hazardous or toxic substances (including governmental fines and injuries to persons and property). We may incur such liability whether or not we knew of, or were responsible for, the presence of such hazardous or toxic substances.

Table of Contents

Natural disasters and severe weather conditions could have an adverse effect on our cash flow and operating results. Changing weather patterns and climatic conditions, such as global warming, may have added to the unpredictability and frequency of natural disasters in some parts of the world and created additional uncertainty as to future trends and exposures. Our operations are located in many areas that are subject to natural disasters and severe weather conditions such as hurricanes, tornadoes, earthquakes, droughts, floods and fires. The occurrence of natural disasters or severe weather conditions can delay new development projects, increase investment costs to repair or replace damaged properties, increase future property insurance costs, and negatively impact the tenant demand for lease space. If insurance is unavailable to us or is unavailable on acceptable terms, or if our insurance is not adequate to cover business interruption or losses from these events, our earnings, liquidity or capital resources could be adversely affected.

ITEM 1B. Unresolved Staff Comments

None.

Table of Contents

ITEM 2. Properties

At December 31, 2012, our real estate properties consisted of 294 locations in 21 states. A complete listing of these properties, including the name, location, building area and land area, is as follows (in square feet):

Center and Location	Building Total	Land Total
Retail		
Arizona		
Arrowhead Festival S.C., 75th Ave. at W. Bell Rd., Glendale	194,309	157,000
Broadway Marketplace, Broadway at Rural, Tempe	87,379	347,000
Camelback Village Square, Camelback at 7th Avenue, Phoenix	242,715	543,000
Desert Village, Pinnacle Peak Rd.at Pima Rd., Scottsdale	107,071	595,901
Entrada de Oro, Magee Road and Oracle Road, Tucson	109,075	572,000
Fountain Plaza, 77th St. at McDowell, Scottsdale	305,588	445,000
Laveen Village Market, Baseline Rd. at 51st St., Phoenix	318,805	372,274
Madera Village, Tanque Verde Rd. and Catalina Hwy., Tucson	106,858	419,000
Mohave Crossroads, Bullhead Parkway at State Route 95, Bullhead City	395,477	990,867
Monte Vista Village Center, Baseline Rd. at Ellsworth Rd., Mesa	108,551	353,000
Oracle Crossings, Oracle Highway and Magee Road, Tucson	261,194	1,307,000
Oracle Wetmore, Wetmore Road and Oracle Highway, Tucson	343,237	711,162
Palmilla Center, Dysart Rd. at McDowell Rd., Avondale	178,219	264,000
Pueblo Anozira, McClintock Dr. at Guadalupe Rd., Tempe	157,607	769,000
Raintree Ranch, Ray Rd. at Price Rd., Chandler	133,020	714,813
Rancho Encanto, 35th Avenue at Greenway Rd., Phoenix	72,170	246,440
Red Mountain Gateway, Power Rd. at McKellips Rd., Mesa	199,012	353,000
Scottsdale Horizon, Frank Lloyd Wright Blvd. and Thompson Peak Parkway, Scottsdale	148,383	61,000
Shoppes at Bears Path, Tanque Verde Rd. and Bear Canyon Rd., Tucson	66,131	362,000
Squaw Peak Plaza, 16th Street at Glendale Ave., Phoenix	60,728	220,000
The Shoppes at Parkwood Ranch, Southern Avenue and Signal Butte Road, Mesa	106,738	569,966
Valley Plaza, S. McClintock at E. Southern, Tempe	153,880	570,000
Arizona, Total	3,856,147	10,943,423
Arkansas		
Markham Square, W. Markham at John Barrow, Little Rock	125,884	514,000
Markham West, 11400 W. Markham, Little Rock	178,500	769,000
Westgate, Cantrell at Bryant, Little Rock	52,626	206,000
Arkansas, Total	357,010	1,489,000
California		
580 Market Place, E. Castro Valley at Hwy. I-580, Castro Valley	100,165	444,000
8000 Sunset Strip Shopping Center, Sunset Blvd. and Crescent Heights Blvd., Los Angeles	171,375	89,298
Arcade Square, Watt Ave. at Whitney Ave., Sacramento	76,497	234,000
Buena Vista Marketplace, Huntington Dr. at Buena Vista St., Duarte	115,340	322,000
Centerwood Plaza, Lakewood Blvd. at Alondra Dr., Bellflower	75,486	333,000
Chino Hills Marketplace, Chino Hills Pkwy. at Pipeline Ave., Chino Hills	310,991	1,187,000
Creekside Center, Alamo Dr. at Nut Creek Rd., Vacaville	114,445	400,000
Discovery Plaza, W. El Camino Ave. at Truxel Rd., Sacramento	93,398	417,000
El Camino Promenade, El Camino Real at Via Molena, Encinitas	129,676	451,000
Freedom Centre, Freedom Blvd. at Airport Blvd., Watsonville	150,241	543,000

Fremont Gateway Plaza, Paseo Padre Pkwy. at Walnut Ave., Fremont		361,701	650,000
Greenhouse Marketplace, Lewelling Blvd. at Washington Ave., San Leandro		236,832	578,000
Hallmark Town Center, W. Cleveland Ave. at Stephanie Ln., Madera		98,359	365,000
Jess Ranch Marketplace, Bear Valley Rd. at Jess Ranch Pkwy., Apple Valley	(1)(3)	307,937	920,423
Jess Ranch Phase III, Bear Valley Road at Jess Ranch Parkway, Apple Valley	(1)(3)	194,362	700,431

Table of Contents

Center and Location		Building Total	Land Total
Marshalls Plaza, McHenry at Sylvan Ave., Modesto		85,952	218,000
Menifee Town Center, Antelope Rd. at Newport Rd., Menifee		248,734	658,000
Prospectors Plaza, Missouri Flat Rd. at US Hwy. 50, Placerville		236,959	866,684
Rancho San Marcos Village, San Marcos Blvd. at Rancho Santa Fe Rd., San Marcos		132,689	541,000
San Marcos Plaza, San Marcos Blvd. at Rancho Santa Fe Rd., San Marcos		81,086	116,000
Shasta Crossroads (II), Churn Creek Rd. and State Hwy. 44, Redding	(1)(3)	90,663	252,783
Shasta Crossroads, Churn Creek Rd. at Dana Dr., Redding		176,866	520,000
Silver Creek Plaza, E. Capital Expressway at Silver Creek Blvd., San Jose		197,925	573,000
Southampton Center, IH-780 at Southampton Rd., Benecia		162,764	596,000
Stoneridge Town Centre, Highway 60 at Nason St., Moreno Valley	(1)(3)	431,272	1,104,246
Stony Point Plaza, Stony Point Rd. at Hwy. 12, Santa Rosa		200,571	619,000
Summerhill Plaza, Antelope Rd. at Lichen Dr., Sacramento		128,835	704,000
Sunset Center, Sunset Ave. at State Hwy. 12, Suisun City		98,279	359,000
Tully Corners Shopping Center, Tully Rd. at Quimby Rd., San Jose	(1)(3)	115,992	430,891
Valley, Franklin Blvd. and Mack Rd., Sacramento		107,005	580,000
Westminster Center, Westminster Blvd. at Golden West St., Westminster		425,690	1,739,000
California, Total		5,458,087	17,511,756
Colorado			