

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

FORM 10-Q

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

For the quarterly period ended June 30, 2019

or

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

For the transition period from _____ to _____

AMERICAN ASSETS TRUST, INC.

(Exact Name of Registrant as Specified in its Charter)

Commission file number: 001-35030

AMERICAN ASSETS TRUST, L.P.

(Exact Name of Registrant as Specified in its Charter)

Commission file number: 333-202342-01

Maryland (American Assets Trust, Inc.)
Maryland (American Assets Trust, L.P.)
(State or other jurisdiction of incorporation or organization)

27-3338708 (American Assets Trust, Inc.)
27-3338894 (American Assets Trust, L.P.)
(IRS Employer Identification No.)

1455 El Camino Real, Suite 200
San Diego California
(Address of Principal Executive Offices)

92130
(Zip Code)

(858) 350-2600
(Registrant's Telephone Number, Including Area Code)

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

American Assets Trust, Inc. Yes No
American Assets Trust, L.P. Yes No

(American Assets Trust, L.P. became subject to filing requirements under Section 13 of the Securities Exchange Act of 1934, as amended, upon effectiveness of its Registration Statement on Form S-3 on February 6, 2015 and has filed all required reports subsequent to that date.)

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files).

American Assets Trust, Inc. Yes No
American Assets Trust, L.P. Yes No

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

American Assets Trust, Inc.

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

Emerging growth company

American Assets Trust, L.P.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

American Assets Trust, Inc. Yes No

American Assets Trust, L.P. Yes No

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

<u>Name of Registrant</u>	<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
American Assets Trust, Inc.	Common Stock, par value \$0.01 per share	AAT	New York Stock Exchange
American Assets Trust, L.P.	None	None	None

American Assets Trust, Inc. had 59,722,158 shares of common stock, par value \$0.01 per share, outstanding as of August 2, 2019.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the quarter ended June 30, 2019 of American Assets Trust, Inc., a Maryland corporation, and American Assets Trust, L.P., a Maryland limited partnership, of which American Assets Trust, Inc. is the parent company and sole general partner. Unless otherwise indicated or unless the context requires otherwise, all references in this report to “we,” “us,” “our” or “the company” refer to American Assets Trust, Inc. together with its consolidated subsidiaries, including American Assets Trust, L.P. Unless otherwise indicated or unless the context requires otherwise, all references in this report to “our Operating Partnership” or “the Operating Partnership” refer to American Assets Trust, L.P. together with its consolidated subsidiaries.

American Assets Trust, Inc. operates as a real estate investment trust, or REIT, and is the sole general partner of the Operating Partnership. As of June 30, 2019, American Assets Trust, Inc. owned an approximate 78.4% partnership interest in the Operating Partnership. The remaining 21.6% partnership interests are owned by non-affiliated investors and certain of our directors and executive officers. As the sole general partner of the Operating Partnership, American Assets Trust, Inc. has full, exclusive and complete authority and control over the Operating Partnership’s day-to-day management and business, can cause it to enter into certain major transactions, including acquisitions, dispositions and refinancings, and can cause changes in its line of business, capital structure and distribution policies.

The company believes that combining the quarterly reports on Form 10-Q of American Assets Trust, Inc. and the Operating Partnership into a single report will result in the following benefits:

- better reflects how management and the analyst community view the business as a single operating unit;
- enhance investors' understanding of American Assets Trust, Inc. and the Operating Partnership by enabling them to view the business as a whole and in the same manner as management;
- greater efficiency for American Assets Trust, Inc. and the Operating Partnership and resulting savings in time, effort and expense; and
- greater efficiency for investors by reducing duplicative disclosure by providing a single document for their review.

Management operates American Assets Trust, Inc. and the Operating Partnership as one enterprise. The management of American Assets Trust, Inc. and the Operating Partnership are the same.

There are a few differences between American Assets Trust, Inc. and the Operating Partnership, which are reflected in the disclosures in this report. We believe it is important to understand the differences between American Assets Trust, Inc. and the Operating Partnership in the context of how American Assets Trust, Inc. and the Operating Partnership operate as an interrelated consolidated company. American Assets Trust, Inc. is a REIT, whose only material asset is its ownership of partnership interests of the Operating Partnership. As a result, American Assets Trust, Inc. does not conduct business itself, other than acting as the sole general partner of the Operating Partnership, issuing public equity from time to time and guaranteeing certain debt of the Operating Partnership. American Assets Trust, Inc. itself does not hold any indebtedness. The Operating Partnership holds substantially all the assets of the company, directly or indirectly holds the ownership interests in the company’s real estate ventures, conducts the operations of the business and is structured as a partnership with no publicly-traded equity. Except for net proceeds from public equity issuances by American Assets Trust, Inc., which are generally contributed to the Operating Partnership in exchange for partnership units, the Operating Partnership generates the capital required by the company’s business through the Operating Partnership’s operations, by the Operating Partnership’s direct or indirect incurrence of indebtedness or through the issuance of operating partnership units.

Noncontrolling interests and stockholders’ equity and partners’ capital are the main areas of difference between the consolidated financial statements of American Assets Trust, Inc. and those of American Assets Trust, L.P. The partnership interests in the Operating Partnership that are not owned by American Assets Trust, Inc. are accounted for as partners’ capital in the Operating Partnership’s financial statements and as noncontrolling interests in American Assets Trust, Inc.’s financial statements. To help investors understand the significant differences between the company and the Operating Partnership, this report presents the following separate sections for each of American Assets Trust, Inc. and the Operating Partnership:

- consolidated financial statements;
- the following notes to the consolidated financial statements:
 - Debt;
 - Equity/Partners' Capital; and
 - Earnings Per Share/Unit; and
- Liquidity and Capital Resources in Management's Discussion and Analysis of Financial Condition and Results of Operations.

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This report also includes separate Item 4. Controls and Procedures sections and separate Exhibit 31 and 32 certifications for each of American Assets Trust, Inc. and the Operating Partnership in order to establish that the Chief Executive Officer and the Chief Financial Officer of American Assets Trust, Inc. have made the requisite certifications and American Assets Trust, Inc. and the 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.

AMERICAN ASSETS TRUST, INC. AND AMERICAN ASSETS TRUST, L.P.

QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2019

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PART 1 - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2019 (unaudited)	December 31, 2018
ASSETS		
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
	<u>3,140,775</u>	<u>2,630,191</u>
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	<u><u>\$ 2,718,758</u></u>	<u><u>\$ 2,198,250</u></u>
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	<u>1,426,836</u>	<u>1,395,779</u>
Commitments and contingencies (Note 12)		
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	<u>1,309,744</u>	<u>802,977</u>
Noncontrolling interests	(17,822)	(506)
Total equity	<u>1,291,922</u>	<u>802,471</u>
TOTAL LIABILITIES AND EQUITY	<u><u>\$ 2,718,758</u></u>	<u><u>\$ 2,198,250</u></u>

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

American Assets Trust, Inc.
Consolidated Statements of Comprehensive Income
(Unaudited)
(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 (expense) income, 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
EARNINGS PER COMMON SHARE				
Earnings per common share, basic	\$ 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
Earnings per common share, diluted	\$ 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
COMPREHENSIVE INCOME				
Net income	\$ 11,941	\$ 4,413	\$ 27,184	\$ 3,722
Other comprehensive (loss) income - unrealized (loss) income on swap derivative during the period	(3,891)	875	(6,023)	3,736
Reclassification of amortization of forward-starting swap included in interest expense	(319)	(319)	(639)	(639)
Comprehensive income	7,731	4,969	20,522	6,819
Comprehensive income attributable to non-controlling interest	(1,820)	(1,271)	(5,218)	(1,773)
Comprehensive income attributable to American Assets Trust, Inc.	\$ 5,911	\$ 3,698	\$ 15,304	\$ 5,046

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

American Assets Trust, Inc.
Consolidated Statement of Equity
(Unaudited)
(In Thousands, Except Share Data)

	American Assets Trust, Inc. Stockholders' Equity					Noncontrolling Interests - Unitholders in the Operating Partnership	Total
	Common Shares		Additional Paid-in Capital	Accumulated Dividends in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)		
	Shares	Amount					
Balance at December 31, 2018	47,335,409	\$ 474	\$ 920,661	\$ (128,778)	\$ 10,620	\$ (506)	\$ 802,471
Net income	—	—	—	11,188	—	4,055	15,243
Common shares issued	162,531	1	7,033	—	—	—	7,034
Forfeiture of restricted stock	(11,046)	—	—	—	—	—	—
Dividends declared and paid	—	—	—	(13,251)	—	(4,810)	(18,061)
Stock-based compensation	—	—	1,098	—	—	—	1,098
Other comprehensive income - change in value of interest rate swaps	—	—	—	—	(1,561)	(571)	(2,132)
Reclassification of amortization of forward-starting swap included in interest expense	—	—	—	—	(234)	(86)	(320)
Balance at March 31, 2019	47,486,894	\$ 475	\$ 928,792	\$ (130,841)	\$ 8,825	\$ (1,918)	\$ 805,333
Net income	—	—	—	9,008	—	2,933	11,941
Common shares issued	11,444,382	114	495,866	—	—	—	495,980
Issuance of restricted stock	4,412	—	—	—	—	—	—
Conversion of operating partnership units	787,060	8	12,979	—	148	(13,135)	—
Dividends declared and paid	—	—	—	(13,664)	—	(4,589)	(18,253)
Stock-based compensation	—	—	1,131	—	—	—	1,131
Other comprehensive income - change in value of interest rate swaps	—	—	—	—	(2,857)	(1,034)	(3,891)
Reclassification of amortization of forward-starting swap included in interest expense	—	—	—	—	(240)	(79)	(319)
Balance at June 30, 2019	59,722,748	\$ 597	\$ 1,438,768	\$ (135,497)	\$ 5,876	\$ (17,822)	\$ 1,291,922

	American Assets Trust, Inc. Stockholders' Equity					Noncontrolling Interests - Unitholders in the Operating Partnership	Total
	Common Shares		Additional Paid-in Capital	Accumulated Dividends in Excess of Net Income	Accumulated Other Comprehensive Income (Loss)		
	Shares	Amount					
Balance at December 31, 2017	47,204,588	\$ 473	\$ 919,066	\$ (97,280)	\$ 11,451	\$ 10,434	\$ 844,144
Net loss	—	—	—	(525)	—	(166)	(691)
Forfeiture of restricted stock	(1,104)	—	—	—	—	—	—
Dividends declared and paid	—	—	—	(12,745)	—	(4,643)	(17,388)
Stock-based compensation	—	—	727	—	—	—	727
Other comprehensive income - change in value of interest rate swaps	—	—	—	—	2,107	754	2,861
Reclassification of amortization of forward-starting swap included in interest expense	—	—	—	—	(234)	(86)	(320)
Balance at March 31, 2018	47,203,484	\$ 473	\$ 919,793	\$ (110,550)	\$ 13,324	\$ 6,293	\$ 829,333
Net income	—	—	—	3,288	—	1,125	4,413
Issuance of restricted stock	5,320	—	—	—	—	—	—
Forfeiture of restricted stock	(2,208)	—	—	—	—	—	—
Conversion of operating partnership units	17,372	—	(916)	—	—	916	—
Dividends declared and paid	—	—	—	(12,746)	—	(4,642)	(17,388)
Stock-based compensation	—	—	727	—	—	—	727
Shares withheld for employee taxes	(159)	—	(6)	—	—	—	(6)
Other comprehensive income - change in value of interest rate swaps	—	—	—	—	643	232	875
Reclassification of amortization of forward-starting swap included in interest expense	—	—	—	—	(233)	(86)	(319)
Balance at June 30, 2018	47,223,809	\$ 473	\$ 919,598	\$ (120,008)	\$ 13,734	\$ 3,838	\$ 817,635

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

American Assets Trust, Inc.
Consolidated Statements of Cash Flows
(Unaudited)
(In Thousands)

	Six Months Ended June 30,	
	2019	2018
OPERATING ACTIVITIES		
Net income	\$ 27,184	\$ 3,722
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred rent revenue and amortization of lease intangibles	2,562	2,096
Depreciation and amortization	43,165	66,147
Amortization of debt issuance costs and debt fair value adjustments	724	806
Gain on sale of real estate	(633)	—
Stock-based compensation expense	2,229	1,454
Lease termination income	(4,518)	—
Other noncash interest expense	(639)	(639)
Other, net	(380)	1,495
Changes in operating assets and liabilities		
Change in accounts receivable	(177)	2,220
Change in other assets	1,305	755
Change in accounts payable and accrued expenses	3,453	1,749
Change in security deposits payable	(1,380)	2,142
Change in other liabilities and deferred credits	(2,726)	370
Net cash provided by operating activities	70,169	82,317
INVESTING ACTIVITIES		
Acquisition of real estate	(507,780)	—
Capital expenditures	(47,838)	(20,353)
Proceeds from sale of real estate, net of selling costs	8,191	—
Leasing commissions	(2,623)	(3,057)
Net cash used in investing activities	(550,050)	(23,410)
FINANCING ACTIVITIES		
Repayment of secured notes payable	(20,187)	(74,476)
Proceeds from unsecured line of credit	59,000	35,000
Repayment of unsecured line of credit	(28,000)	(13,000)
Debt issuance costs	(424)	(2,656)
Proceeds from issuance of common stock, net	503,014	(236)
Dividends paid to common stock and unitholders	(36,314)	(34,776)
Shares withheld for employee taxes	—	(6)
Net cash provided by (used in) financing activities	477,089	(90,150)
Net increase (decrease) in cash and cash equivalents	(2,792)	(31,243)
Cash, cash equivalents and restricted cash, beginning of period	57,272	91,954
Cash, cash equivalents and restricted cash, end of period	\$ 54,480	\$ 60,711

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total of the same amounts shown in the consolidated statement of cash flows:

	Six Months Ended June 30,	
	2019	2018
Cash and cash equivalents	\$ 44,778	\$ 51,326
Restricted cash	9,702	9,385
Total cash, cash equivalents and restricted cash shown in the consolidated statement of cash flows	\$ 54,480	\$ 60,711

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

American Assets Trust, L.P.
Consolidated Balance Sheets
(In Thousands, Except Unit Data)

	June 30, 2019	December 31, 2018
	(unaudited)	
ASSETS		
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 CAPITAL		
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	62,362	49,547
Total liabilities	1,426,836	1,395,779
Commitments and contingencies (Note 12)		
CAPITAL:		
Limited partners' capital, 16,390,548 and 17,177,608 units issued and outstanding as of June 30, 2019 and December 31, 2018, respectively	(19,875)	(4,477)
General partner's capital, 59,722,748 and 47,335,409 units issued and outstanding as of June 30, 2019 and December 31, 2018, respectively	1,303,868	792,357
Accumulated other comprehensive income	7,929	14,591
Total capital	1,291,922	802,471
TOTAL LIABILITIES AND CAPITAL	\$ 2,718,758	\$ 2,198,250

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

American Assets Trust, L.P.
Consolidated Statements of Comprehensive Income
(Unaudited)
(In Thousands, Except Shares and Per Unit 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 (expense) income, 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 AMERICAN ASSETS TRUST, L.P.	<u>\$ 11,849</u>	<u>\$ 4,197</u>	<u>\$ 26,999</u>	<u>\$ 3,578</u>
EARNINGS PER UNIT - BASIC				
Earnings per unit, basic	<u>\$ 0.18</u>	<u>\$ 0.07</u>	<u>\$ 0.41</u>	<u>\$ 0.06</u>
Weighted average units outstanding - basic	<u>66,889,784</u>	<u>64,132,520</u>	<u>65,543,409</u>	<u>64,131,665</u>
EARNINGS PER UNIT - DILUTED				
Earnings per unit, diluted	<u>\$ 0.18</u>	<u>\$ 0.07</u>	<u>\$ 0.41</u>	<u>\$ 0.06</u>
Weighted average units outstanding - diluted	<u>66,889,784</u>	<u>64,132,520</u>	<u>65,543,409</u>	<u>64,131,665</u>
DISTRIBUTIONS PER UNIT				
	<u>\$ 0.28</u>	<u>\$ 0.27</u>	<u>\$ 0.56</u>	<u>\$ 0.54</u>
COMPREHENSIVE INCOME				
Net income	\$ 11,941	\$ 4,413	\$ 27,184	\$ 3,722
Other comprehensive income (loss) - unrealized income (loss) on swap derivative during the period	(3,891)	875	(6,023)	3,736
Reclassification of amortization of forward-starting swap included in interest expense	(319)	(319)	(639)	(639)
Comprehensive income	7,731	4,969	20,522	6,819
Comprehensive income attributable to Limited Partners	(1,820)	(1,271)	(5,218)	(1,773)
Comprehensive income attributable to General Partner	<u>\$ 5,911</u>	<u>\$ 3,698</u>	<u>\$ 15,304</u>	<u>\$ 5,046</u>

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

American Assets Trust, L.P.
Consolidated Statement of Partners' Capital
(Unaudited)
(In Thousands, Except Unit Data)

	Limited Partners' Capital ⁽¹⁾		General Partner's Capital ⁽²⁾		Accumulated Other Comprehensive Income (Loss)	Total Capital
	Units	Amount	Units	Amount		
Balance at December 31, 2018	17,177,608	\$ (4,477)	47,335,409	\$ 792,357	\$ 14,591	\$ 802,471
Net income	—	4,055	—	11,188	—	15,243
Contributions from American Assets Trust, Inc.	—	—	162,531	7,034	—	7,034
Forfeiture of restricted units	—	—	(11,046)	—	—	—
Distributions	—	(4,810)	—	(13,251)	—	(18,061)
Stock-based compensation	—	—	—	1,098	—	1,098
Other comprehensive income - change in value of interest rate swap	—	—	—	—	(2,132)	(2,132)
Reclassification of amortization of forward-starting swap included in interest expense	—	—	—	—	(320)	(320)
Balance at March 31, 2019	17,177,608	\$ (5,232)	47,486,894	\$ 798,426	\$ 12,139	\$ 805,333
Net income	—	2,933	—	9,008	—	11,941
Contributions from American Assets Trust, Inc.	—	—	11,444,382	495,980	—	495,980
Issuance of restricted units	—	—	4,412	—	—	—
Conversion of operating partnership units	(787,060)	(12,987)	787,060	12,987	—	—
Distributions	—	(4,589)	—	(13,664)	—	(18,253)
Stock-based compensation	—	—	—	1,131	—	1,131
Other comprehensive income - change in value of interest rate swap	—	—	—	—	(3,891)	(3,891)
Reclassification of amortization of forward-starting swap included in interest expense	—	—	—	—	(319)	(319)
Balance at June 30, 2019	16,390,548	\$ (19,875)	59,722,748	\$ 1,303,868	\$ 7,929	\$ 1,291,922

	Limited Partners' Capital ⁽¹⁾		General Partner's Capital ⁽²⁾		Accumulated Other Comprehensive Income (Loss)	Total Capital
	Units	Amount	Units	Amount		
Balance at December 31, 2017	17,194,980	\$ 6,135	47,204,588	\$ 822,259	\$ 15,750	\$ 844,144
Net loss	—	(166)	—	(525)	—	(691)
Forfeiture of restricted units	—	—	(1,104)	—	—	—
Distributions	—	(4,643)	—	(12,745)	—	(17,388)
Stock-based compensation	—	—	—	727	—	727
Other comprehensive income - change in value of interest rate swap	—	—	—	—	2,861	2,861
Reclassification of amortization of forward-starting swap included in interest expense	—	—	—	—	(320)	(320)
Balance at March 31, 2018	17,194,980	\$ 1,326	47,203,484	\$ 809,716	\$ 18,291	\$ 829,333
Net income	—	1,125	—	3,288	—	4,413
Issuance of restricted units	—	—	5,320	—	—	—
Forfeiture of restricted units	—	—	(2,208)	—	—	—
Conversion of operating partnership units	(17,372)	916	17,372	(916)	—	—
Distributions	—	(4,642)	—	(12,746)	—	(17,388)
Stock-based compensation	—	—	—	727	—	727
Units withheld for employee taxes	—	—	(159)	(6)	—	(6)
Other comprehensive income - change in value of interest rate swap	—	—	—	—	875	875
Reclassification of amortization of forward-starting swap included in interest expense	—	—	—	—	(319)	(319)
Balance at June 30, 2018	17,177,608	\$ (1,275)	47,223,809	\$ 800,063	\$ 18,847	\$ 817,635

(1) Consists of limited partnership interests held by third parties.

(2) Consists of general partnership interests held by American Assets Trust, Inc.

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

American Assets Trust, L.P.
Consolidated Statements of Cash Flows
(Unaudited, In Thousands)

	Six Months Ended June 30,	
	2019	2018
OPERATING ACTIVITIES		
Net income	\$ 27,184	\$ 3,722
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Deferred rent revenue and amortization of lease intangibles	2,562	2,096
Depreciation and amortization	43,165	66,147
Amortization of debt issuance costs and debt fair value adjustments	724	806
Gain on sale of real estate	(633)	—
Stock-based compensation expense	2,229	1,454
Lease termination income	(4,518)	—
Other noncash interest expense	(639)	(639)
Other, net	(380)	1,495
Changes in operating assets and liabilities		
Change in accounts receivable	(177)	2,220
Change in other assets	1,305	755
Change in accounts payable and accrued expenses	3,453	1,749
Change in security deposits payable	(1,380)	2,142
Change in other liabilities and deferred credits	(2,726)	370
Net cash provided by operating activities	70,169	82,317
INVESTING ACTIVITIES		
Acquisition of real estate	(507,780)	—
Capital expenditures	(47,838)	(20,353)
Proceeds from sale of real estate, net of selling costs	8,191	—
Leasing commissions	(2,623)	(3,057)
Net cash used in investing activities	(550,050)	(23,410)
FINANCING ACTIVITIES		
Repayment of secured notes payable	(20,187)	(74,476)
Proceeds from unsecured line of credit	59,000	35,000
Repayment of unsecured line of credit	(28,000)	(13,000)
Debt issuance costs	(424)	(2,656)
Contributions from American Assets Trust, Inc.	503,014	(236)
Distributions	(36,314)	(34,776)
Shares withheld for employee taxes	—	(6)
Net cash provided by (used in) financing activities	477,089	(90,150)
Net increase (decrease) in cash and cash equivalents	(2,792)	(31,243)
Cash, cash equivalents and restricted cash, beginning of period	57,272	91,954
Cash, cash equivalents and restricted cash, end of period	\$ 54,480	\$ 60,711

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total of the same amounts shown in the consolidated statement of cash flows:

	Six Months Ended June 30,	
	2019	2018
Cash and cash equivalents	\$ 44,778	\$ 51,326
Restricted cash	9,702	9,385
Total cash, cash equivalents and restricted cash shown in the consolidated statement of cash flows	\$ 54,480	\$ 60,711

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

American Assets Trust, Inc. and American Assets Trust, L.P.

Notes to Consolidated Financial Statements

June 30, 2019

(Unaudited)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***Business and Organization***

American Assets Trust, Inc. (which may be referred to in these financial statements as the “Company,” “we,” “us,” or “our”) is a Maryland corporation formed on July 16, 2010 that did not have any operating activity until the consummation of our initial public offering on January 19, 2011. The Company is the sole general partner of American Assets Trust, L.P., a Maryland limited partnership formed on July 16, 2010 (the “Operating Partnership”). The Company’s operations are carried on through our Operating Partnership and its subsidiaries, including our taxable real estate investment trust (“REIT”) subsidiary (“TRS”). Since the formation of our Operating Partnership, the Company has controlled our Operating Partnership as its general partner and has consolidated its assets, liabilities and results of operations.

We are a full service, vertically integrated, and self-administered REIT with approximately 197 employees providing substantial in-house expertise in asset management, property management, property development, leasing, tenant improvement construction, acquisitions, repositioning, redevelopment and financing.

As of June 30, 2019, we owned or had a controlling interest in 28 office, retail, multifamily and mixed-use operating properties, the operations of which we consolidate. Additionally, as of June 30, 2019, we owned land at three of our properties that we classify as held for development and/or construction in progress. A summary of the properties owned by us is as follows:

Retail

Carmel Country Plaza	Gateway Marketplace	Alamo Quarry Market
Carmel Mountain Plaza	Del Monte Center	Hassalo on Eighth - Retail
South Bay Marketplace	Geary Marketplace	
Lomas Santa Fe Plaza	The Shops at Kalakaua	
Solana Beach Towne Centre	Waialele Center	

Office

La Jolla Commons	One Beach Street
Torrey Reserve Campus	First & Main
Torrey Point	Lloyd District Portfolio
Solana Crossing (formerly Solana Beach Corporate Centre)	City Center Bellevue
The Landmark at One Market	

Multifamily

Loma Palisades	Hassalo on Eighth - Residential
Imperial Beach Gardens	
Mariner's Point	
Santa Fe Park RV Resort	
Pacific Ridge Apartments	

Mixed-Use

Waikiki Beach Walk Retail and Embassy Suites™ Hotel

Held for Development and/or Construction in Progress

La Jolla Commons – Land
 Solana Crossing – Land
 Lloyd District Portfolio – Construction in Progress

American Assets Trust, Inc. and American Assets Trust, L.P.

Notes to Consolidated Financial Statements—(Continued)

June 30, 2019

(Unaudited)

Basis of Presentation

Our consolidated financial statements include the accounts of the Company, our Operating Partnership and our subsidiaries. The equity interests of other investors in our Operating Partnership are reflected as noncontrolling interests.

All significant intercompany transactions and balances are eliminated in consolidation.

The accompanying consolidated financial statements of the Company and the Operating Partnership have been prepared in accordance with the rules applicable to Form 10-Q and include all information and footnotes required for interim financial statement presentation, but do not include all disclosures required under accounting principles generally accepted in the United States (“GAAP”) for annual financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments, except as otherwise noted) considered necessary for a fair presentation have been included. These financial statements should be read in conjunction with the audited consolidated financial statements and notes therein included in the Company's and Operating Partnership's annual report on Form 10-K for the year ended December 31, 2018.

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that in certain circumstances affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and revenues and expenses. These estimates are prepared using our best judgment, after considering past, current and expected events and economic conditions. Actual results could differ from these estimates.

Any reference to the number of properties, number of units, square footage, employee numbers or percentages of beneficial ownership of our shares are unaudited and outside the scope of our independent registered public accounting firm's review of our financial statements in accordance with the standards of the United States Public Company Accounting Oversight Board.

Consolidated Statements of Cash Flows—Supplemental Disclosures

The following table provides supplemental disclosures related to the Consolidated Statements of Cash Flows (in thousands):

	Six Months Ended June 30,	
	2019	2018
Supplemental cash flow information		
Total interest costs incurred	\$ 26,808	\$ 27,419
Interest capitalized	\$ 330	\$ 911
Interest expense	\$ 26,478	\$ 26,508
Cash paid for interest, net of amounts capitalized	\$ 26,574	\$ 26,926
Cash paid for income taxes	\$ 601	\$ 337
Supplemental schedule of noncash investing and financing activities		
Accounts payable and accrued liabilities for construction in progress	\$ 12,245	\$ 8,156
Accrued leasing commissions	\$ 7,963	\$ 2,735
Reduction to capital for prepaid offering costs	\$ —	\$ 236

Significant Accounting Policies

We describe our significant accounting policies in Note 1 to the consolidated financial statements in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2018. Except for the adoption of the accounting standards during the first quarter of 2019 as discussed below, there have been no changes to our significant accounting policies during the six months ended June 30, 2019.

Segment Information

Segment information is prepared on the same basis that our chief operating decision maker reviews information for operational decision-making purposes. We operate in four business segments: the acquisition, redevelopment, ownership and management of retail real estate, office real estate, multifamily real estate and mixed-use real estate. The products for our retail segment primarily include rental of retail space and other tenant services, including tenant reimbursements, parking and storage

American Assets Trust, Inc. and American Assets Trust, L.P.**Notes to Consolidated Financial Statements—(Continued)****June 30, 2019****(Unaudited)**

space rental. The products for our office segment primarily include rental of office space and other tenant services, including tenant reimbursements, parking and storage space rental. The products for our multifamily segment include rental of apartments and other tenant services. The products of our mixed-use segment include rental of retail space and other tenant services, including tenant reimbursements, parking and storage space rental and operation of a 369-room all-suite hotel.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)*, which provides the principles for the recognition, measurement, presentation and disclosure of leases. This ASU significantly changes the accounting for leases by requiring lessees to recognize assets and liabilities for leases greater than 12 months on their balance sheet. The lessor model stays substantially the same; however, there were modifications to conform lessor accounting with the lessee model, eliminate real estate specific guidance, further define certain lease and non-lease components, and change the definition of initial direct costs of leases requiring significantly more leasing related costs to be expensed upfront.

We adopted the provisions of ASU No. 2016-02 effective January 1, 2019 using the modified retrospective approach. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which allows lessors to elect a practical expedient by class of underlying assets to not separate non-lease components from the lease component if certain conditions are met. The lessor's practical expedient election would be limited to circumstances in which the non-lease components otherwise would be accounted for under the new revenue guidance and both (i) the timing and pattern of transfer are the same for the non-lease component and the related lease component and (ii) the lease component would be classified as an operating lease. The Company elected the practical expedient, which allows the Company the ability to combine the lease and non-lease components if the underlying asset meets the criteria above. Due to our election of the practical expedient approach, for the three and six months ended June 30, 2019 approximately \$8.6 million and \$16.4 million of non-lease components are combined with lease rental income. ASU 2018-11 also includes an optional transition method in addition to the existing requirements for transition to the new standard by recognizing a cumulative effect adjustment to the opening balance sheet of retained earnings in the period of adoption. Consequently, a company's reporting for the comparative periods presented in the financial statements would continue to be in accordance with previous GAAP (Topic 840). The Company elected this practical expedient as well. Further, bad debt expense, which has previously been recorded in rental expenses, has now been classified as a contra-revenue account in rental income in the Company's consolidated statements of comprehensive income.

We evaluated all leases within this scope under existing accounting standards and under the new ASU lease standard recognized approximately \$7.7 million of right-of-use assets and lease liabilities. Approximately \$0.8 million of deferred rent expense was reclassified to lease liability within the other liabilities and deferred credits, net.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. The pronouncement was issued to clarify the principles for recognizing revenue and to develop a common revenue standard and disclosure requirements for U.S. GAAP and International Financial Reporting Standards. The pronouncement is effective for reporting periods beginning after December 15, 2017. We adopted the provisions of the ASU effective January 1, 2018 using the modified retrospective approach. As discussed above, leases are specifically excluded from this and are governed by the applicable lease codification.

We evaluated the revenue recognition for all contracts within this scope under existing accounting standards and under the new revenue recognition ASU and confirmed that there were no differences in the amounts recognized or the pattern of recognition. This evaluation included revenues from the hotel portion of our mixed-use property, parking income and excise taxes charged to customers. Therefore, the adoption of this ASU did not result in an adjustment to our retained earnings on January 1, 2018.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Topics*. The pronouncement requires companies to adopt a new approach to estimating credit losses on certain types of financial instruments, such as trade and other receivables and loans. The standard requires entities to estimate a lifetime expected credit loss for most financial instruments, including trade receivables. The pronouncement is effective for fiscal years and for interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. We continue to evaluate the impact this pronouncement will have on our consolidated financial statements.

American Assets Trust, Inc. and American Assets Trust, L.P.

Notes to Consolidated Financial Statements—(Continued)

June 30, 2019

(Unaudited)

NOTE 2. REAL ESTATE

Dispositions

On May 22, 2019, we sold Solana Beach – Highway 101. The property is located in Solana Beach, California and was previously included in our retail segment. The sales price of this property was approximately \$9.4 million, less costs to sell, resulted in net proceeds to us of approximately \$9.4 million. Accordingly, we recorded a gain on sale of approximately \$0.6 million for the three and six months ended June 30, 2019.

Property Asset Acquisitions

On June 20, 2019, we acquired La Jolla Commons, consisting of two office towers totaling approximately 724,000 square feet, an entitled development parcel and two parking structures, located in San Diego, California. The purchase price was approximately \$525 million, less seller credits of (i) approximately \$11.5 million for speculative lease-up, (ii) approximately \$4.2 million for assumed contractual liabilities (iii) and approximately \$1.7 million for closing prorations, excluding closing costs of approximately \$0.2 million. The property was acquired with proceeds from an underwritten public offering and borrowings under the Company's Second Amended and Restated Credit Facility (defined herein).

The financial information set forth below summarizes the Company's purchase price allocation for La Jolla Commons during the six months ended June 30, 2019 (in thousands):

	La Jolla Commons	
Land	\$	82,759
Building		361,471
Land improvements		1,359
Furniture, fixtures, and equipment		30,822
Total real estate		476,411
Lease intangibles		40,082
Prepaid expenses and other assets		13
Assets acquired	\$	516,506
Accounts payable and accrued expenses	\$	3,578
Security deposits payable		443
Other liabilities and deferred credits		3,817
Liabilities assumed	\$	7,838

The value allocated to lease intangibles is amortized over the related lease term as depreciation and amortization expense in the statement of income. The remaining weighted average amortization period as of June 30, 2019, is 8.7 years.

Pro Forma Financial Information

The pro forma financial information set forth below is based upon the Company's historical consolidated statements of operations for the six months ended June 30, 2019 and 2018, adjusted to give effect to the acquisition of La Jolla Commons, described above, as if such transaction had been completed on January 1, 2018. The pro forma financial information set forth below is presented for informational purposes only and may not be indicative of what actual results of operations would have been had the transactions occurred at the beginning of 2018, nor does it purport to represent the results of future operations (in thousands):

American Assets Trust, Inc. and American Assets Trust, L.P.
Notes to Consolidated Financial Statements—(Continued)
June 30, 2019
(Unaudited)

	Six Months Ended June 30, 2019		Six Months Ended June 30, 2018	
	As Reported	ProForma	As Reported	ProForma
Total revenue	\$ 169,432	\$ 185,876	\$ 165,755	\$ 184,359
Total operating expenses	\$ 116,124	\$ 128,236	\$ 135,586	\$ 150,861
Operating income	\$ 53,308	\$ 57,640	\$ 30,169	\$ 33,498
Net income	\$ 27,184	\$ 30,888	\$ 3,722	\$ 6,524

The following table summarizes the operating results for La Jolla Commons included in the Company's historical consolidated statement of operations and in the Office segment for the period of acquisition through June 30, 2019 (in thousands):

	June 20, 2019 through June 30, 2019	
Revenues	\$	1,168
Operating expenses	\$	1,996
Operating income	\$	(828)
Net income attributable to American Assets Trust, Inc.	\$	(828)

NOTE 3. ACQUIRED IN-PLACE LEASES AND ABOVE/BELOW MARKET LEASES

The following summarizes our acquired lease intangibles and leasing costs, which are included in other assets and other liabilities and deferred credits, as of June 30, 2019 and December 31, 2018 (in thousands):

	June 30, 2019	December 31, 2018
In-place leases	\$ 69,232	\$ 40,884
Accumulated amortization	(34,575)	(34,603)
Above market leases	9,680	11,963
Accumulated amortization	(9,431)	(11,445)
Acquired lease intangible assets, net	\$ 34,906	\$ 6,799
Below market leases	\$ 65,198	\$ 63,172
Accumulated accretion	(37,614)	(37,220)
Acquired lease intangible liabilities, net	\$ 27,584	\$ 25,952

NOTE 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

A fair value measurement is based on the assumptions that market participants would use in pricing an asset or liability. The hierarchy for inputs used in measuring fair value is as follows:

1. Level 1 Inputs—quoted prices in active markets for identical assets or liabilities
2. Level 2 Inputs—observable inputs other than quoted prices in active markets for identical assets and liabilities
3. Level 3 Inputs—unobservable inputs

Except as disclosed below, the carrying amounts of our financial instruments approximate their fair value. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

American Assets Trust, Inc. and American Assets Trust, L.P.
Notes to Consolidated Financial Statements—(Continued)
June 30, 2019
(Unaudited)

We measure the fair value of our deferred compensation liability, which is included in other liabilities and deferred credits on the consolidated balance sheet, on a recurring basis using Level 2 inputs. We measure the fair value of this liability based on prices provided by independent market participants that are based on observable inputs using market-based valuation techniques.

The fair value of the interest rate swap agreements are based on the estimated amounts we would receive or pay to terminate the contract at the reporting date and are determined using interest rate pricing models and interest rate related observable inputs. The effective portion of changes in the fair value of the derivatives that are designated as cash flow hedges are being recorded in accumulated other comprehensive income (loss) and will be subsequently reclassified into earnings during the period in which the hedged forecasted transaction affects earnings.

We incorporate credit valuation adjustments to appropriately reflect both our own non-performance risk and the respective counterparty's non-performance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of non-performance risk, we considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of June 30, 2019 we have assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative position and have determined that the credit valuation adjustments are not significant to the overall valuation of our derivative. As a result, we have determined that our derivative valuation in its entirety is classified in Level 2 of the fair value hierarchy.

A summary of our financial liabilities that are measured at fair value on a recurring basis, by level within the fair value hierarchy is as follows (in thousands):

	June 30, 2019				December 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Deferred compensation liability	\$ —	\$ 1,494	\$ —	\$ 1,494	\$ —	\$ 1,424	\$ —	\$ 1,424
Interest rate swap asset	\$ —	\$ 961	\$ —	\$ 961	\$ —	\$ 6,002	\$ —	\$ 6,002
Interest rate swap liability	\$ —	\$ 1,783	\$ —	\$ 1,783	\$ —	\$ 801	\$ —	\$ 801

The fair value of our secured notes payable and unsecured senior guaranteed notes are sensitive to fluctuations in interest rates. Discounted cash flow analysis using observable market interest rates (Level 2) is generally used to estimate the fair value of our secured notes payable, using rates ranging from 3.3% to 4.2%.

Considerable judgment is necessary to estimate the fair value of financial instruments. The estimates of fair value presented herein are not necessarily indicative of the amounts that could be realized upon disposition of the financial instruments. The carrying values of our revolving line of credit and term loan set forth below are deemed to be at fair value since the outstanding debt is directly tied to monthly LIBOR contracts. A summary of the carrying amount and fair value of our secured financial instruments, all of which are based on Level 2 inputs, is as follows (in thousands):

	June 30, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Secured notes payable, net	\$ 162,426	\$ 167,201	\$ 182,572	\$ 183,253
Unsecured term loans, net	\$ 248,617	\$ 250,000	\$ 248,765	\$ 250,000
Unsecured senior guaranteed notes, net	\$ 797,331	\$ 818,958	\$ 797,098	\$ 790,267
Unsecured line of credit, net	\$ 93,540	\$ 95,000	\$ 62,337	\$ 64,000

American Assets Trust, Inc. and American Assets Trust, L.P.

Notes to Consolidated Financial Statements—(Continued)

June 30, 2019

(Unaudited)

NOTE 5. DERIVATIVE AND HEDGING ACTIVITIES

Our objectives in using interest rate derivatives are to add stability to interest expense and to manage our exposure to interest rate movements. To accomplish these objectives, we primarily use interest rate swaps as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty in exchange for us making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

On June 20, 2019, we entered into a treasury lock contract (the "June 2019 Treasury Lock") with Wells Fargo Bank, N.A., to reduce the interest rate variability exposure of the projected interest cash flows of our then prospective eleven-year private placement. The treasury lock contract has a notional amount of \$100 million, termination date of July 31, 2019, a fixed pay rate of 1.9925%, and a receive rate equal to the ten years treasury rate on the settlement date.

On July 17, 2019, we settled the June 2019 Treasury Lock, resulting in a gain of approximately \$0.5 million, this gain will be included in accumulated other comprehensive income and will be amortized to interest expense over ten years. The treasury lock contract has been deemed to be a highly effective cash flow hedge and we elected to designate the treasury lock contract as an accounting hedge.

The following is a summary of the terms of our outstanding interest rate swaps as of June 30, 2019 (dollars in thousands):

Swap Counterparty	Notional Amount	Effective Date	Maturity Date	Fair Value
Bank of America, N.A.	\$ 100,000	1/9/2019	1/9/2021	\$ (1,783)
U.S. Bank N.A.	\$ 100,000	3/1/2016	3/1/2023	\$ 606
Wells Fargo Bank, N.A.	\$ 50,000	5/2/2016	3/1/2023	\$ 325
Wells Fargo Bank, N.A.	\$ 100,000	6/20/2019	7/31/2019	\$ 30

The effective portion of changes in the fair value of the derivatives that are designated as cash flow hedges are being recorded in accumulated other comprehensive income and will be subsequently reclassified into earnings during the period in which the hedged forecasted transaction affects earnings for as long as hedged cash flows remain probable. During the next twelve months, we estimate that \$1.3 million will be reclassified as a decrease to interest expense.

The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the derivative. This analysis reflects the contractual terms of the derivative, including the period to maturity, counter party credit risk and uses observable market-based inputs, including interest rate curves, and implied volatilities. The fair value of the interest rate swap is determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

American Assets Trust, Inc. and American Assets Trust, L.P.

Notes to Consolidated Financial Statements—(Continued)

June 30, 2019

(Unaudited)

NOTE 6. OTHER ASSETS

Other assets consist of the following (in thousands):

	June 30, 2019	December 31, 2018
Leasing commissions, net of accumulated amortization of \$29,584 and \$28,597, respectively	\$ 42,008	\$ 28,796
Interest rate swap asset	961	6,002
Acquired above market leases, net	249	518
Acquired in-place leases, net	34,657	6,281
Lease incentives, net of accumulated amortization of \$431 and \$299, respectively	598	747
Other intangible assets, net of accumulated amortization of \$1,061 and \$981, respectively	3,014	2,994
Right-of-use lease asset	6,278	—
Prepaid expenses and other	5,388	6,683
Total other assets	\$ 93,153	\$ 52,021

NOTE 7. OTHER LIABILITIES AND DEFERRED CREDITS

Other liabilities and deferred credits consist of the following (in thousands):

	June 30, 2019	December 31, 2018
Acquired below market leases, net	\$ 27,584	\$ 25,952
Prepaid rent and deferred revenue	10,650	11,634
Interest rate swap liability	1,783	801
Deferred rent expense and lease intangible	37	2,210
Deferred compensation	1,494	1,424
Deferred tax liability	95	93
Straight-line rent liability	13,725	7,393
Lease liability	6,942	—
Other liabilities	52	40
Total other liabilities and deferred credits, net	\$ 62,362	\$ 49,547

Straight-line rent liability relates to leases which have rental payments that decrease over time or one-time upfront payments for which the rental revenue is deferred and recognized on a straight-line basis.

NOTE 8. DEBT***Debt of American Assets Trust, Inc.***

American Assets Trust, Inc. does not hold any indebtedness. All debt is held directly or indirectly by the Operating Partnership; however, American Assets Trust, Inc. has guaranteed the Operating Partnership's obligations under the (i) amended and restated credit facility, (ii) term loans, and (iii) senior guaranteed notes. Additionally, American Assets Trust, Inc. has provided carve-out guarantees on certain property-level mortgage debt.

American Assets Trust, Inc. and American Assets Trust, L.P.

Notes to Consolidated Financial Statements—(Continued)

June 30, 2019

(Unaudited)

*Debt of American Assets Trust, L.P.***Secured notes payable**

The following is a summary of our total secured notes payable outstanding as of June 30, 2019 and December 31, 2018 (in thousands):

Description of Debt	Principal Balance as of		Stated Interest Rate as of June 30, 2019	Stated Maturity Date
	June 30, 2019	December 31, 2018		
Torrey Reserve—North Court ⁽¹⁾⁽²⁾	—	19,620	7.22%	June 1, 2019
Torrey Reserve—VCI, VCII, VCIII ⁽²⁾	6,567	6,635	6.36%	June 1, 2020
Solana Crossing I-II ⁽²⁾	10,387	10,502	5.91%	June 1, 2020
Solana Beach Towne Centre ⁽²⁾	34,625	35,008	5.91%	June 1, 2020
City Center Bellevue ⁽³⁾	111,000	111,000	3.98%	November 1, 2022
	162,579	182,765		
Debt issuance costs, net of accumulated amortization of \$420 and \$671, respectively	(153)	(193)		
Total Secured Notes Payable Outstanding	\$ 162,426	\$ 182,572		

(1) Loan repaid in full, without premium or penalty, on March 1, 2019.

(2) Principal payments based on a 30-year amortization schedule.

(3) Interest only.

Certain loans require us to comply with various financial covenants. As of June 30, 2019, the Operating Partnership was in compliance with these financial covenants.

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Notes to Consolidated Financial Statements—(Continued)
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Unsecured notes payable

The following is a summary of the Operating Partnership's total unsecured notes payable outstanding as of June 30, 2019 and December 31, 2018 (in thousands):

Description of Debt	Principal Balance as of		Stated Interest Rate	
	June 30, 2019	December 31, 2018	as of June 30, 2019	Stated Maturity Date
Term Loan A	\$ 100,000	\$ 100,000	Variable ⁽¹⁾	January 9, 2021
Senior Guaranteed Notes, Series A	150,000	150,000	4.04% ⁽²⁾	October 31, 2021
Term Loan B	100,000	100,000	Variable ⁽³⁾	March 1, 2023
Term Loan C	50,000	50,000	Variable ⁽⁴⁾	March 1, 2023
Senior Guaranteed Notes, Series F	100,000	100,000	3.78% ⁽⁵⁾	July 19, 2024
Senior Guaranteed Notes, Series B	100,000	100,000	4.45%	February 2, 2025
Senior Guaranteed Notes, Series C	100,000	100,000	4.50%	April 1, 2025
Senior Guaranteed Notes, Series D	250,000	250,000	4.29% ⁽⁶⁾	March 1, 2027
Senior Guaranteed Notes, Series E	100,000	100,000	4.24% ⁽⁷⁾	May 23, 2029
	<u>1,050,000</u>	<u>1,050,000</u>		
Debt issuance costs, net of accumulated amortization of \$7,324 and \$6,844, respectively	(4,051)	(4,137)		
Total Unsecured Notes Payable	\$ 1,045,949	\$ 1,045,863		

- (1) The Operating Partnership has entered into an interest rate swap agreement that is intended to fix the interest rate associated with Term Loan A at approximately 4.13% through its stated maturity date, subject to adjustments based on our consolidated leverage ratio.
- (2) The Operating Partnership entered into a one-month forward-starting seven years swap contract on August 19, 2014, which was settled on September 19, 2014 at a gain of approximately \$1.6 million. The forward-starting seven-year swap contract was deemed to be a highly effective cash flow hedge, accordingly, the effective interest rate is approximately 3.88% per annum.
- (3) The Operating Partnership has entered into an interest rate swap agreement that is intended to fix the interest rate associated with Term Loan B at approximately 3.15% through its maturity date, subject to adjustments based on our consolidated leverage ratio. Effective March 1, 2018, the effective interest rate associated with Term Loan B is approximately 2.75%, subject to adjustments based on our consolidated leverage ratio.
- (4) The Operating Partnership has entered into an interest rate swap agreement that is intended to fix the interest rate associated with Term Loan C at approximately 3.14% through its maturity date, subject to adjustments based on our consolidated leverage ratio. Effective March 1, 2018, the effective interest rate associated with Term Loan C is approximately 2.74%, subject to adjustments based on our consolidated leverage ratio.
- (5) The Operating Partnership entered into a treasury lock contract on May 31, 2017, which was settled on June 23, 2017 at a loss of approximately \$0.5 million. The treasury lock contract was deemed to be a highly effective cash flow hedge, accordingly, the effective interest rate is approximately 3.85% per annum.
- (6) The Operating Partnership entered into forward-starting interest rate swap contracts on March 29, 2016 and April 7, 2016, which were settled on January 18, 2017 at a gain of approximately \$10.4 million. The forward-starting interest swap rate contracts were deemed to be a highly effective cash flow hedge, accordingly, the effective interest rate is approximately 3.87% per annum.
- (7) The Operating Partnership entered into a treasury lock contract on April 25, 2017, which was settled on May 11, 2017 at a gain of approximately \$0.7 million. The treasury lock contract was deemed to be a highly effective cash flow hedge, accordingly, the effective interest rate is approximately 4.18% per annum.

Certain loans require us to comply with various financial covenants. As of June 30, 2019, the Operating Partnership was in compliance with these financial covenants.

Amended Term Loan Agreement

On January 9, 2018, we entered into the Third Amendment to the Term Loan Agreement (as so amended, the "Term Loan Agreement"), which maintains the seven years \$150 million unsecured term loan (referred to herein as Term Loan B and Term Loan C) to the Operating Partnership that matures on March 1, 2023 (the "\$150mm Term Loan"). Effective as of March 1, 2018, borrowings under the Term Loan Agreement with respect to the \$150mm Term Loan bear interest at floating rates equal to, at the Operating Partnership's option, either (1) LIBOR, plus a spread which ranges from 1.20% to 1.70% based on the Operating Partnership's consolidated leverage ratio, or (2) a base rate equal to the highest of (a) 0%, (b) the prime rate, (c) the federal funds rate plus 50 bps or (d) the Eurodollar rate plus 100 bps, in each case plus a spread which ranges from 0.70% to 1.35% based on the Operating Partnership's consolidated leverage ratio. Additionally, the Operating Partnership may elect for

American Assets Trust, Inc. and American Assets Trust, L.P.**Notes to Consolidated Financial Statements—(Continued)****June 30, 2019****(Unaudited)**

borrowings to bear interest based on a ratings-based pricing grid as per the Operating Partnership's then-applicable investment grade debt ratings under the terms set forth in the Term Loan Agreement.

Second Amended and Restated Credit Facility

On January 9, 2018, we entered into a second amended and restated credit agreement (the "Second Amended and Restated Credit Facility"). The Second Amended and Restated Credit Facility provides for aggregate, unsecured borrowing of \$450 million, consisting of a revolving line of credit of \$350 million (the "Revolver Loan") and a term loan of \$100 million (the "Term Loan A"). The Second Amended and Restated Credit Facility has an accordion feature that may allow us to increase the availability thereunder up to an additional \$350 million, subject to meeting specified requirements and obtaining additional commitments from lenders. At June 30, 2019, there was \$95 million outstanding under the Revolver Loan with approximately \$1.5 million of debt issuance costs, net.

Borrowings under the Second Amended and Restated Credit Agreement initially bear interest at floating rates equal to, at our option, either (1) LIBOR, plus a spread which ranges from (a) 1.05% to 1.50% (with respect to the Revolver Loan) and (b) 1.30% to 1.90% (with respect to Term Loan A), in each case based on our consolidated leverage ratio, or (2) a base rate equal to the highest of (a) the prime rate, (b) the federal funds rate plus 50 bps or (c) LIBOR plus 100 bps, plus a spread which ranges from (i) 0.10% to 0.50% (with respect to the Revolver Loan) and (ii) 0.30% to 0.90% (with respect to Term Loan A), in each case based on our consolidated leverage ratio. For the six months ended June 30, 2019, the weighted average interest rate on the Revolver Loan was 3.59%.

The Revolver Loan initially matures on January 9, 2022, subject to our option to extend the Revolver Loan up to two times, with each such extension for a six months period. The extension options are exercisable by us subject to the satisfaction of certain conditions.

On January 9, 2019, we entered into the first amendment ("First Amendment") to the Second Amended and Restated Credit Facility, which extended the maturity date of Term Loan A to January 9, 2021, subject to three, one year extension options. Additionally, in connection with the First Amendment, borrowings under the Second Amended and Restated Credit Facility with respect to Term Loan A bear interest at floating rates equal to, at our option, either (1) LIBOR, plus a spread which ranges from 1.20% to 1.70% based on our consolidated total leverage ratio, or (2) a base rate equal to the highest of (a) the prime rate, (b) the federal funds rate plus 50 bps or (c) the Eurodollar rate plus 100 bps, in each case plus a spread which ranges from 0.20% to 0.70% based on our consolidated total leverage ratio. The foregoing rates are intended to be more favorable than previously contained in the Second Amended and Restated Credit Facility (prior to entry into the First Amendment) with respect to Term Loan A.

Additionally, the Second Amended and Restated Credit Facility includes a number of customary financial covenants, including:

- A maximum leverage ratio (defined as total indebtedness net of certain cash and cash equivalents to total asset value) of 60%,
- A maximum secured leverage ratio (defined as total secured debt to secured total asset value) of 40%,
- A minimum fixed charge coverage ratio (defined as consolidated earnings before interest, taxes, depreciation and amortization to consolidated fixed charges) of 1.50x,
- A minimum unsecured interest coverage ratio of 1.75x,
- A maximum unsecured leverage ratio of 60%, and
- Recourse indebtedness at any time cannot exceed 15% of total asset value.

The Second Amended and Restated Credit Facility provides that our annual distributions may not exceed the greater of (1) 95% of our funds from operation ("FFO") or (2) the amount required for us to (a) qualify and maintain our REIT status and (b) avoid the payment of federal or state income or excise tax. If certain events of default exist or would result from a distribution, we may be precluded from making distributions other than those necessary to qualify and maintain our status as a REIT.

As of June 30, 2019, the Operating Partnership was in compliance with the financial covenants in the Second Amended and Restated Credit Facility.

American Assets Trust, Inc. and American Assets Trust, L.P.

Notes to Consolidated Financial Statements—(Continued)

June 30, 2019

(Unaudited)

NOTE 9. PARTNERS' CAPITAL OF AMERICAN ASSETS TRUST, L.P.

Noncontrolling interests in our Operating Partnership are interests in the Operating Partnership that are not owned by us. Noncontrolling interests consisted of 16,390,548 common units (the “noncontrolling common units”), and represented approximately 21.6% of the ownership interests in our Operating Partnership at June 30, 2019. Common units and shares of our common stock have essentially the same economic characteristics in that common units and shares of our common stock share equally in the total net income or loss distributions of our Operating Partnership. Investors who own common units have the right to cause our Operating Partnership to redeem any or all of their common units for cash equal to the then-current market value of one share of our common stock, or, at our election, shares of our common stock on a one-for-one basis.

During the three and six months ended June 30, 2019, 787,060 common units were converted into shares of our common stock.

Earnings (Loss) Per Unit of the Operating Partnership

Basic earnings (loss) per unit (“EPU”) of the Operating Partnership is computed by dividing income applicable to unitholders by the weighted average Operating Partnership units outstanding, as adjusted for the effect of participating securities. Operating Partnership units granted in equity-based payment transactions that have non-forfeitable dividend equivalent rights are considered participating securities prior to vesting. The impact of unvested Operating Partnership unit awards on EPU has been calculated using the two-class method whereby earnings are allocated to the unvested Operating Partnership unit awards based on distributions and the unvested Operating Partnership units’ participation rights in undistributed earnings.

The calculation of diluted EPU for the three months ended June 30, 2019 and 2018 does not include the weighted average of 330,847 and 266,260 unvested Operating Partnership units, as these equity securities are either considered contingently issuable or the effect of including these equity securities was anti-dilutive to income from continuing operations and net income attributable to the unitholders. The calculation of diluted EPU for the six months ended June 30, 2019 and 2018 does not include the weighted average of 332,054 and 267,367 unvested Operating Partnership units, respectively.

NOTE 10. EQUITY OF AMERICAN ASSETS TRUST, INC.**Stockholders' Equity**

On May 27, 2015, we entered into an at-the-market (“ATM”) equity program with five sales agents in which we may, from time to time, offer and sell shares of our common stock having an aggregate offering price of up to \$250.0 million. On March 2, 2018, we amended certain of these equity programs, terminated one such program and entered into a new equity program with one new sales agent. The sales of shares of our common stock made through the ATM equity program, as amended, are made in “at-the-market” offerings as defined in Rule 415 of the Securities Act of 1933, as amended. During the three and six months ended June 30, 2019, the following shares of common stock were sold through the ATM equity programs (in thousands, except per share data and share amounts):

	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Number of shares of common stock issued through ATM programs	519,382	681,913
Weighted average price per share	\$45.57	\$45.56
Proceeds, gross	\$ 23,671	\$ 31,071
Sales agent compensation	(237)	(311)
Offering costs	(79)	(372)
Proceeds, net	<u>\$ 23,355</u>	<u>\$ 30,388</u>

American Assets Trust, Inc. and American Assets Trust, L.P.**Notes to Consolidated Financial Statements—(Continued)****June 30, 2019****(Unaudited)**

We intend to use the net proceeds from the ATM equity program to fund our development or redevelopment activities, repay amounts outstanding from time to time under our revolving line of credit or other debt financing obligations, fund potential acquisition opportunities and/or for general corporate purposes. As of June 30, 2019, we had the capacity to issue up to an additional \$145.1 million in shares of our common stock under our ATM equity program. Actual future sales will depend on a variety of factors including, but not limited to, market conditions, the trading price of our common stock and our capital needs. We have no obligation to sell the remaining shares available for sale under the ATM equity program.

In June 2019, we issued and sold 10,925,000 shares of common stock in an underwritten public offering. The shares of common stock that we issued and sold included the full exercise of the underwriters' option to purchase 1,425,000 additional shares. We received net proceeds of approximately \$472.6 million, after deducting underwriting discounts, commissions and offering expenses.

Dividends

The following table lists the dividends declared and paid on our shares of common stock and noncontrolling common units during the six months ended June 30, 2019:

Period	Amount per Share/Unit	Period Covered	Dividend Paid Date
First Quarter 2019	\$ 0.28	January 1, 2019 to March 31, 2019	March 28, 2019
Second Quarter 2019	\$ 0.28	April 1, 2019 to June 30, 2019	June 27, 2019

Taxability of Dividends

Earnings and profits, which determine the taxability of distributions to stockholders and holders of common units, may differ from income reported for financial reporting purposes due to the differences for federal income tax purposes in the treatment of revenue recognition and compensation expense and in the basis of depreciable assets and estimated useful lives used to compute depreciation.

Stock-Based Compensation

We follow the FASB guidance related to stock compensation which establishes financial accounting and reporting standards for stock-based employee compensation plans, including all arrangements by which employees receive shares of stock or other equity instruments of the employer. The guidance also defines a fair value-based method of accounting for an employee stock option or similar equity instrument.

The following table summarizes the activity of restricted stock awards during the six months ended June 30, 2019:

	Units	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2019	342,093	\$28.33
Granted	4,412	45.35
Vested	(5,320)	37.58
Forfeited	(11,046)	\$28.41
Nonvested at June 30, 2019	330,139	\$28.40

We recognize noncash compensation expense ratably over the vesting period, and accordingly, we recognized \$1.1 million and \$0.7 million in noncash compensation expense for the three-month periods ended June 30, 2019 and 2018, respectively, which is included in general and administrative expense on the consolidated statements of comprehensive income. We recognized \$2.2 million and \$1.5 million in noncash compensation expense for the six months ended June 30, 2019 and 2018, respectively. Unrecognized compensation expense was \$4.4 million at June 30, 2019.

Earnings Per Share

We have calculated earnings per share ("EPS") under the two-class method. The two-class method is an earnings allocation methodology whereby EPS for each class of common stock and participating security is calculated according to dividends declared and participation rights in undistributed earnings. The weighted average unvested shares outstanding, which

American Assets Trust, Inc. and American Assets Trust, L.P.
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are considered participating securities, were 330,847 and 266,260 for the three months ended June 30, 2019 and 2018, respectively and 332,054 and 267,367 for the six months ended June 30, 2019 and 2018, respectively. Therefore, we have allocated our earnings for basic and diluted EPS between common shares and unvested shares as these unvested shares have nonforfeitable dividend equivalent rights.

Diluted EPS is calculated by dividing the net income applicable to common stockholders for the period by the weighted average number of common and dilutive instruments outstanding during the period using the treasury stock method. For the three months ended June 30, 2019, diluted shares exclude incentive restricted stock as these awards are considered contingently issuable. For the three months ended June 30, 2018, shares associated with convertible securities were not included because the inclusion would be anti-dilutive. Additionally, the unvested restricted stock awards subject to time vesting are anti-dilutive for all periods presented, and accordingly, have been excluded from the weighted average common shares used to compute diluted EPS.

The computation of basic and diluted EPS is presented below (dollars in thousands, except share and per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
NUMERATOR				
Net income	\$ 11,941	\$ 4,413	\$ 27,184	\$ 3,722
Less: Net income attributable to restricted shares	(92)	(216)	(185)	(144)
Less: Income from operations attributable to unitholders in the Operating Partnership	(2,933)	(1,125)	(6,988)	(959)
Net income attributable to common stockholders—basic	\$ 8,916	\$ 3,072	\$ 20,011	\$ 2,619
Income from operations attributable to American Assets Trust, Inc. common stockholders—basic	\$ 8,916	\$ 3,072	\$ 20,011	\$ 2,619
Plus: Income from operations attributable to unitholders in the Operating Partnership	2,933	1,125	6,988	959
Net income attributable to common stockholders—diluted	\$ 11,849	\$ 4,197	\$ 26,999	\$ 3,578
DENOMINATOR				
Weighted average common shares outstanding—basic	50,135,978	46,939,449	48,578,872	46,937,645
Effect of dilutive securities—conversion of Operating Partnership units	16,753,806	17,193,071	16,964,537	17,194,020
Weighted average common shares outstanding—diluted	66,889,784	64,132,520	65,543,409	64,131,665
Earnings per common share, basic	\$ 0.18	\$ 0.07	\$ 0.41	\$ 0.06
Earnings per common share, diluted	\$ 0.18	\$ 0.07	\$ 0.41	\$ 0.06

NOTE 11. INCOME TAXES

We elected to be taxed as a REIT and operate in a manner that allows us to qualify as a REIT for federal income tax purposes commencing with our initial taxable year. As a REIT, we are generally not subject to corporate level income tax on the earnings distributed currently to our stockholders that we derive from our REIT qualifying activities. Taxable income from non-REIT activities managed through our TRS is subject to federal and state income taxes.

We lease our hotel property to a wholly owned TRS that is subject to federal and state income taxes. We account for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between GAAP carrying amounts and their respective tax bases. Additionally, we classify certain state taxes as income taxes for financial reporting purposes in accordance with ASC Topic 740, *Income Taxes*.

American Assets Trust, Inc. and American Assets Trust, L.P.**Notes to Consolidated Financial Statements—(Continued)****June 30, 2019****(Unaudited)**

A deferred tax liability is included in our consolidated balance sheets of \$0.1 million as of June 30, 2019 and December 31, 2018, respectively, in relation to real estate asset basis differences of property subject to state taxes based on income and certain prepaid expenses of our TRS.

Income tax expense is recorded in other (expense) income, net on our consolidated statements of comprehensive income. For the three and six months ended June 30, 2019, we recorded income tax expense of \$0.2 million and \$0.4 million, respectively. For the three and six months ended June 30, 2018, we recorded income tax expense of \$0.2 million and \$0.1 million, respectively.

NOTE 12. COMMITMENTS AND CONTINGENCIES***Legal***

We are sometimes involved in various disputes, lawsuits, warranty claims, environmental, and other matters arising in the ordinary course of business. Management makes assumptions and estimates concerning the likelihood and amount of any potential loss relating to these matters.

We are currently a party to various legal proceedings. We accrue a liability for litigation if an unfavorable outcome is probable and the amount of loss can be reasonably estimated. If an unfavorable outcome is probable and a reasonable estimate of the loss is a range, we accrue the best estimate within the range; however, if no amount within the range is a better estimate than any other amount, the minimum within the range is accrued. Legal fees related to litigation are expensed as incurred. We do not believe that the ultimate outcome of these matters, either individually or in the aggregate, could have a material adverse effect on our financial position or overall trends in results of operations; however, litigation is subject to inherent uncertainties. Also, under our leases, tenants are typically obligated to indemnify us from and against all liabilities, costs and expenses imposed upon or asserted against us as owner of the properties due to certain matters relating to the operation of the properties by the tenant.

Commitments

See Footnote 13 for description of our leases, as a lessee.

We have management agreements with Outrigger Hotels & Resorts or an affiliate thereof (“Outrigger”) pursuant to which Outrigger manages each of the retail and hotel portions of the Waikiki Beach Walk property. Under the management agreement with Outrigger relating to the retail portion of Waikiki Beach Walk (the “retail management agreement”), we pay Outrigger a monthly management fee of 3.0% of net revenues from the retail portion of Waikiki Beach Walk. Pursuant to the terms of the retail management agreement, if the agreement is terminated in certain instances, including our election not to repair damage or destruction at the property, a condemnation or our failure to make required working capital infusions, we would be obligated to pay Outrigger a termination fee equal to the sum of the management fees paid for the two months immediately preceding the termination date. The retail management agreement may not be terminated by us or by Outrigger without cause. Under our management agreement with Outrigger relating to the hotel portion of Waikiki Beach Walk (the “hotel management agreement”), we pay Outrigger a monthly management fee of 6.0% of the hotel's gross operating profit, as well as 3.0% of the hotel's gross revenues; provided that the aggregate management fee payable to Outrigger for any year shall not exceed 3.5% of the hotel's gross revenues for such fiscal year. Pursuant to the terms of the hotel management agreement, if the agreement is terminated in certain instances, including upon a transfer by us of the hotel or upon a default by us under the hotel management agreement, we would be required to pay a cancellation fee calculated by multiplying (1) the management fees for the previous 12 months by (2) (a) eight, if the agreement is terminated in the first 11 years of its term, or (b) four, three, two or one, if the agreement is terminated in the twelfth, thirteenth, fourteenth or fifteenth year, respectively, of its term. The hotel management agreement may not be terminated by us or by Outrigger without cause.

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A wholly owned subsidiary of our Operating Partnership, WBW Hotel Lessee LLC, entered into a franchise license agreement with Embassy Suites Franchise LLC, the franchisor of the brand “Embassy Suites™,” to obtain the non-exclusive right to operate the hotel under the Embassy Suites™ brand for 20 years. The franchise license agreement provides that WBW Hotel Lessee LLC must comply with certain management, operational, record keeping, accounting, reporting and marketing standards and procedures. In connection with this agreement, we are also subject to the terms of a product improvement plan pursuant to which we expect to undertake certain actions to ensure that our hotel's infrastructure is maintained in compliance with the franchisor's brand standards. In addition, we must pay to Embassy Suites Franchise LLC a monthly franchise royalty fee equal to 4.0% of the hotel's gross room revenue through December 2021 and 5.0% of the hotel's gross room revenue thereafter, as well as a monthly program fee equal to 4.0% of the hotel's gross room revenue. If the franchise license is terminated due to our failure to make required improvements or to otherwise comply with its terms, we may be liable to the franchisor for a termination payment, which could be as high as \$7.6 million based on operating performance through June 30, 2019.

Our Del Monte Center property has ongoing environmental remediation related to ground water contamination. The environmental issue existed at purchase and remains in remediation. The final stages of the remediation will include routine, long term ground monitoring by the appropriate regulatory agency over the next five years to seven years. The work performed is financed through an escrow account funded by the seller upon purchase of the Del Monte Center. We believe the funds in the escrow account are sufficient for the remaining work to be performed. However, if further work is required costing more than the remaining escrow funds, we could be required to pay such overage, although we may have a contractual claim for such costs against the prior owner or our environmental remediation consultant.

Concentrations of Credit Risk

Our properties are located in Southern California, Northern California, Hawaii, Oregon, Texas, and Washington. The ability of the tenants to honor the terms of their respective leases is dependent upon the economic, regulatory and social factors affecting the markets in which the tenants operate. Fourteen of our consolidated properties are located in Southern California, which exposes us to greater economic risks than if we owned a more geographically diverse portfolio. Tenants in the retail industry accounted for 32.6% of total revenues for the six months ended June 30, 2019. This makes us susceptible to demand for retail rental space and subject to the risks associated with an investment in real estate with a concentration of tenants in the retail industry. Furthermore, tenants in the office industry accounted for 34.2% of total revenues for the six months ended June 30, 2019. This makes us susceptible to demand for office rental space and subject to the risks associated with an investment in real estate with a concentration of tenants in the office industry. For the six months ended June 30, 2019 and 2018, no tenant accounted for more than 10% of our total rental revenue.

NOTE 13. LEASES***Lessor Operating Leases***

We determine if an arrangement is a lease at inception. Our lease agreements are generally for real estate, and the determination of whether such agreements contain leases generally does not require significant estimates or judgments. We lease real estate under operating leases.

American Assets Trust, Inc. and American Assets Trust, L.P.**Notes to Consolidated Financial Statements—(Continued)****June 30, 2019****(Unaudited)**

Our leases with office, retail, mixed-use and residential tenants are classified as operating leases. Leases at our office and retail properties and the retail portion of our mixed-use property generally range from three years to ten years (certain leases with anchor tenants may be longer), and in addition to minimum rents, usually provide for cost recoveries for the tenant's share of certain operating costs. Our leases may also include variable lease payments in the form of percentage rents based on the tenant's level of sales achieved in excess of a breakpoint threshold. Leases on apartments generally range from 7 to 15 months, with a majority having 12-month lease terms. Rooms at the hotel portion of our mixed-use property are rented on a nightly basis.

Leases at our office and retail properties and the retail portion of our mixed-use property may contain lease extension options, at our lessee's discretion. The extension options are generally for 3 to 10 years and contain primarily rent at fixed rates or the prevailing market rent. The extension options are generally exercisable 6 to 12 months prior to the expiration of the lease and require the lessee to not be in default of the lease terms.

We attempt to maximize the amount we expect to derive from the underlying real estate property following the end of a lease, to the extent it is not extended. We maintain a proactive leasing and capital improvement program that, combined with the quality and locations of our properties, has made our properties attractive to tenants. However, the residual value of a real estate property is still subject to various market-specific, asset-specific, and tenant-specific risks and characteristics.

As of June 30, 2019, minimum future rentals from noncancelable operating leases, before any reserve for uncollectible amounts and assuming no early lease terminations, at our office and retail properties and the retail portion of our mixed-use property are as follows (in thousands):

Year Ending December 31,		
2019 (six months ending December 31, 2019)	\$	110,091
2020		209,142
2021		198,553
2022		180,346
2023		159,058
Thereafter		611,674
Total	\$	<u>1,468,864</u>

The above future minimum rentals exclude residential leases, which typically have a term of 12 months or less, and exclude the hotel, as rooms are rented on a nightly basis.

Lessee Operating Leases

We determine if an arrangement is a lease at inception. Our lease agreements are generally for real estate, and the determination of whether such agreements contain leases generally does not require significant estimates or judgments. We lease real estate under operating leases.

At the Landmark at One Market, we lease, as lessee, a building adjacent to the Landmark at One Market under an operating lease effective through June 30, 2021, which we have the option to extend until 2031 by way of two five years extension options (the "Annex Lease"). The lease payments under the extension options provided for under the Annex Lease will be equal to the fair rental value at the time the extension option is exercised. The extension options are not included in the calculation of the right-of-use asset or lease liability due to electing the practical expedient to not reassess the lease term of existing leases.

At Waikiki Beach Walk, we lease a portion of the building of which Quiksilver is currently in possession, under an operating lease effective through December 31, 2021.

Our lease agreements do not contain any residual value guarantees or material restrictive covenants. As our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement in determining the present value of lease payments.

American Assets Trust, Inc. and American Assets Trust, L.P.

Notes to Consolidated Financial Statements—(Continued)

June 30, 2019

(Unaudited)

Current annual payments under the operating leases are as follows, as of June 30, 2019 (in thousands):

Year Ending December 31,		
2019 (six months ending December 31, 2019)	\$	1,692
2020		3,422
2021		2,153
2022		—
2023		—
Thereafter		—
Total lease payments	\$	7,267
Imputed interest	\$	(325)
Present value of lease liability	\$	6,942

Lease costs under the operating leases are as follows (in thousands):

	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Operating lease cost	\$ 833	\$ 1,667
Variable lease cost	—	—
Sublease income	(633)	(1,258)
Total lease cost	\$ 200	\$ 409
Weighted-average remaining lease term - operating leases (in years)		2.1
Weighted-average discount rate - operating leases		4.13%

Supplemental cash flow information and non-cash activity related to our operating leases are as follow (in thousands):

	Six Months Ended June 30, 2019
Operating cash flow information:	
Cash paid for amounts included in the measurement of lease liabilities	\$ 1,655
Non-cash activity:	
Right-of-use assets obtained in exchange for operating lease obligations	\$ 7,661

Subleases

At the Landmark at One Market, we (as sublandlord) sublease the Annex Lease building under operating leases effective through December 31, 2029. The subleases contain extension options, subject to our ability to extend the Annex Lease, that can extend the subleases through December 31, 2039 at the fair rental value at the time the extension option is exercised.

At Waikiki Beach Walk, we (as sublandlord) sublease a portion of the building to Quiksilver under an operating lease effective through December 31, 2021.

American Assets Trust, Inc. and American Assets Trust, L.P.

Notes to Consolidated Financial Statements—(Continued)

June 30, 2019

(Unaudited)

NOTE 14. COMPONENTS OF RENTAL INCOME AND EXPENSE

The principal components of rental income are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Lease rental income				
Retail	\$ 25,021	\$ 19,548	\$ 49,470	\$ 39,202
Office	28,564	24,140	54,712	47,446
Multifamily	11,975	11,721	23,971	23,207
Mixed-use	3,886	2,740	7,763	5,565
Cost reimbursement	—	8,491	—	16,833
Percentage rent	289	355	555	791
Hotel revenue	9,466	9,530	19,108	19,313
Other	455	367	908	736
Total rental income	\$ 79,656	\$ 76,892	\$ 156,487	\$ 153,093

Lease rental income include \$(4.5) million and \$(2.8) million for the three months ended June 30, 2019 and 2018, respectively, and \$(4.3) million and \$(3.5) million for the six months ended June 30, 2019 and 2018, respectively, to recognize lease rental income on a straight-line basis. In addition, net amortization of above and below market leases included in lease rental income were \$0.8 million and \$0.7 million for the three months ended June 30, 2019 and 2018, respectively, and \$1.7 million and \$1.4 million for the six months ended June 30, 2019 and 2018, respectively.

The principal components of rental expenses are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Rental operating	\$ 9,008	\$ 8,742	\$ 17,559	\$ 17,402
Hotel operating	6,036	5,995	12,009	12,027
Repairs and maintenance	3,971	3,389	7,430	6,390
Marketing	568	503	1,114	915
Rent	849	806	1,690	1,600
Hawaii excise tax	914	969	1,858	2,002
Management fees	480	478	962	966
Total rental expenses	\$ 21,826	\$ 20,882	\$ 42,622	\$ 41,302

NOTE 15. OTHER (EXPENSE) INCOME, NET

The principal components of other income, net, are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Interest and investment income	\$ 156	\$ 23	\$ 163	\$ 163
Income tax expense	(206)	(171)	(442)	(106)
Other non-operating income	—	—	—	4
Total other (expense) income, net	\$ (50)	\$ (148)	\$ (279)	\$ 61

American Assets Trust, Inc. and American Assets Trust, L.P.**Notes to Consolidated Financial Statements—(Continued)****June 30, 2019****(Unaudited)****NOTE 16. RELATED PARTY TRANSACTIONS**

Through July 1, 2018, we maintained a workers' compensation insurance policy with Insurance Company of the West, a California corporation ("ICW"), which is an insurance company majority owned and controlled by Ernest Rady, our Chief Executive Officer, President and Chairman of the Board. The workers' compensation policy was renewed with ICW during the second quarter of 2017 and the premium was approximately \$0.2 million for the period from July 1, 2017 through July 1, 2018. We did not renew this policy with ICW during the second quarter of 2018 and commencing July 1, 2018, we entered into a workers' compensation policy with an unaffiliated third-party insurer.

During the first quarter of 2019, we terminated the lease agreement with American Assets, Inc., an entity owned and controlled by Mr. Rady, and entered into a new lease agreement for office space at Torrey Reserve Campus. Rents commenced on March 1, 2019 for an initial lease term of three years at an average annual rental rate of \$0.2 million. Rental revenue recognized on the leases of \$0.1 million for the six months ended June 30, 2019, is included in rental income on the statements of comprehensive income.

On occasion, the company utilizes aircraft services provided by AAI Aviation, Inc. ("AAIA"), an entity owned and controlled by Mr. Rady. For the six months ended June 30, 2019 and 2018, we incurred approximately \$0.2 million and \$0.0 million of expenses related to aircraft services of AAIA or reimbursement to Mr. Rady (or the Ernest Rady Trust U/D/T March 13, 1983) for use of the aircraft owned by AAIA. These expenses are recorded as general and administrative expenses in our consolidated statements of comprehensive income.

The Waikiki Beach Walk entities have a 47.7% investment in WBW CHP LLC, an entity that was formed to, among other things, construct a chilled water plant to provide air conditioning to the property and other adjacent facilities. The operating expenses of WBW CHP LLC are recovered through reimbursements from its members, and reimbursements to WBW CHP LLC of \$0.5 million and \$0.5 million for the six months ended June 30, 2019 and 2018, respectively, are included in rental expenses on the statements of comprehensive income.

NOTE 17. SEGMENT REPORTING

Segment information is prepared on the same basis that our management reviews information for operational decision-making purposes. We operate in four business segments: the acquisition, redevelopment, ownership and management of retail real estate, office real estate, multifamily real estate and mixed-use real estate. The products for our retail segment primarily include rental of retail space and other tenant services, including tenant reimbursements, parking and storage space rental. The products for our office segment primarily include rental of office space and other tenant services, including tenant reimbursements, parking and storage space rental. The products for our multifamily segment include rental of apartments and other tenant services. The products of our mixed-use segment include rental of retail space and other tenant services, including tenant reimbursements, parking and storage space rental and operation of a 369-room all-suite hotel.

We evaluate the performance of our segments based on segment profit, which is defined as property revenue less property expenses. We do not use asset information as a measure to assess performance and make decisions to allocate resources. Therefore, depreciation and amortization expense is not allocated among segments. General and administrative expenses, interest expense, depreciation and amortization expense and other income and expense are not included in segment profit as our internal reporting addresses these items on a corporate level.

Segment profit is not a measure of operating income or cash flows from operating activities as measured by GAAP, and it is not indicative of cash available to fund cash needs and should not be considered an alternative to cash flows as a measure of liquidity. Not all companies calculate segment profit in the same manner. We consider segment profit to be an appropriate supplemental measure to net income because it assists both investors and management in understanding the core operations of our properties.

American Assets Trust, Inc. and American Assets Trust, L.P.
Notes to Consolidated Financial Statements—(Continued)
June 30, 2019
(Unaudited)

The following table represents operating activity within our reportable segments (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Total Retail				
Property revenue	\$ 25,871	\$ 26,415	\$ 55,308	\$ 52,572
Property expense	(7,731)	(7,138)	(14,885)	(13,949)
Segment profit	18,140	19,277	40,423	38,623
Total Office				
Property revenue	30,200	31,052	58,006	57,822
Property expense	(9,269)	(8,342)	(17,758)	(16,355)
Segment profit	20,931	22,710	40,248	41,467
Total Multifamily				
Property revenue	12,897	12,622	25,796	25,046
Property expense	(4,883)	(5,020)	(9,956)	(10,017)
Segment profit	8,014	7,602	15,840	15,029
Total Mixed-Use				
Property revenue	15,145	14,934	30,322	30,315
Property expense	(9,218)	(9,010)	(18,344)	(18,155)
Segment profit	5,927	5,924	11,978	12,160
Total segments' profit	<u>\$ 53,012</u>	<u>\$ 55,513</u>	<u>\$ 108,489</u>	<u>\$ 107,279</u>

The following table is a reconciliation of segment profit to net income attributable to stockholders (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Total segments' profit	\$ 53,012	\$ 55,513	\$ 108,489	\$ 107,279
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 (expense) income, net	(50)	(148)	(279)	61
Net income	<u>11,941</u>	<u>4,413</u>	<u>27,184</u>	<u>3,722</u>
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	<u>\$ 8,916</u>	<u>\$ 3,072</u>	<u>\$ 20,011</u>	<u>\$ 2,619</u>

American Assets Trust, Inc. and American Assets Trust, L.P.

Notes to Consolidated Financial Statements—(Continued)

June 30, 2019

(Unaudited)

The following table shows net real estate and secured note payable balances for each of the segments (in thousands):

	June 30, 2019	December 31, 2018
Net Real Estate		
Retail	\$ 627,988	\$ 628,734
Office	1,307,106	822,574
Multifamily	406,378	412,042
Mixed-Use	177,451	176,503
	<u>\$ 2,518,923</u>	<u>\$ 2,039,853</u>
Secured Notes Payable ⁽¹⁾		
Retail	\$ 34,625	\$ 35,008
Office	127,954	147,757
Multifamily	—	—
Mixed-Use	—	—
	<u>\$ 162,579</u>	<u>\$ 182,765</u>

(1) Excludes debt issuance costs of \$0.2 million and \$0.2 million for each of the periods ending June 30, 2019 and December 31, 2018, respectively.

Capital expenditures for each segment for the three and six months ended June 30, 2019 and 2018 were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Capital Expenditures ⁽¹⁾				
Retail	\$ 6,650	\$ 3,228	\$ 11,441	\$ 5,457
Office	17,418	7,513	33,901	14,886
Multifamily	685	875	1,456	2,484
Mixed-Use	3,271	429	3,663	583
	<u>\$ 28,024</u>	<u>\$ 12,045</u>	<u>\$ 50,461</u>	<u>\$ 23,410</u>

(1) Capital expenditures represent cash paid for capital expenditures during the period and include leasing commissions paid.

American Assets Trust, Inc. and American Assets Trust, L.P.

Notes to Consolidated Financial Statements—(Continued)

June 30, 2019

(Unaudited)

NOTE 18. SUBSEQUENT EVENT

On July 30, 2019, the Operating Partnership entered into a Note Purchase Agreement for the private placement of \$150 million of 3.91% Senior Guaranteed Notes, Series G, due July 30, 2030 (the "Series G Notes"). The Series G Notes were issued on July 30, 2019 and will pay interest semi-annually on the 30th of January and July until their respective maturities.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this report. We make statements in this report that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (set forth in Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act). In particular, statements pertaining to our capital resources, portfolio performance and results of operations contain forward-looking statements. Likewise, all of our statements regarding anticipated growth in our funds from operations and anticipated market conditions, demographics and results of operations are forward-looking statements. You can identify forward-looking statements by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," "seeks," "approximately," "intends," "plans," "pro forma," "estimates" or "anticipates" or the 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. You can also identify forward-looking statements by discussions of strategy, plans or intentions.

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

- adverse economic or real estate developments in our markets;
- our failure to generate sufficient cash flows to service our outstanding indebtedness;
- defaults on, early terminations of or non-renewal of leases by tenants, including significant tenants;
- difficulties in identifying properties to acquire and completing acquisitions;
- difficulties in completing dispositions;
- our failure to successfully operate acquired properties and operations;
- our inability to develop or redevelop our properties due to market conditions;
- fluctuations in interest rates and increased operating costs;
- risks related to joint venture arrangements;
- our failure to obtain necessary outside financing;
- on-going litigation;
- general economic conditions;
- financial market fluctuations;
- risks that affect the general retail, office, multifamily and mixed-use environment;
- the competitive environment in which we operate;
- decreased rental rates or increased vacancy rates;
- conflicts of interests with our officers or directors;
- lack or insufficient amounts of insurance;
- environmental uncertainties and risks related to adverse weather conditions and natural disasters;
- other factors affecting the real estate industry generally;
- limitations imposed on our business and our ability to satisfy complex rules in order for us to continue to qualify as a real estate investment trust, or REIT, for U.S. federal income tax purposes; and
- changes in governmental regulations or interpretations thereof, such as real estate and zoning laws and increases in real property tax rates and taxation of REITs.

While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. We disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors,

new information, data or methods, future events or other changes. For a further discussion of these and other factors, see the section entitled "Item 1A. Risk Factors" contained herein and in our annual report on Form 10-K for the year ended December 31, 2018.

Overview

References to "we," "our," "us" and "our company" refer to American Assets Trust, Inc., a Maryland corporation, together with our consolidated subsidiaries, including American Assets Trust, L.P., a Maryland limited partnership, of which we are the sole general partner and which we refer to in this report as our Operating Partnership.

We are a full service, vertically integrated and self-administered REIT that owns, operates, acquires and develops high quality retail, office, multifamily and mixed-use properties in attractive, high-barrier-to-entry markets in Southern California, Northern California, Oregon, Washington, Texas and Hawaii. As of June 30, 2019, our portfolio was comprised of twelve retail shopping centers; nine office properties; a mixed-use property consisting of a 369-room all-suite hotel and a retail shopping center; and six multifamily properties. Additionally, as of June 30, 2019, we owned land at three of our properties that we classified as held for development and/or construction in progress. Our core markets include San Diego; the San Francisco Bay Area; Portland, Oregon; Bellevue, Washington; and Oahu, Hawaii. We are a Maryland corporation formed on July 16, 2010 to acquire the entities owning various controlling and noncontrolling interests in real estate assets owned and/or managed by Ernest S. Rady or his affiliates, including the Ernest Rady Trust U/D/T March 13, 1983, or the Rady Trust, and did not have any operating activity until the consummation of our initial public offering on January 19, 2011. Our Company, as the sole general partner of our Operating Partnership, has control of our Operating Partnership and owned 78.4% of our Operating Partnership as of June 30, 2019. Accordingly, we consolidate the assets, liabilities and results of operations of our Operating Partnership.

Acquisitions

On June 20, 2019, we acquired La Jolla Commons, consisting of two office towers totaling approximately 724,000 square feet, an entitled development parcel and two parking structures, located in San Diego, California. The purchase price was approximately \$525 million, less seller credits of (i) approximately \$11.5 million for speculative lease-up, (ii) approximately \$4.2 million for assumed contractual liabilities (iii) and approximately \$1.7 million for closing prorations, excluding closing costs of approximately \$0.2 million.

The property was acquired with proceeds from an underwritten public offering and borrowings under the Company's Second Amended and Restated Credit Facility.

Dispositions

On May 22, 2019, we sold Solana Beach - Highway 101. The property is located in San Diego, California and was previously included in our retail segment. The sales price of this property of approximately \$9.4 million, less costs to sell, resulted in net proceeds to the Company of approximately \$9.4 million. Accordingly, we recorded a gain on sale of approximately \$0.6 million for the three and six months ended June 30, 2019.

Critical Accounting Policies

We identified certain critical accounting policies that affect certain of our more significant estimates and assumptions used in preparing our consolidated financial statements in our annual report on Form 10-K for the year ended December 31, 2018. We have not made any material changes to these policies during the periods covered by this report, other than those described in Footnote 1.

Same-store

We have provided certain information on a total portfolio, same-store and redevelopment same-store basis. Information provided on a same-store basis includes the results of properties that we owned and operated for the entirety of both periods being compared except for properties for which significant redevelopment or expansion occurred during either of the periods being compared, properties under development, properties classified as held for development and properties classified as discontinued operations. Information provided on a redevelopment same-store basis includes the results of properties undergoing significant redevelopment for the entirety or portion of both periods being compared. Same-store and redevelopment same-store is considered by management to be important measures because they assist in eliminating disparities due to the development, acquisition or disposition of properties during the particular period presented, and thus provides a more consistent performance measure for the comparison of the Company's stabilized and redevelopment properties, as applicable. Additionally, redevelopment same-store is considered by management to be an important measure because it assists in evaluating the timing of the start and stabilization of our redevelopment opportunities and the impact that these redevelopments have in enhancing our operating performance.

While there is judgment surrounding changes in designations, we typically reclassify significant development, redevelopment or expansion properties into same-store properties once they are stabilized. Properties are deemed stabilized typically at the earlier of (i) reaching 90% occupancy or (ii) four quarters following a property's inclusion in operating real estate. We typically remove properties from same-store properties when the development, redevelopment or expansion has or is expected to have a significant impact on the property's annualized base rent, occupancy and operating income within the calendar year. Our evaluation of significant impact related to development, redevelopment or expansion activity is based on quantitative and qualitative measures including, but not limited to the following: the total budgeted cost of planned construction activity compared to the property's annualized base rent, occupancy and property operating income within the calendar year; percentage of development, redevelopment or expansion square footage to total property square footage; and the ability to maintain historic occupancy and rental rates. In consideration of these measures, we generally remove properties from same-store properties when we see a decline in a property's annualized base rent, occupancy and operating income within the calendar year as a direct result of ongoing redevelopment, development or expansion activity. Acquired properties are classified into same-store properties once we have owned such properties for the entirety of comparable period(s) and the properties are not under significant development or expansion.

Below is a summary of our same-store composition for the three and six months ended June 30, 2019 and 2018. For the three months ended June 30, 2019, Pacific Ridge Apartments and Gateway Marketplace were reclassified to same-store properties when compared to the designations for the three months ended March 31, 2018 as the entities were acquired on April 28, 2017 and July 6, 2017, respectively, and are comparable for the three months ended March 31, 2019. For the three months ended June 30, 2019, Waikiki Beach Walk Retail and Embassy Suites™ Hotel was reclassified to non-same-store properties when compared to the designation for the three months ended March 31, 2018 due to spalling repair activity disrupting the hotel portion of the properties operations. Waikele Center is classified as a non-same-store property due to significant redevelopment activity. Torrey Point was placed into operations and became available for occupancy in August 2018 and will be classified as a non-same-store property until it becomes stabilized and comparable. La Jolla Commons is classified as a non-same-store property, as it was acquired on June 20, 2019.

For the six months ended June 30, 2019, Pacific Ridge Apartments and Gateway Marketplace were reclassified to same-store properties when compared to the designations for the six months ended June 30, 2018 as the entities were acquired on April 28, 2017 and July 6, 2017, respectively, and are comparable for the six months ended June 30, 2019. For the six months ended June 30, 2019, Waikiki Beach Walk Retail and Embassy Suites™ Hotel was reclassified to non-same-store properties when compared to the designation for the six months ended June 30, 2018 due to spalling repair activity disrupting the hotel portion of the properties operations. Waikele Center is classified as a non-same-store property due to significant redevelopment activity. Torrey Point was placed into operations and became available for occupancy in August 2018 and will be classified as a non-same-store property until it becomes stabilized and comparable. La Jolla Commons is classified as a non-same-store property, as it was acquired on June 20, 2019.

In our determination of same-store and redevelopment same-store properties for the six months ended June 30, 2019, Waikele Center has been identified as a same-store redevelopment property due to significant construction activity. Retail same-store net operating income increased approximately 13.3% for the six months ended June 30, 2019 compared to the same period in 2018. Retail redevelopment same-store net operating income increased approximately 3.9% for the six months ended June 30, 2019 compared to the same period in 2018.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Same-Store	24	23	24	23
Non-Same Store	4	3	4	3
Total Properties	28	26	28	26
Redevelopment Same-Store	25	24	25	24
Total Development Properties	3	4	3	4

Outlook

We seek growth in earnings, funds from operations and cash flows primarily through a combination of the following: growth in our same-store portfolio, growth in our portfolio from property development and redevelopments and expansion of our portfolio through property acquisitions. Our properties are located in some of the nation's most dynamic, high-barrier-to-entry markets primarily in Southern California, Northern California, Oregon, Washington and Hawaii, which allow us to take advantage of redevelopment opportunities that enhance our operating performance through renovation, expansion, reconfiguration and/or retenting. We evaluate our properties on an ongoing basis to identify these types of opportunities.

We intend to opportunistically pursue the development of future phases of Lloyd District Portfolio and La Jolla Commons based on, among other things, market conditions and our evaluation of whether such opportunities would generate appropriate risk-adjusted financial returns. Our redevelopment and development opportunities are subject to various factors, including market conditions and may not ultimately come to fruition.

We continue to review acquisition opportunities in our primary markets that would complement our portfolio and provide long-term growth opportunities. Some of our acquisitions do not initially contribute significantly to earnings growth; however, we believe they provide long-term re-leasing growth, redevelopment opportunities and other strategic opportunities. Any growth from acquisitions is contingent upon our ability to find properties that meet our qualitative standards at prices that meet our financial hurdles. Changes in interest rates may affect our success in achieving earnings growth through acquisitions by affecting both the price that must be paid to acquire a property, as well as our ability to economically finance a property acquisition. Generally, our acquisitions are initially financed by available cash, mortgage loans and/or borrowings under our revolving line of credit, which may be repaid later with funds raised through the issuance of new equity or new long-term debt.

Leasing

Our same-store growth is primarily driven by increases in rental rates on new leases and lease renewals and changes in portfolio occupancy. Over the long-term, we believe that the infill nature and strong demographics of our properties provide us with a strategic advantage, allowing us to maintain relatively high occupancy and increase rental rates. We have continued to see signs of improvement for many of our tenants, as well as increased interest from prospective tenants for our spaces. While there can be no assurance that these positive signs will continue, we remain cautiously optimistic regarding the improved trends we have seen over the past few years. We believe the locations of our properties and diverse tenant base mitigate the potentially negative impact of the current economic environment. However, any reduction in our tenants' abilities to pay base rent, percentage rent or other charges will adversely affect our financial condition and results of operations.

During the three months ended June 30, 2019, we signed 13 retail leases for a total of 46,609 square feet of retail space including 37,843 square feet of comparable space leases (leases for which there was a prior tenant), at an average rental rate increase on a cash and GAAP basis of 3.1% and 12.5%, respectively. New retail leases for comparable spaces were signed for 16,900 square feet at an average rental rate decrease on a cash and GAAP basis of 6.2% and 2.9%, respectively. Renewals for comparable retail spaces were signed for 20,943 square feet at an average rental rate increase on a cash and GAAP basis of 5.8% and 17.3%, respectively. Tenant improvements and incentives were \$13.18 per square foot of retail space for comparable new leases for the three months ended June 30, 2019, mainly due to tenants at South Bay Marketplace.

During the three months ended June 30, 2019, we signed 23 office leases for a total of 197,661 square feet of office space including 86,779 square feet of comparable space leases, at an average rental rate increase on a cash and GAAP basis of 17.5% and 26.7%, respectively. New office leases for comparable spaces were signed for 45,570 square feet at an average rental rate increase on a cash and GAAP basis of 22.8% and 30.9%, respectively. Renewals for comparable office spaces were signed for

41,209 square feet at an average rental rate increase on a cash and GAAP basis of 11.6% and 21.7%, respectively. Tenant improvements and incentives were \$74.15 per square foot of office space for comparable new leases for the three months ended June 30, 2019, mainly attributed to tenants at La Jolla Commons.

The rental increases associated with comparable spaces generally include all leases signed in arms-length transactions reflecting market leverage between landlords and tenants during the period. The comparison between average rent for expiring leases and new leases is determined by including minimum rent and percentage rent paid on the expiring lease and minimum rent and, in some instances, projections of first lease year percentage rent, to be paid on the new lease. In some instances, management exercises judgment as to how to most effectively reflect the comparability of spaces reported in this calculation. The change in rental income on comparable space leases is impacted by numerous factors including current market rates, location, individual tenant creditworthiness, use of space, market conditions when the expiring lease was signed, capital investment made in the space and the specific lease structure. Tenant improvements and incentives include the total dollars committed for the improvement of a space as it relates to a specific lease, but may also include base-building costs (i.e. expansion, escalators or new entrances) which are required to make the space leasable. Incentives include amounts paid to tenants as an inducement to sign a lease that do not represent building improvements.

The leases signed in 2019 generally become effective over the following year, though some may not become effective until 2020 and beyond. Further, there is risk that some new tenants will not ultimately take possession of their space and that tenants for both new and renewal leases may not pay all of their contractual rent due to operating, financing or other matters. However, we believe that these increases do provide information about the tenant/landlord relationship and the potential fluctuations we may achieve in rental income over time.

Through the remainder of 2019, we believe our leasing volume will be in-line with our historical averages and result in overall positive increases in rental income. However, changes in rental income associated with individual signed leases on comparable spaces may be positive or negative, and we can provide no assurance that the rents on new leases will continue to increase at the above disclosed levels, if at all.

Capitalized Costs

Certain external and internal costs directly related to the development and redevelopment of real estate, including pre-construction costs, real estate taxes, insurance, interest, construction costs and salaries and related costs of personnel directly involved, are capitalized. We capitalize costs under development until construction is substantially complete and the property is held available for occupancy. The determination of when a development project is substantially complete and when capitalization must cease involves a degree of judgment. We consider a construction project as substantially complete and held available for occupancy upon the completion of landlord-owned tenant improvements or when the lessee takes possession of the unimproved space for construction of its own improvements, but not later than one year from cessation of major construction activity. We cease capitalization on the portion substantially completed and occupied or held available for occupancy, and capitalize only those costs associated with any remaining portion under construction.

We capitalized external and internal costs related to both development and redevelopment activities combined of \$0.9 million and \$1.7 million for the three months ended June 30, 2019 and 2018, respectively. We capitalized external and internal costs related to both development and redevelopment activities combined of \$2.6 million and \$2.4 million for the six months ended June 30, 2019 and 2018, respectively.

We capitalized external and internal costs related to other property improvements combined of \$23.8 million and \$8.0 million for the three months ended June 30, 2019 and 2018, respectively. We capitalized external and internal costs related to other property improvements combined of \$48.1 million and \$16.8 million for the six months ended June 30, 2019 and 2018, respectively.

Interest costs on developments and major redevelopments are capitalized as part of developments and redevelopments not yet placed in service. Capitalization of interest commences when development activities and expenditures begin and end upon completion, which is when the asset is ready for its intended use as noted above. We make judgments as to the time period over which to capitalize such costs and these assumptions have a direct impact on net income because capitalized costs are not subtracted in calculating net income. If the time period for capitalizing interest is extended, however, more interest is capitalized, thereby decreasing interest expense and increasing net income during that period. We capitalized interest costs related to development activities of \$0.1 million and \$0.5 million for the three months ended June 30, 2019 and 2018, respectively. We capitalized interest costs related to development activities of \$0.3 million and \$0.9 million for the six months ended June 30, 2019 and 2018, respectively.

Results of Operations

For our discussion of results of operations, we have provided information on a total portfolio and same-store basis.

Comparison of the three months ended June 30, 2019 to the three months ended June 30, 2018

The following summarizes our consolidated results of operations for the three months ended June 30, 2019 compared to our consolidated results of operations for the three months ended June 30, 2018. As of June 30, 2019, our operating portfolio was comprised of 28 retail, office, multifamily and mixed-use properties with an aggregate of approximately 6.6 million rentable square feet of retail and office space, including the retail portion of our mixed-use property, 2,112 residential units (including 122 RV spaces) and a 369-room hotel. Additionally, as of June 30, 2019, we owned land at three of our properties that we classified as held for development and/or construction in progress. As of June 30, 2018, our operating portfolio was comprised of 26 retail, office, multifamily and mixed-use properties with an aggregate of approximately 5.9 million rentable square feet of retail and office space, including the retail portion of our mixed-use property, 2,112 residential units (including 122 RV spaces) and a 369-room hotel. Additionally, as of June 30, 2018, we owned land at four of our properties that we classified as held for development and/or construction in progress.

The following table sets forth selected data from our unaudited consolidated statements of comprehensive income for the three months ended June 30, 2019 and 2018 (dollars in thousands):

	Three Months Ended June 30,		Change	%
	2019	2018		
Revenues				
Rental income	\$ 79,656	\$ 76,892	\$ 2,764	4 %
Other property income	4,457	8,131	(3,674)	(45)
Total property revenues	84,113	85,023	(910)	(1)
Expenses				
Rental expenses	21,826	20,882	944	5
Real estate taxes	9,275	8,628	647	7
Total property expenses	31,101	29,510	1,591	5
Total property income	53,012	55,513	(2,501)	(5)
General and administrative	(5,943)	(5,396)	(547)	10
Depreciation and amortization	(22,582)	(32,868)	10,286	(31)
Interest expense	(13,129)	(12,688)	(441)	3
Gain on sale of real estate	633	—	633	100
Other (expense) income, net	(50)	(148)	98	(66)
Net income	11,941	4,413	7,528	171
Net income attributable to restricted shares	(92)	(216)	124	(57)
Net income attributable to unitholders in the Operating Partnership	(2,933)	(1,125)	(1,808)	161
Net income attributable to American Assets Trust, Inc. stockholders	<u>\$ 8,916</u>	<u>\$ 3,072</u>	<u>\$ 5,844</u>	<u>190 %</u>

Revenue

Total property revenues. Total property revenue consists of rental revenue and other property income. Total property revenue decreased \$0.9 million, or 1%, to \$84.1 million for the three months ended June 30, 2019 compared to \$85.0 million for the three months ended June 30, 2018. The percentage leased was as follows for each segment as of June 30, 2019 and 2018:

	Percentage Leased (1)	
	June 30,	
	2019	2018
Retail	97.5%	96.7%
Office	93.7%	93.8%
Multifamily	92.6%	93.9%
Mixed-Use (2)	98.2%	95.9%

- (1) The percentage leased includes the square footage under lease, including leases which may not have commenced as of June 30, 2019 or June 30, 2018, as applicable.
(2) Includes the retail portion of the mixed-use property only.

The decrease in total property revenue was attributable primarily to the decrease in lease termination fees and factors discussed below.

Rental revenues. Rental revenue includes minimum base rent, cost reimbursements, percentage rents and other rents. Rental revenue increased \$2.8 million, or 4%, to \$79.7 million for the three months ended June 30, 2019 compared to \$76.9 million for the three months ended June 30, 2018. Rental revenue by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio(1)			
	Three Months Ended June 30,				Three Months Ended June 30,			
	2019	2018	Change	%	2019	2018	Change	%
Retail	\$ 25,346	\$ 25,830	\$ (484)	(2)%	\$ 21,708	\$ 21,257	\$ 451	2%
Office	28,757	25,890	2,867	11	27,251	25,885	1,366	5
Multifamily	12,024	11,767	257	2	12,024	11,767	257	2
Mixed-Use	13,529	13,405	124	1	—	—	—	—
	\$ 79,656	\$ 76,892	\$ 2,764	4%	\$ 60,983	\$ 58,909	\$ 2,074	4%

- (1) For this table and tables following, the same-store portfolio excludes: (i) Waikēle 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 as it was acquired on June 20, 2019; (iv) Waikiki Beach Walk Retail and Embassy Suites™ Hotel due to significant spalling repair activity; and (v) land held for development.

Total retail rental revenue decreased \$0.5 million for the three months ended June 30, 2019 compared to the three months ended June 30, 2018 primarily due to the expiration of the Kmart lease at Waikēle Center on June 30, 2018. Same-store retail rental revenue increased \$0.5 million for the three months ended June 30, 2019 compared to the three months ended June 30, 2018 primarily due to higher straight-line rent revenue at Carmel Mountain Plaza and additional cost reimbursements at Gateway Marketplace and Del Monte Center.

Total office rental revenue increased \$2.9 million for the three months ended June 30, 2019 compared to the three months ended June 30, 2018 primarily due to the acquisition of La Jolla Commons on June 20, 2019, which had rental revenue of approximately \$1.1 million during the period. The increase in total office rental revenue is also attributed to Torrey Point, which was placed into operations during the third quarter of 2018, and had rental revenue of approximately \$0.4 million during the period. Same-store office rental revenue increased \$1.4 million for the three months ended June 30, 2019 compared to the three months ended June 30, 2018 primarily due to higher annualized base rents at City Center Bellevue, Torrey Reserve Campus, and Solana Crossing.

Total multifamily rental revenue increased \$0.3 million for the three months ended June 30, 2019 compared to the three months ended June 30, 2018 primarily due to an increase in average base rent per unit to \$2,092 for the three months ended June 30, 2019 compared to \$2,037 for the three months ended June 30, 2018.

Total mixed-use rental revenue increased \$0.1 million for the three months ended June 30, 2019 compared to the three months ended June 30, 2018 primarily due to higher annualized base rents for retail tenants at our mixed-use property.

Other property income. Other property income decreased \$3.7 million, or 45%, to \$4.5 million for the three months ended June 30, 2019 compared to \$8.1 million for the three months ended June 30, 2018. Other property income by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Three Months Ended June 30,		Change	%	Three Months Ended June 30,		Change	%
	2019	2018			2019	2018		
Retail	\$ 525	\$ 585	\$ (60)	(10)%	\$ 96	\$ 362	\$ (266)	(73)%
Office	1,443	5,162	(3,719)	(72)	1,386	3,779	(2,393)	(63)
Multifamily	873	855	18	2	873	855	18	2
Mixed-Use	1,616	1,529	87	6	—	—	—	—
	<u>\$ 4,457</u>	<u>\$ 8,131</u>	<u>\$ (3,674)</u>	<u>(45)%</u>	<u>\$ 2,355</u>	<u>\$ 4,996</u>	<u>\$ (2,641)</u>	<u>(53)%</u>

Same-store retail other property income decreased \$0.3 million for the three months ended June 30, 2019 primarily due to lease termination fees in the prior period for tenants at Solana Beach Towne Center and Del Monte Center received during the three months ended June 30, 2018.

Office other property income decreased \$3.7 million for the three months ended June 30, 2019 primarily due to the lease termination fees in the prior period for tenants at Lloyd District Portfolio and Torrey Point received during the three months ended June 30, 2018.

Property Expenses

Total Property Expenses. Total property expenses consist of rental expenses and real estate taxes. Total property expenses increased \$1.6 million, or 5%, to \$31.1 million, for the three months ended June 30, 2019 compared to \$29.5 million for the three months ended June 30, 2018.

Rental Expenses. Rental expenses increased \$0.9 million, or 5%, to \$21.8 million for the three months ended June 30, 2019 compared to \$20.9 million for the three months ended June 30, 2018. Rental expense by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Three Months Ended June 30,		Change	%	Three Months Ended June 30,		Change	%
	2019	2018			2019	2018		
Retail	\$ 3,948	\$ 3,598	\$ 350	10 %	\$ 3,026	\$ 3,006	\$ 20	1 %
Office	6,167	5,443	724	13	5,654	5,342	312	6
Multifamily	3,302	3,553	(251)	(7)	3,302	3,553	(251)	(7)
Mixed-Use	8,409	8,288	121	1	—	—	—	—
	<u>\$ 21,826</u>	<u>\$ 20,882</u>	<u>\$ 944</u>	<u>5 %</u>	<u>\$ 11,982</u>	<u>\$ 11,901</u>	<u>\$ 81</u>	<u>1 %</u>

Retail rental expenses increased \$0.4 million for the three months ended June 30, 2019 compared to the three months ended June 30, 2018 primarily due to the absence of contra-bad debt expense at Waialele Center and parking lot repairs expense during the period.

Office rental expenses increased \$0.7 million for the three months ended June 30, 2019 compared to the three months ended June 30, 2018 primarily due to an increase in commercial rent tax at The Landmark at One Market and One Beach Street. The increase in office rental expense was also attributed to higher janitorial services and repairs at City Center Bellevue, Torrey Point, which was placed into operations in August 2018 and the acquisition of La Jolla Commons on June 20, 2019, which had rental expenses of \$0.1 million during the period.

Multifamily rental expenses decreased \$0.3 million for the three months ended June 30, 2019 compared to the three months ended June 30, 2018 primarily due to a decrease in utilities expense and personnel compensation expenses during the period.

Mixed-use rental expense increased \$0.1 million for the three months ended June 30, 2019 compared to the three months ended June 30, 2018 primarily due to an increase in hotel room expenses and repairs and maintenance during the period.

Real Estate Taxes. Real estate taxes increased \$0.6 million, or 7%, to \$9.3 million for the three months ended June 30, 2019 compared to \$8.6 million for the three months ended June 30, 2018. Real estate tax expense by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Three Months Ended June 30,				Three Months Ended June 30,			
	2019	2018	Change	%	2019	2018	Change	%
Retail	\$ 3,783	\$ 3,540	\$ 243	7%	\$ 3,034	\$ 2,811	\$ 223	8%
Office	3,102	2,899	203	7	2,822	2,840	(18)	(1)
Multifamily	1,581	1,467	114	8	1,581	1,467	114	8
Mixed-Use	809	722	87	12	—	—	—	—
	<u>\$ 9,275</u>	<u>\$ 8,628</u>	<u>\$ 647</u>	<u>7%</u>	<u>\$ 7,437</u>	<u>\$ 7,118</u>	<u>\$ 319</u>	<u>4%</u>

Retail real estate taxes increased \$0.2 million for the three months ended June 30, 2019 compared to the three months ended June 30, 2018 primarily due to an increase in tax assessments at Alamo Quarry Market and Carmel Mountain Plaza.

Office real estate taxes increased \$0.2 million for the three months ended June 30, 2019 compared to the three months ended June 30, 2018 primarily due to an increase in tax assessments for Torrey Point, which was placed into operations in August 2018 and the acquisition of La Jolla Commons on June 20, 2019, which had real estate taxes of \$0.1 million during the period.

Multifamily real estate taxes increased \$0.1 million for the three months ended June 30, 2019 compared to the three months ended June 30, 2018 primarily due to an increase in tax assessments at Pacific Ridge Apartments.

Property Operating Income

Property operating income decreased \$2.5 million, or 5%, to \$53.0 million for the three months ended June 30, 2019, compared to \$55.5 million for the three months ended June 30, 2018. Property operating income by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Three Months Ended June 30,				Three Months Ended June 30,			
	2019	2018	Change	%	2019	2018	Change	%
Retail	\$ 18,140	\$ 19,277	\$ (1,137)	(6)%	\$ 15,744	\$ 15,802	\$ (58)	—%
Office	20,931	22,710	(1,779)	(8)	20,161	21,482	(1,321)	(6)
Multifamily	8,014	7,602	412	5	8,014	7,602	412	5
Mixed-Use	5,927	5,924	3	—	—	—	—	—
	<u>\$ 53,012</u>	<u>\$ 55,513</u>	<u>\$ (2,501)</u>	<u>(5)%</u>	<u>\$ 43,919</u>	<u>\$ 44,886</u>	<u>\$ (967)</u>	<u>(2)%</u>

Total retail property operating income decreased \$1.1 million for the three months ended June 30, 2019 compared to the three months ended June 30, 2018 primarily due to the expiration of the Kmart lease at Waikele Center offset by higher rental revenue at Carmel Mountain Plaza.

Total office property operating income decreased \$1.8 million for the three months ended June 30, 2019 compared to the three months ended June 30, 2018 primarily due to the lease termination fees in the prior period for tenants at Lloyd District Portfolio and Torrey Point received during the three months ended June 30, 2018. The decrease in total office property operating income was offset by the acquisition of La Jolla Commons on June 20, 2019, which had property operating income of \$1.0 million during the period and higher annualized base rents at City Center Bellevue, Torrey Reserve Campus, and Solana Crossing. Same-store office property operating income decreased \$1.3 million due to the lease termination fees in the prior period for tenants at Lloyd District Portfolio offset by the higher annualized base rents at City Center Bellevue, Torrey Reserve Campus, and Solana Crossing.

Total multifamily property operating income increased \$0.4 million for the three months ended June 30, 2019 compared to the three months ended June 30, 2018 primarily due to an increase in average base rent per unit to \$2,092 for the three months ended June 30, 2019 compared to \$2,037 for the three months ended June 30, 2018.

Other

General and Administrative. General and administrative expenses increased \$0.5 million, or 10%, to \$5.9 million for the three months ended June 30, 2019, compared to \$5.4 million for the three months ended June 30, 2018. This increase was primarily due to an increase in employee-related costs and travel expenses.

Depreciation and Amortization. Depreciation and amortization expense decreased \$10.3 million, or 31%, to \$22.6 million for the three months ended June 30, 2019, compared to \$32.9 million for the three months ended June 30, 2018. This decrease was primarily due to higher depreciation and amortization in the prior period at Waikēle Center attributable to the redevelopment of the Kmart space.

Interest Expense. Interest expense increased \$0.4 million, or 3%, to \$13.1 million for the three months ended June 30, 2019, compared to \$12.7 million for the three months ended June 30, 2018. This increase was primarily due to the higher average outstanding balance on the line of credit in 2019, offset by the repayment of the mortgage loans at One Beach Street on November 30, 2018 and Torrey Reserve - North Court on March 1, 2019.

Gain on sale of real estate. Gain on sale of real estate of \$0.6 million during the period relates to our sale of Solana Beach - Highway 101 on May 22, 2019.

Other (Expense) Income, Net. Other (Expense) income, net decreased \$0.1 million, or 66%, to \$0.1 million for the three months ended June 30, 2019, compared to \$0.1 million for the three months ended June 30, 2018, primarily due to an increase in interest and investment income attributed to interest on the net proceeds from our public offering prior to the acquisition of La Jolla Commons and an increase in income tax expense related to higher taxable income for our taxable REIT subsidiary during the period.

Comparison of the Six Months Ended June 30, 2019 to the Six Months Ended June 30, 2018

The following summarizes our consolidated results of operations for the six months ended June 30, 2019 compared to our consolidated results of operations for the six months ended June 30, 2018.

The following table sets forth selected data from our unaudited consolidated statements of income for the six months ended June 30, 2019 and 2018 (dollars in thousands):

	<u>Six Months Ended June 30,</u>		<u>Change</u>	<u>%</u>
	<u>2019</u>	<u>2018</u>		
Revenues				
Rental income	\$ 156,487	\$ 153,093	\$ 3,394	2 %
Other property income	12,945	12,662	283	2
Total property revenues	169,432	165,755	3,677	2
Expenses				
Rental expenses	42,622	41,302	1,320	3
Real estate taxes	18,321	17,174	1,147	7
Total property expenses	60,943	58,476	2,467	4
Total property income	108,489	107,279	1,210	1
General and administrative	(12,016)	(10,963)	(1,053)	10
Depreciation and amortization	(43,165)	(66,147)	22,982	(35)
Interest expense	(26,478)	(26,508)	30	—
Gain on sale of real estate	633	—	633	100
Other income (expense), net	(279)	61	(340)	557
Net income	27,184	3,722	23,462	630
Net income attributable to restricted shares	(185)	(144)	(41)	28
Net income attributable to unitholders in the Operating Partnership	(6,988)	(959)	(6,029)	629
Net income attributable to American Assets Trust, Inc. stockholders	\$ 20,011	\$ 2,619	\$ 17,392	664 %

Revenue

Total property revenues. Total property revenue consists of rental revenue and other property income. Total property revenue increased \$3.7 million, or 2%, to \$169.4 million for the six months ended June 30, 2019 compared to \$165.8 million for the six months ended June 30, 2018. The percentage leased was as follows for each segment as of June 30, 2019 and 2018:

	Percentage Leased ⁽¹⁾	
	June 30,	
	2019	2018
Retail	97.5%	96.7%
Office	93.7%	93.8%
Multifamily	92.6%	93.9%
Mixed-Use ⁽²⁾	98.2%	95.9%

(1) The percentage leased includes the square footage under lease, including leases which may not have commenced as of June 30, 2019 or June 30, 2018, as applicable.

(2) Includes the retail portion of the mixed-use property only.

The increase in total property revenue was attributable primarily to the factors discussed below.

Rental revenues. Rental revenue includes minimum base rent, cost reimbursements, percentage rents and other rents. Rental revenue increased \$3.4 million, or 2%, to \$156.5 million for the six months ended June 30, 2019 compared to \$153.1 million for the six months ended June 30, 2018. Rental revenue by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio ⁽¹⁾			
	Six Months Ended June 30,		Change	%	Six Months Ended June 30,		Change	%
	2019	2018			2019	2018		
Retail	\$ 50,080	\$ 51,638	(1,558)	(3)%	\$ 42,928	\$ 42,454	\$ 474	1%
Office	55,100	50,869	4,231	8	53,256	50,858	2,398	5
Multifamily	24,068	23,302	766	3	24,068	23,302	766	3
Mixed-Use	27,239	27,284	(45)	—	—	—	—	—
	<u>\$ 156,487</u>	<u>\$ 153,093</u>	<u>\$ 3,394</u>	<u>2%</u>	<u>\$ 120,252</u>	<u>\$ 116,614</u>	<u>\$ 3,638</u>	<u>3%</u>

(1) For this table and tables following, the 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 as it was acquired on June 20, 2019; (iv) Waikiki Beach Walk Retail and Embassy Suites™ Hotel due to significant spalling repair activity; and (v) land held for development.

Total retail rental revenue decreased \$1.6 million for the six months ended June 30, 2019 compared to the six months ended June 30, 2018 primarily due to the expiration of the Kmart lease at Waikele Center on June 30, 2018. Same-store retail rental revenue increased \$0.5 million due to higher straight-line rent revenue at Carmel Mountain Plaza and additional cost reimbursements at Alamo Quarry Market.

Total office rental revenue increased \$4.2 million for the six months ended June 30, 2019 compared to the six months ended June 30, 2018 due to the acquisition of La Jolla Commons on June 20, 2019, which had rental revenue of approximately \$1.1 million during the period. The increase in total office rental revenue is also attributed to Torrey Point, which was placed into operations during the third quarter of 2018, and had rental revenue of approximately \$0.7 million during the period. Same-store office rental revenue increased \$2.4 million for the six months ended June 30, 2019 compared to the six months ended June 30, 2018 primarily due to higher annualized base rents at City Center Bellevue, Torrey Reserve Campus, and Solana Crossing.

Multifamily rental revenue increased \$0.8 million for the six months ended June 30, 2019 compared to the six months ended June 30, 2018 primarily due to an increase in occupancy and higher average base rent per unit of \$2,074 for the six months ended June 30, 2019 compared to \$2,013 for the six months ended June 30, 2018.

Other property income. Other property income increased \$0.3 million, or 2%, to \$12.9 million for the six months ended June 30, 2019 compared to \$12.7 million for the six months ended June 30, 2018. Other property income by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Six Months Ended June 30,		Change	%	Six Months Ended June 30,		Change	%
	2019	2018			2019	2018		
Retail	\$ 5,228	\$ 934	\$ 4,294	460 %	\$ 4,595	\$ 440	\$ 4,155	944 %
Office	2,906	6,953	(4,047)	(58)	2,811	5,532	(2,721)	(49)
Multifamily	1,728	1,744	(16)	(1)	1,728	1,744	(16)	(1)
Mixed-Use	3,083	3,031	52	2	—	—	—	—
	\$ 12,945	\$ 12,662	\$ 283	2 %	\$ 9,134	\$ 7,716	\$ 1,418	18 %

Total retail other property income increased \$4.3 million for the six months ended June 30, 2019 compared to the six months ended June 30, 2018 primarily due to an increase in lease termination fees recognized in connection with the termination of a ground lease, and ground lessee's surrender of, the former Sears building at Carmel Mountain Plaza during the six months ended June 30, 2019.

Total office other property income decreased \$4.0 million for the six months ended June 30, 2019 compared to the six months ended June 30, 2018 primarily due to lease termination fees in the prior for tenants at Lloyd District Portfolio and Torrey Point received during the six months ended June 30, 2018.

Property Expenses

Total Property Expenses. Total property expenses consist of rental expenses and real estate taxes. Total property expenses increased by \$2.5 million, or 4%, to \$60.9 million for the six months ended June 30, 2019, compared to \$58.5 million for the six months ended June 30, 2018. This increase in total property expenses was attributable primarily to the factors discussed below.

Rental Expenses. Rental expenses increased \$1.3 million, or 3%, to \$42.6 million for the six months ended June 30, 2019, compared to \$41.3 million for the six months ended June 30, 2018. Rental expense by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Six Months Ended June 30,		Change	%	Six Months Ended June 30,		Change	%
	2019	2018			2019	2018		
Retail	\$ 7,467	\$ 7,048	\$ 419	6 %	\$ 5,831	\$ 5,906	\$ (75)	(1)%
Office	11,636	10,540	1,096	10	10,854	10,307	547	5
Multifamily	6,794	7,005	(211)	(3)	6,795	7,005	(210)	(3)
Mixed-Use	16,725	16,709	16	—	—	—	—	—
	\$ 42,622	\$ 41,302	\$ 1,320	3 %	\$ 23,480	\$ 23,218	\$ 262	1 %

Total retail rental expenses increased \$0.4 million for the six months ended June 30, 2019 compared to the six months ended June 30, 2018 primarily due to the absence of contra-bad debt expense at Waikele Center.

Total office rental expenses increased \$1.1 million for the six months ended June 30, 2019 compared to the six months ended June 30, 2018 primarily due to an increase in commercial rent tax at The Landmark at One Market and One Beach Street. The increase in office rental expense was also attributed to higher janitorial services and repairs at City Center Bellevue, Torrey Point, which was placed into operations in August 2018 and the acquisition of La Jolla Commons on June 20, 2019, which has rental expenses of \$0.1 million during the period.

Total multifamily rental expenses decreased \$0.2 million for the six months ended June 30, 2019 compared to the six months ended June 30, 2018 primarily due to a decrease in utilities expense and personnel compensation expense during the period.

Real Estate Taxes. Real estate tax expense increased \$1.1 million, or 7%, to \$18.3 million for the six months ended June 30, 2019 compared to \$17.2 million for the six months ended June 30, 2018. Real estate tax expense by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Six Months Ended June 30,				Six Months Ended June 30,			
	2019	2018	Change	%	2019	2018	Change	%
Retail	\$ 7,418	\$ 6,901	\$ 517	7%	\$ 5,967	\$ 5,444	\$ 523	10 %
Office	6,122	5,815	307	5	5,684	5,699	(15)	—
Multifamily	3,162	3,012	150	5	3,161	3,012	149	5
Mixed-Use	1,619	1,446	173	12	—	—	—	—
	<u>\$ 18,321</u>	<u>\$ 17,174</u>	<u>\$ 1,147</u>	<u>7%</u>	<u>\$ 14,812</u>	<u>\$ 14,155</u>	<u>\$ 657</u>	<u>5 %</u>

Retail real estate taxes increased \$0.5 million for the six months ended June 30, 2019 compared to the six months ended June 30, 2018 primarily due to an increase in tax assessments at Alamo Quarry Market and Carmel Mountain Plaza.

Total office real estate taxes increased \$0.3 million for the six months ended June 30, 2019 compared to the six months ended June 30, 2018 primarily due to an increase in tax assessments for Torrey Point, which was placed into operations in August 2018 and the acquisition of La Jolla Commons on June 20, 2019, which had real estate taxes of \$0.1 million during the period.

Multifamily real estate taxes increased \$0.2 million for the six months ended June 30, 2019 compared to the six months ended June 30, 2018 primarily due to an increase in tax assessments for Pacific Ridge Apartments and Hassalo on Eighth - Residential.

Mixed-use real estate taxes increased \$0.2 million for the six months ended June 30, 2019 compared to the six months ended June 30, 2018 primarily due to an increase in tax assessments for the hotel portion of our mixed-use property.

Property Operating Income

Property operating income increased \$1.2 million, or 1%, to \$108.5 million for the six months ended June 30, 2019, compared to \$107.3 million for the six months ended June 30, 2018. Property operating income by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Six Months Ended June 30,				Six Months Ended June 30,			
	2019	2018	Change	%	2019	2018	Change	%
Retail	\$ 40,423	\$ 38,623	\$ 1,800	5 %	\$ 35,725	\$ 31,544	\$ 4,181	13 %
Office	40,248	41,467	(1,219)	(3)	39,529	40,384	(855)	(2)
Multifamily	15,840	15,029	811	5	15,840	15,029	811	5
Mixed-Use	11,978	12,160	(182)	(1)	—	—	—	—
	<u>\$ 108,489</u>	<u>\$ 107,279</u>	<u>\$ 1,210</u>	<u>1 %</u>	<u>\$ 91,094</u>	<u>\$ 86,957</u>	<u>\$ 4,137</u>	<u>5 %</u>

Total retail property operating income increased \$1.8 million during the six months ended June 30, 2019 compared to the six months ended June 30, 2018 primarily due to an increase in lease termination fees recognized in connection with the termination of a ground lease, and ground lessee's surrender of, the former Sears building at Carmel Mountain Plaza offset by the expiration of the Kmart lease at Waikele Center.

Total office property operating income decreased \$1.2 million during the six months ended June 30, 2019 compared to the six months ended June 30, 2018 primarily due to the lease termination fees in the prior period at Lloyd District Portfolio and Torrey Point received during the six months ended June 30, 2018. The decrease in total office property operating income was offset by the acquisition of La Jolla Commons on June 20, 2019, which had property operating income of \$1.0 million during the period and higher annualized base rents at City Center Bellevue, Torrey Reserve Campus, and Solana Crossing.

Multifamily property operating income increased \$0.8 million for the six months ended June 30, 2019 compared to the six months ended June 30, 2018 primarily due to an increase in higher average base rent per unit of \$2,074 for the six months ended June 30, 2019 compared to \$2,013 for the six months ended June 30, 2018.

Mixed-use property operating income decreased \$0.2 million during the six months ended June 30, 2019 compared to the six months ended June 30, 2018. The decrease was primarily due to a decrease in hotel room revenue and an increase in real

estate taxes at the hotel portion of our mixed-use property offset by an increase in annualized base rents at the retail portion of our mixed-use property.

Other

General and Administrative. General and administrative expenses increased \$1.1 million, or 10%, to \$12.0 million for the six months ended June 30, 2019, compared to \$11.0 million for the six months ended June 30, 2018. This increase was primarily due to an increase in employee-related costs and travel expenses.

Depreciation and Amortization. Depreciation and amortization expense decreased \$23.0 million, or 35%, to \$43.2 million for the six months ended June 30, 2019, compared to \$66.1 million for the six months ended June 30, 2018. This decrease was primarily due to a higher depreciation and amortization expense in the prior period at Waikale Center attributed to the redevelopment of the Kmart space and Lloyd District Portfolio attributed to acceleration of depreciation related to lease terminations.

Interest Expense. Interest expense decreased \$0.0 million, or 0%, to \$26.5 million for the six months ended June 30, 2019 compared to \$26.5 million for the six months ended June 30, 2018. This decrease was primarily due to the payoff of property mortgages for Loma Palisades during the first quarter of 2018, One Beach Street during the fourth quarter of 2018 and Torrey Reserve - North Court during the first quarter of 2019, substantially offset by the higher average outstanding balance on the line of credit in 2019.

Gain on sale of real estate. Gain on sale of real estate of \$0.6 million during the period relates to our sale of Solana Beach - Highway 101 on May 22, 2019.

Other Income (Expense), Net. Other (Expense) income, net decreased \$0.3 million, or 557%, to other expense, net of \$0.3 million for the six months ended June 30, 2019, compared to other income, net of \$0.1 million for the six months ended June 30, 2018, primarily due to an increase in income tax expense related to higher taxable income for our taxable REIT subsidiary during the period.

Liquidity and Capital Resources of American Assets Trust, Inc.

In this “Liquidity and Capital Resources of American Assets Trust, Inc.” section, the term the “company” refers only to American Assets Trust, Inc. on an unconsolidated basis, and excludes the Operating Partnership and all other subsidiaries.

The company’s business is operated primarily through the Operating Partnership, of which the company is the parent company and sole general partner, and which it consolidates for financial reporting purposes. Because the company operates on a consolidated basis with the Operating Partnership, the section entitled “Liquidity and Capital Resources of American Assets Trust, L.P.” should be read in conjunction with this section to understand the liquidity and capital resources of the company on a consolidated basis and how the company is operated as a whole.

The company issues public equity from time to time, but does not otherwise generate any capital itself or conduct any business itself, other than incurring certain expenses in operating as a public company which are fully reimbursed by the Operating Partnership. The company itself does not have any indebtedness, and its only material asset is its ownership of partnership interests of the Operating Partnership. Therefore, the consolidated assets and liabilities and the consolidated revenues and expenses of the company and the Operating Partnership are the same on their respective financial statements. However, all debt is held directly or indirectly by the Operating Partnership. The company’s principal funding requirement is the payment of dividends on its common stock. The company’s principal source of funding for its dividend payments is distributions it receives from the Operating Partnership.

As of June 30, 2019, the company owned an approximate 78.4% partnership interest in the Operating Partnership. The remaining 21.6% are owned by non-affiliated investors and certain of the company's directors and executive officers. As the sole general partner of the Operating Partnership, American Assets Trust, Inc. has the full, exclusive and complete authority and control over the Operating Partnership’s day-to-day management and business, can cause it to enter into certain major transactions, including acquisitions, dispositions and refinancings, and can cause changes in its line of business, capital structure and distribution policies. The company causes the Operating Partnership to distribute such portion of its available cash as the company may in its discretion determine, in the manner provided in the Operating Partnership’s partnership agreement.

The liquidity of the company is dependent on the Operating Partnership's ability to make sufficient distributions to the company. The primary cash requirement of the company is its payment of dividends to its stockholders. The company also guarantees some of the Operating Partnership's debt, as discussed further in Note 7 of the Notes to Consolidated Financial Statements included elsewhere herein. If the Operating Partnership fails to fulfill certain of its debt requirements, which trigger the company's guarantee obligations, then the company will be required to fulfill its cash payment commitments under such guarantees. However, the company's only significant asset is its investment in the Operating Partnership.

We believe the Operating Partnership's sources of working capital, specifically its cash flow from operations, and borrowings available under its unsecured line of credit, are adequate for it to make its distribution payments to the company and, in turn, for the company to make its dividend payments to its stockholders. As of June 30, 2019, the company has determined that it has adequate working capital to meet its dividend funding obligations for the next 12 months. However, we cannot assure you that the Operating Partnership's sources of capital will continue to be available at all or in amounts sufficient to meet its needs, including its ability to make distribution payments to the company. The unavailability of capital could adversely affect the Operating Partnership's ability to pay its distributions to the company, which would in turn, adversely affect the company's ability to pay cash dividends to its stockholders.

Our short-term liquidity requirements consist primarily of funds to pay for future dividends expected to be paid to the company's stockholders, operating expenses and other expenditures directly associated with our properties, interest expense and scheduled principal payments on outstanding indebtedness, general and administrative expenses, funding construction projects, capital expenditures, tenant improvements and leasing commissions.

The company may from time to time seek to repurchase or redeem the Operating Partnership's outstanding debt, the company's shares of common stock or other securities in open market purchases, privately negotiated transactions or otherwise. Such repurchases or redemptions, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

For the company to maintain its qualification as a REIT, it must pay dividends to its stockholders aggregating annually at least 90% of its REIT taxable income, excluding net capital gains. While historically the company has satisfied this distribution requirement by making cash distributions to American Assets Trust, Inc.'s stockholders or American Assets Trust, L.P.'s unitholders, it may choose to satisfy this requirement by making distributions of cash or other property, including, in limited circumstances, the company's own stock. As a result of this distribution requirement, the Operating Partnership cannot rely on retained earnings to fund its ongoing operations to the same extent that other companies whose parent companies are not REITs can. The company may need to continue to raise capital in the equity markets to fund the operating partnership's working capital needs, acquisitions and developments. Although there is no intent at this time, if market conditions deteriorate, the company may also delay the timing of future development and redevelopment projects as well as limit future acquisitions, reduce the Operating Partnership's operating expenditures, or re-evaluate its dividend policy.

The company is a well-known seasoned issuer. As circumstances warrant, the company may issue equity from time to time on an opportunistic basis, dependent upon market conditions and available pricing. When the company receives proceeds from preferred or common equity issuances, it is required by the Operating Partnership's partnership agreement to contribute the proceeds from its equity issuances to the Operating Partnership in exchange for partnership units of the Operating Partnership. The Operating Partnership may use the proceeds to repay debt, to develop new or existing properties, to acquire properties or for general corporate purposes.

In February 2018, the company filed a universal shelf registration statement on Form S-3ASR with the SEC, which became effective upon filing and which replaced the prior Form S-3ASR that was filed with the SEC in February 2015. The universal shelf registration statement may permit the company from time to time to offer and sell equity securities of the company. However, there can be no assurance that the company will be able to complete any such offerings of securities. Factors influencing the availability of additional financing include investor perception of our prospects and the general condition of the financial markets, among others.

In May 2015, we entered into an ATM equity program with five sales agents in which we may, from time to time, offer and sell shares of our common stock having an aggregate offering price of up to \$250.0 million. On March 2, 2018, we amended certain of these equity programs, terminated one such program and entered into a new equity program with one new sales agent. The sales of shares of the company's common stock made through the ATM equity program, as amended, are made in "at-the-market" offerings as defined in Rule 415 of the Securities Act. As of June 30, 2019, we had the capacity to issue up to an additional \$145.1 million in shares of common stock under the ATM equity program. We intend to use the net proceeds to fund development or redevelopment activities, repay amounts outstanding from time to time under our amended and restated credit facility or other debt financing obligations, fund potential acquisition opportunities and/or for general corporate purposes.

Actual future sales will depend on a variety of factors including, but not limited to, market conditions, the trading price of the company's common stock and the company's capital needs. We have no obligation to sell the remaining shares available for sale under the ATM equity program.

On June 14, 2019, we issued and sold 10,925,000 shares of common stock in an underwritten public offering at a price to the public of \$44.75 per share. We received net proceeds of approximately \$472.6 million, after deducting underwriting discounts, commissions and offering expenses.

Liquidity and Capital Resources of American Assets Trust, L.P.

In this "Liquidity and Capital Resources of American Assets Trust, L.P." section, the terms "we," "our" and "us" refer to the Operating Partnership together with its consolidated subsidiaries, or the Operating Partnership and American Assets Trust, Inc. together with their consolidated subsidiaries, as the context requires. American Assets Trust, Inc. is our sole general partner and consolidates our results of operations for financial reporting purposes. Because we operate on a consolidated basis with American Assets Trust, Inc., the section entitled "Liquidity and Capital Resources of American Assets Trust, Inc." should be read in conjunction with this section to understand our liquidity and capital resources on a consolidated basis.

Due to the nature of our business, we typically generate significant amounts of cash from operations. The cash generated from operations is used for the payment of operating expenses, capital expenditures, debt service and dividends to American Assets Trust, Inc.'s stockholders and our unitholders. As a REIT, American Assets Trust, Inc. must generally make annual distributions to its stockholders of at least 90% of its net taxable income. As of June 30, 2019, we held \$44.8 million in cash and cash equivalents.

Our short-term liquidity requirements consist primarily of operating expenses and other expenditures associated with our properties, regular debt service requirements, dividend payments to American Assets Trust, Inc.'s stockholders required to maintain its REIT status, distributions to our unitholders, capital expenditures and, potentially, acquisitions. We expect to meet our short-term liquidity requirements through net cash provided by operations, reserves established from existing cash and, if necessary, borrowings available under our credit facility.

Our long-term liquidity needs consist primarily of funds necessary to pay for the repayment of debt at maturity, property acquisitions, tenant improvements and capital improvements. We expect to meet our long-term liquidity requirements to pay scheduled debt maturities and to fund property acquisitions and capital improvements with net cash from operations, long-term secured and unsecured indebtedness and, if necessary, the issuance of equity and debt securities. We also may fund property acquisitions and capital improvements using our amended and restated credit facility pending permanent financing. We believe that we have access to multiple sources of capital to fund our long-term liquidity requirements, including the incurrence of additional debt and the issuance of additional equity. However, we cannot be assured that this will be the case. Our ability to incur additional debt will be dependent on a number of factors, including our degree of leverage, the value of our unencumbered assets and borrowing restrictions that may be imposed by lenders. Our ability to access the equity capital markets will be dependent on a number of factors as well, including general market conditions for REITs and market perceptions about our company.

Our overall capital requirements for the remainder of 2019 and first quarter 2020 will depend upon acquisition opportunities and the level of improvements and redevelopments on existing properties. Our capital investments will be funded on a short-term basis with cash on hand, cash flow from operations and/or our revolving line of credit. On a long-term basis, our capital investments may be funded with additional long-term debt. Our ability to incur additional debt will be dependent on a number of factors, including our degree of leverage, the value of our unencumbered assets and borrowing restrictions that may be imposed by lenders. Our capital investments may also be funded by additional equity including shares issued by American Assets Trust, Inc. under its ATM equity program. Although there is no intent at this time, if market conditions deteriorate, we may also delay the timing of future development and redevelopment projects as well as limit future acquisitions, reduce our operating expenditures, or re-evaluate our dividend policy.

In February 2018, the Operating Partnership filed a universal shelf registration on Form S-3 ASR with the SEC which provided for the registration of an unspecified amount of debt securities by the Operating Partnership. However, there can be no assurance that the Operating Partnership will be able to complete any such offerings of debt securities. Factors influencing the availability of additional financing include investor perception of our prospects and the general condition of the financial markets, among others.

Off-Balance Sheet Arrangements

We currently do not have any off-balance sheet arrangements.

Cash Flows

Comparison of the six months ended June 30, 2019 to the six months ended June 30, 2018

Cash, cash equivalents, and restricted cash were \$54.5 million and \$60.7 million at June 30, 2019 and 2018, respectively.

Net cash provided by operating activities decreased \$12.1 million to \$70.2 million for the six months ended June 30, 2019 compared to \$82.3 million for the six months ended June 30, 2018. The decrease in cash from operations was due to the expiration of the Kmart lease on June 30, 2018, a decrease in lease termination fees, and changes in operating assets and liabilities.

Net cash used in investing activities increased \$526.6 million to \$550.1 million for the six months ended June 30, 2019 compared to \$23.4 million for the six months ended June 30, 2018. The increase was primarily due to the acquisition of La Jolla Commons on June 20, 2019.

Net cash provided by financing activities increased \$567.2 million to cash provided of \$477.1 million for the six months ended June 30, 2019 compared to cash used of \$90.2 million for the six months ended June 30, 2018. The increase in cash provided by financing activities was primarily due to the underwritten public offering that settled on June 14, 2019.

Net Operating Income

Net Operating Income, or NOI, is a non-GAAP financial measure of performance. We define 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). NOI excludes general and administrative expenses, interest expense, depreciation and amortization, acquisition-related expense, other nonproperty income and losses, gains and losses from property dispositions, extraordinary items, tenant improvements, and leasing commissions. Other REITs may use different methodologies for calculating NOI, and accordingly, our NOI may not be comparable to the NOIs of other REITs.

NOI is used by investors and our management to evaluate and compare the performance of our properties and to determine trends in earnings and to compute the fair value of our properties as it is not affected by (1) the cost of funds of the property owner, (2) 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 (3) general and administrative expenses and other gains and losses that are specific to the property owner. The cost of funds is eliminated from net income because it is specific to the particular financing capabilities and constraints of the owner. The cost of funds is also eliminated because it is dependent on historical interest rates and other costs of capital as well as past decisions made by us regarding the appropriate mix of capital, which may have changed or may change in the future. Depreciation and amortization expenses as well as gains or losses from the sale of operating real estate assets are eliminated because they may not accurately represent the actual change in value in our retail, office, multifamily or mixed-use properties that result from use of the properties or changes in market conditions. While certain aspects of real property do decline in value over time in a manner that is intended to be captured by depreciation and amortization, the value of the properties as a whole have historically increased or decreased as a result of changes in overall economic conditions instead of from actual use of the property or the passage of time. Gains and losses from the sale of real property vary from property to property and are affected by market conditions at the time of sale, which will usually change from period to period. These gains and losses can create distortions when comparing one period to another or when comparing our operating results to the operating results of other real estate companies that have not made similarly timed purchases or sales. We believe that eliminating these costs from net income is useful because the resulting measure captures the actual revenue generated and actual expenses incurred in operating our properties as well as trends in occupancy rates, rental rates and operating costs.

However, the usefulness of NOI is limited because it excludes general and administrative costs, interest expense, interest income and other expense, depreciation and amortization expense and gains or losses from the sale of properties, and other gains and losses as stipulated by GAAP, the level of capital expenditures and leasing costs necessary to maintain the operating performance of our properties, all of which are significant economic costs. NOI may fail to capture significant trends in these components of net income, which further limits its usefulness.

NOI is a measure of the operating performance of our properties but does not measure our performance as a whole. NOI is therefore not a substitute for net income as computed in accordance with GAAP. This measure should be analyzed in conjunction with net income computed in accordance with GAAP and discussions elsewhere in "Management's Discussion and Analysis of Financial Condition and Results of Operations" regarding the components of net income that are eliminated in the

calculation of NOI. Other companies may use different methods for calculating NOI or similarly entitled measures and, accordingly, our NOI may not be comparable to similarly entitled measures reported by other companies that do not define the measure exactly as we do.

The following is a reconciliation of our NOI to net income for the three and six months ended June 30, 2019 and 2018 computed in accordance with GAAP (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net operating income	\$ 53,012	\$ 55,513	\$ 108,489	\$ 107,279
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 (expense) income, net	(50)	(148)	(279)	61
Net income	\$ 11,941	\$ 4,413	\$ 27,184	\$ 3,722

Funds from Operations

We calculate funds from operations, or 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 our 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. We also believe that, as a widely recognized measure of the performance of REITs, FFO will be used by investors as a basis to compare our operating performance with that of other REITs. However, because FFO excludes depreciation and amortization and captures neither the changes in the value of our properties that result from use or market conditions nor the level of capital expenditures and leasing commissions necessary to maintain the operating performance of our properties, all of which have real economic effects and could materially impact our results from operations, the utility of FFO as a measure of our performance is limited. In addition, other equity REITs may not calculate FFO in accordance with the NAREIT definition as we do, and, accordingly, our 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 our performance. FFO should not be used as a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our 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.

The following table sets forth a reconciliation of our FFO for the three and six months ended June 30, 2019 to net income, the nearest GAAP equivalent (in thousands, except per share and share data):

	Three Months Ended June 30,	Six Months Ended June 30,
	2019	2019
Funds from Operations (FFO)		
Net income	\$ 11,941	\$ 27,184
Plus: Real estate depreciation and amortization	22,582	43,165
Gain on sale of real estate	(633)	(633)
Funds from operations	33,890	69,716
Less: Nonforfeitable dividends on incentive 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 ⁽¹⁾	66,890,084	65,543,584

(1) The weighted average common shares used to compute FFO per diluted share include unvested restricted stock awards that are subject to time vesting, which were excluded from the computation of diluted EPS, as the vesting of the restricted stock awards is dilutive in the computation of FFO per diluted share but is anti-dilutive for the computation of diluted EPS for the period. Diluted shares exclude incentive restricted stock as these awards are considered contingently issuable.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevalent market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. We manage our market risk by attempting to match anticipated inflow of cash from our operating, investing and financing activities with anticipated outflow of cash to fund debt payments, dividends to our stockholders and Operating Partnership unitholders, investments, capital expenditures and other cash requirements.

Interest Rate Risk

Outstanding Debt

The following discusses the effect of hypothetical changes in market rates of interest on the fair value of our total outstanding debt. Interest rate risk amounts were determined by considering the impact of hypothetical interest rates on our debt. Discounted cash flow analysis is generally used to estimate the fair value of our mortgages payable. Considerable judgment is necessary to estimate the fair value of financial instruments. This analysis does not purport to take into account all of the factors that may affect our debt, such as the effect that a changing interest rate environment could have on the overall level of economic activity or the action that our management might take to reduce our exposure to the change. This analysis assumes no change in our financial structure.

Fixed Interest Rate Debt

Our outstanding notes payable obligations (maturing at various times through May 2029) have fixed interest rates which limit the risk of fluctuating interest rates. However, interest rate fluctuations may affect the fair value of our fixed rate debt instruments. At June 30, 2019, we had \$962.6 million of fixed rate debt outstanding with an estimated fair value of \$986.2 million. The carrying values of our revolving line of credit and term loan are deemed to be at fair value since the outstanding debt is directly tied to monthly LIBOR contracts. Additionally, we consider our \$250.0 million term loan outstanding as of June 30, 2019 to be fixed rate debt as the rate is effectively fixed by an interest rate swap agreement. If interest rates at June 30, 2019 had been 1.0% higher, the fair value of those debt instruments on that date would have decreased by approximately \$19.0 million. If interest rates at June 30, 2019 had been 1.0% lower, the fair value of those debt instruments on that date would have increased by approximately \$31.1 million.

Variable Interest Rate Debt

At June 30, 2019, we had \$345.0 million of variable rate debt outstanding. We have entered into forward starting interest rate swaps in order to economically hedge against the risk of rising interest rates that would affect our interest expense related to our future anticipated debt issuances as part of its overall borrowing program. See the discussion under Note 4 to the accompanying consolidated financial statements for certain quantitative details related to the interest rate swaps and for a discussion on how we value derivative financial instruments. Based upon this amount of variable rate debt and the specific terms, if market interest rates increased 1.0%, our annual interest expense would increase by approximately \$1.0 million with a corresponding decrease in our net income and cash flows for the year. Conversely, if market rates decreased 1.0%, our annual interest expense would decrease by approximately \$1.0 million with a corresponding increase in our net income and cash flows for the year.

ITEM 4. CONTROLS AND PROCEDURES

Controls and Procedures (American Assets Trust, Inc.)

American Assets Trust, Inc. maintains disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in American Assets Trust, Inc.'s reports under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the rules and regulations of the SEC and that such information is accumulated and communicated to management, including American Assets Trust, Inc.'s Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

American Assets Trust, Inc. has carried out an evaluation, under the supervision and with the participation of management, including American Assets Trust, Inc.'s Chief Executive Officer and Chief Financial Officer, regarding the effectiveness of its disclosure controls and procedures as of June 30, 2019, the end of the period covered by this report. Based on the foregoing, its Chief Executive Officer and Chief Financial Officer have concluded, as of June 30, 2019, that American Assets Trust, Inc.'s disclosure controls and procedures were effective in ensuring that information required to be disclosed by it in reports filed or submitted under the Exchange Act (1) is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and forms and (2) is accumulated and communicated to its management, including American Assets Trust, Inc.'s Chief Executive Officer and its Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

No changes to American Assets Trust, Inc.'s internal control over financial reporting were identified in connection with the evaluation referenced above that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, American Assets Trust, Inc.'s internal control over financial reporting.

Controls and Procedures (American Assets Trust, L.P.)

The Operating Partnership maintains disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in its reports under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the rules and regulations of the SEC and that such information is accumulated and communicated to management, including the Operating Partnership's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

The Operating Partnership has carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, regarding the effectiveness of its disclosure controls and procedures as of June 30, 2019, the end of the period covered by this report. Based on the foregoing, its Chief Executive Officer and Chief Financial Officer have concluded, as of June 30, 2019, that the Operating Partnership's disclosure controls and procedures were effective in ensuring that information required to be disclosed by it in reports filed or submitted under the Exchange Act (1) is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and forms and (2) is accumulated and communicated to its management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

No changes to the Operating Partnership's internal control over financial reporting were identified in connection with the evaluation referenced above that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Operating Partnership's internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not currently a party, as plaintiff or defendant, to any legal proceedings that we believe to be material or which, individually or in the aggregate, would be expected to have a material effect on our business, financial condition or results of operation if determined adversely to us. We may be subject to on-going litigation, relating to our portfolio and the properties comprising our portfolio, and we expect to otherwise be party from time to time to various lawsuits, claims and other legal proceedings that arise in the ordinary course of our business.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors included in Item 1A. “Risk Factors” in our annual report on Form 10-K for the year ended December 31, 2018.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description
10.2*	Contract for Purchase and Sale between HSPF La Jolla Commons I Investors LLC, HSPF La Jolla Commons II Investors LLC and HSPF La Jolla Commons II Investors LLC, collectively as Seller, and the Company, as Purchaser, dated June 10, 2019
10.4(1)	Note Purchase Agreement, dated as of July 30, 2019, by and among the Company, the Operating Partnership, and the purchasers named therein.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of American Assets Trust, Inc.
31.2*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of American Assets Trust, L.P.
31.3*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of American Assets Trust, Inc.
31.4*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of American Assets L.P.
32.1*	Certification of Chief Executive Officer and Chief Financial Officer of American Assets Trust, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Executive Officer and Chief Financial Officer of American Assets Trust, L.P. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document

* Filed herewith.

(1) Incorporated here by reference to American Assets Trust, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 30, 2019.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto authorized.

American Assets Trust, Inc.

American Assets Trust, L.P.

By: American Assets Trust, Inc.

Its: General Partner

/s/ ERNEST RADY

Ernest Rady
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

/s/ ERNEST RADY

Ernest Rady
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

/s/ ROBERT F. BARTON

Robert F. Barton
Executive Vice President, Chief Financial
Officer
(Principal Financial and Accounting
Officer)

/s/ ROBERT F. BARTON

Robert F. Barton
Executive Vice President, Chief Financial
Officer
(Principal Financial and Accounting
Officer)

Date: August 2, 2019

Date: August 2, 2019

CONTRACT OF PURCHASE AND SALE

BETWEEN

AAT LA JOLLA COMMONS, LLC, PURCHASER

AND

HSPF LA JOLLA COMMONS I INVESTORS LLC, HSPF LA JOLLA COMMONS II INVESTORS LLC AND HSPF LA JOLLA COMMONS III INVESTORS LLC, COLLECTIVELY, SELLER

June 10, 2019

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CONTRACT OF PURCHASE AND SALE

THIS CONTRACT OF PURCHASE AND SALE (this “**Agreement**”) is made and entered into as of the 10th day of June, 2019 (the “**Effective Date**”), by and between **HSPF LA JOLLA COMMONS I INVESTORS LLC** (“**La Jolla I Seller**”), **HSPF LA JOLLA COMMONS II INVESTORS LLC** (“**La Jolla II Seller**”) and **HSPF LA JOLLA COMMONS III INVESTORS LLC** (“**La Jolla III Seller**”, together with La Jolla I Seller and La Jolla II Seller, joint and severally, collectively, “**Seller**”), each a Delaware limited liability company having an address c/o J.P. Morgan Investment Management Inc., 277 Park Avenue, New York, New York 10172 and **AAT LA JOLLA COMMONS, LLC**, a Delaware limited liability company, having an address at 11455 El Camino Real, Suite 200, San Diego, California 92130 (“**Purchaser**”).

WITNESSETH:

A. Seller shall sell to Purchaser, and Purchaser shall purchase from Seller, at the price and upon the terms and conditions set forth in this Agreement, (a) those certain parcels of land commonly known as La Jolla Commons located in the City of San Diego, County of San Diego, State of California, and more particularly described on Exhibit A-1 attached hereto (the “**La Jolla Commons I Land**”), Exhibit A-2 attached hereto (the “**La Jolla Commons II Land**”) and Exhibit A-3 attached hereto (the “**La Jolla Commons III Land**”, together with La Jolla Commons I Land and La Jolla Commons II Land, collectively, the “**Land**”), (b) all buildings, structures and other improvements located upon the Land (collectively, the “**Improvements**”), (c) all easements, benefits, privileges, tenements, hereditaments, rights-of-way and other rights appurtenant to the Land (including all mineral, development, air and water rights), if any (collectively, the “**Appurtenant Rights**”), (d) all licenses to occupy property adjoining the Land, if any (collectively, the “**Licenses**” and together with the Land, the Improvements and the Appurtenant Rights, the “**Real Property**”), (e) all right, title and interest of Seller in, to and under the Leases (as hereinafter defined), and, to the extent assignable, the Assumed Contracts (as hereinafter defined), (f) all right, title and interest of Seller, if any, in and to the fixtures, equipment, machinery, furniture, furnishings, supplies and other tangible personal property owned by Seller and now or hereafter located on or used exclusively in connection with the operation, ownership or maintenance of the Real Property (collectively, the “**Personal Property**”) and (g) to the extent assignable at no cost to Seller (or assignable at a cost which Purchaser elects to pay prior to or in connection with the Closing (as hereinafter defined)), all right, title and interest of Seller in, to and under all intangible personal property, if any, owned by Seller and related to the Real Property, including, without limitation, any governmental permits, licenses and approvals (including any pending applications therefor), any warranties and guarantees (including any warranties or guarantees that Seller has received in connection with any equipment installed within the Real Property, any work or services performed or materials provided in connection with the installation of the Exterior Windows (as hereinafter defined) (collectively, the “**Window Warranties**”) or any other work or services performed with respect to the Real Property), any trade names, trademarks, URLs, symbols and other intellectual property associated with the Real Property, any plans and specifications and other architectural and engineering drawings for the Improvements in Seller’s possession and any contract rights related to the Property that are not set forth in the Assumed Contracts (collectively, the “**Intangible Property**”, and together with the Real Property, the Leases, the Assumed Contracts, the Personal Property and the Intangible Property, collectively, the “**Property**”).

B. Purchaser acknowledges that, except as otherwise expressly provided in this Agreement, the Property is being sold on an “AS IS”, “WHERE IS” and “WITH ALL FAULTS” basis on the terms and conditions hereinafter set forth.

NOW, THEREFORE, for \$10.00 in hand paid and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Purchase and Sale. Upon the terms and conditions hereinafter set forth, Seller shall sell to Purchaser, and Purchaser shall purchase from Seller, the Property.

2. Purchase Price. The purchase price (the “**Purchase Price**”) for the Property shall be the sum of Five Hundred Twenty-Five Million and No/100 Dollars (\$525,000,000.00).

3. Payment of Purchase Price. The Purchase Price shall be paid to Seller by Purchaser as follows:

3.1 Deposit. Within one (1) Business Day (as hereinafter defined) after the Effective Date, Purchaser shall deposit with First American Title Insurance Company, 3281 East Guasti Road, Suite 440, Ontario, California 91761, Attention: Christine Siegel (in its capacity as escrow agent, “**Escrowee**”), by wire transfer of immediately available federal funds to an account designated by Escrowee, the sum of Ten Million and No/100 Dollars (\$10,000,000.00) (together with all interest thereon, but excluding the Independent Consideration (as hereinafter defined), the “**Initial Deposit**”), which Initial Deposit shall be held by Escrowee pursuant to the escrow agreement (the “**Escrow Agreement**”) attached hereto as Exhibit P. If Purchaser shall fail to deposit the Initial Deposit with Escrowee within one (1) Business Day after the Effective Date, then at Seller’s election, this Agreement shall be null, void *ab initio* and of no force or effect. The Initial Deposit and, if the Extension Deposit is delivered by Purchaser to Escrowee in accordance with Section 5 of this Agreement, the Extension Deposit, shall be referred to herein, collectively, as the “**Deposit**.” The Deposit shall be nonrefundable to Purchaser, except as otherwise expressly provided to the contrary in this Agreement.

3.2 Independent Consideration. A portion of the Deposit in the amount of One Thousand Dollars (\$1,000) (the “**Independent Consideration**”) shall be earned by Seller upon execution and delivery of this Agreement by Seller and Purchaser. Seller and Purchaser hereby mutually acknowledge and agree that the Independent Consideration represents adequate bargained for consideration for Seller’s execution and delivery of this Agreement and Purchaser’s exclusive right to purchase the Property pursuant to the terms of this Agreement. The Independent Consideration is in addition to and independent of any other consideration or payment provided for in this Agreement and is nonrefundable in all events. Upon the Closing or the termination of this Agreement, the Independent Consideration shall be paid to Seller.

3.3 Closing Payment. The Purchase Price, as adjusted by the application of the Deposit and by the prorations and credits specified herein, shall be paid by Purchaser, by wire transfer of immediately available federal funds to an account or accounts designated in writing by Seller on the Closing Date (as hereinafter defined) (the amount being paid under this Section 3.3 being herein called the “**Closing Payment**”).

4. Title Matters; Investigations; Estoppel Certificates; Conditions Precedent.

4.1 Title Matters.

4.1.1 Title to the Property.

(a) Attached hereto as Exhibit B is a proforma title insurance policy for the Property that Purchaser negotiated with the Title Company (as defined below) prior to the Effective Date (the “**Title Proforma**”). The Title Proforma contains all endorsements requested by Purchaser and is in form and substance acceptable to Purchaser and Seller. As a condition to Purchaser’s obligation to consummate the Transaction, First American Title Insurance Company (in its capacity as title insurer, the “**Title Company**”), 4380 La Jolla Village Drive, Suite #110, San Diego, California 92122, Attention: Skip Santy

and 3281 East Guasti Road, Suite 440, Ontario, California 91761, Attention: Wendy M. Hagen Bowen, shall have unconditionally and irrevocably committed to insure Purchaser as the fee owner of the Real Property in the amount of the Purchase Price by the Title Company's issuance, at the Closing, of an ALTA extended coverage owner's title insurance policy in the form of the Title Proforma, including all of the endorsements attached thereto (the **Owner's Policy**"), subject only to the Permitted Exceptions (as hereinafter defined). As a condition to entering into this Agreement, prior to the date hereof, Title Company shall have committed to the foregoing in writing and shall have agreed to such issuance of the Owner's Policy with no further requirements of the Seller except as provided herein. In the event the Title Company informs the parties that it will not issue at Closing the Owner's Policy in the form of the Title Proforma (subject to the modifications permitted pursuant to the terms of this Agreement), Seller, in its sole discretion, shall have the right but not the obligation, upon written notice to Purchaser, to adjourn the Scheduled Closing Date for up to fifteen (15) days in order to endeavor to cause the Title Company to issue the Owner's Policy in the form of the Title Proforma to Purchaser; provided, however, if Seller delivers written notice to Purchaser of Seller's election to exercise its right to adjourn the Scheduled Closing Date under this Section 4.1.1(a), Purchaser may elect, by written notice delivered to Seller, to accept the Owner's Policy in the revised form provided by the Title Company, in which case the parties shall proceed to the Closing on the Scheduled Closing Date without extension. If the Title Company's unwillingness to issue the Owner's Policy in the form of the Title Proforma results from a material action or failure to act by Purchaser, such as a failure to provide a survey satisfactory to the Title Company, then the condition to Closing set forth herein and in Section 4.5 below shall be deemed to have been satisfied.

(b) Prior to the Effective Date, the Title Company issued a commitment for an owner's fee title insurance policy or policies with respect to the Real Property under Commitment Order No. NCS-933038-ONT1 and with an effective date of May 6, 2019 (the "**Title Commitment**"), together with copies of each of the title exceptions noted therein. Prior to the Effective Date, Purchaser ordered, at its sole cost and expense, an update to an existing survey of the Property delivered by Seller to Purchaser or a new survey of the Property that was prepared by a surveyor registered in the State of California and certified by said surveyor to Purchaser and Seller as having been prepared in accordance with the minimum detail requirements of the ALTA land survey requirements (the "**Survey**"). Seller has received a copy of the Title Commitment, the Title Proforma and the Survey. If the Title Company amends or updates the Title Commitment after the Effective Date and any new exceptions to title to the Real Property, other than (i) the Permitted Exceptions, (ii) Immaterial Exceptions or (iii) any new exceptions for matters shown on any updates to the Survey, appear in the amended or updated Title Commitment (such exception(s) being herein called, collectively, the "**Unpermitted Exceptions**"), subject to which Purchaser is unwilling to accept title, and Purchaser shall provide Seller with written notice (the "**Title Objection Notice**") thereof on or before the date that is three (3) days after receipt of the amended or updated Title Commitment, Seller, in its sole and absolute discretion, may undertake to eliminate the same subject to the terms and conditions of this Section 4.1.1. Purchaser hereby waives any right Purchaser may have to advance, as objections to title or as grounds for Purchaser's refusal to close the transactions contemplated by this Agreement (the "**Transaction**"), (a) any Unpermitted Exception of which Purchaser does not timely notify Seller in a Title Objection Notice, unless Purchaser provides to Seller a Title Objection Notice within three (3) days after the Title Company notifies Purchaser of such Unpermitted Exception and (b) the types of exceptions referenced above in clause (ii) and (iii) of this subsection (with all such exceptions being deemed to constitute additional Permitted Exceptions). Seller shall notify Purchaser, in writing, within three (3) days after receipt by Seller of the applicable Title Objection Notice, whether or not it will eliminate all or any of such Unpermitted Exceptions ("**Seller's Title Response**"), and if Seller fails to deliver Seller's Title Response on or before such date, Seller shall be deemed to have delivered a Seller's Title Response electing not to eliminate any such Unpermitted Exceptions. Seller, in its sole discretion, shall have the right, upon written notice to Purchaser prior to the Scheduled Closing Date, to adjourn the Scheduled Closing Date for up to sixty (60)

days in order to eliminate any Unpermitted Exception which Seller has agreed to eliminate under this Agreement or which Seller has agreed to eliminate pursuant to Seller's Title Response; provided, however, if Seller delivers written notice to Purchaser of Seller's election to exercise its right to adjourn the Scheduled Closing Date under this Section 4.1.1(b), Purchaser may elect, by written notice delivered to Seller, to waive Purchaser's objection to the Unpermitted Exception which Seller is endeavoring to eliminate, in which case the parties shall proceed to the Closing on the Scheduled Closing Date without extension. Notwithstanding the foregoing or anything to the contrary set forth in this Agreement, Seller shall not under any circumstance be required or obligated to eliminate any Unpermitted Exception including, without limitation, to bring any action or proceeding, to make any payments or otherwise to incur any expense in order to eliminate any Unpermitted Exception or to arrange for title insurance insuring against enforcement of such Unpermitted Exception against, or collection of the same out of, the Real Property, notwithstanding that Seller may have attempted to do so, or may have adjourned the Scheduled Closing Date for such purpose; provided, however, Seller shall (x) satisfy any mortgage, security instrument or deed of trust placed on the Real Property by Seller and (y) cause the removal (by bonding or otherwise) of (i) any mechanics' liens or materialmen's liens which arise as a result of work undertaken on behalf of Seller and encumber all or any portion of the Property, (ii) any encumbrances that have been voluntarily placed upon the Property by Seller after the Effective Date and are not otherwise permitted pursuant to the provisions hereof and (iii) any other monetary liens encumbering the Real Property in an amount not to exceed One Hundred Thousand and 00/100 Dollars (\$100,000.00) in the aggregate, provided that such monetary lien shall not be the result of any act or omission of Purchaser or any of Purchaser's Representatives or any of the tenants at the Real Property (collectively, "**Mandatory Objections**"). Seller shall not have the right to adjourn the Scheduled Closing Date in order to eliminate any Mandatory Objection and shall be required, subject to the right to bond over exceptions in accordance with this subsection, to utilize a portion of the Purchase Price to eliminate any such Mandatory Objection on the Closing Date in accordance with Section 4.1.1(d). For purposes herein, "Immaterial Exception" means any non-monetary title exception that first appears in an amendment or update to the Title Commitment that is issued after the Effective Date and does not materially and adversely affect the use or operation of the Real Property; provided that in no event shall either a Mandatory Objection or a title exception arising as a result of Seller's default hereunder constitute an Immaterial Exception.

(c) Except as to Mandatory Objections (which Seller will be obligated to eliminate), if Seller elects in Seller's Title Response not, or is deemed to elect not, to eliminate all Unpermitted Exceptions noted in the applicable Title Objection Notice, Purchaser shall have the right, as its sole remedy by delivery of written notice to Seller within three (3) Business Days following delivery or deemed delivery of Seller's Title Response, to either (i) terminate this Agreement by written notice delivered to Seller and Escrowee or (ii) accept title to the Real Property subject to such Unpermitted Exception(s) without a reduction in, abatement of, or credit against, the Purchase Price. If Purchaser elects to terminate this Agreement pursuant to this Section 4.1.1(c), (1) Escrowee shall return the Deposit to Purchaser, and (2) no party hereto shall have any further obligation under this Agreement except under those obligations, liabilities and provisions that expressly survive the Closing or a termination of this Agreement (collectively, the "**Surviving Obligations**"). The failure of Purchaser to deliver timely any written notice of election to terminate this Agreement under this Section 4.1.1(c) shall be conclusively deemed to be an election under the applicable clause (ii) above.

(d) If there are any Mandatory Objections, Unpermitted Exceptions noted in the Title Objection Notice or other liens or encumbrances that Seller is obligated or elects to eliminate under this Agreement, then Seller shall either (i) arrange, at Seller's cost and expense, for a bond, affirmative title insurance or special endorsements insuring against enforcement of such liens or encumbrances against, or collection of the same out of, the Real Property, or (ii) use any portion of the Purchase Price to pay and discharge the same, either by way of payment or by alternative manner reasonably satisfactory to the Title Company, and the same shall not be deemed to be Unpermitted Exceptions.

(e) Notwithstanding any provisions of this Agreement to the contrary, the Scheduled Closing Date shall be automatically adjourned in order to provide each party hereto with the full amount of all review and notice periods set forth in this Section 4.1.1; provided, however, Purchaser shall have the right to waive any such automatic adjournment of the Scheduled Closing Date by delivering written notice to Seller and Escrowee of Purchaser's election to accept title to the Property subject to the matter that would cause such adjournment, in which case the parties shall proceed to the Closing on the Scheduled Closing Date without such adjournment.

(f) If the Closing is not consummated because of a default hereunder or the failure of a condition precedent to Purchaser's obligation to purchase, or Seller's obligation to sell, the Property to be satisfied on the Closing Date, the defaulting party shall be responsible for any title or escrow cancellation charges, otherwise the title and escrow charges will be paid in accordance with Section 5.3 of this Agreement.

4.1.2 Permitted Exceptions to Title. The Real Property shall be sold and conveyed subject only to the following exceptions to title (the "**Permitted Exceptions**"):

(a) any state of facts that an accurate survey of the Property may show, other than those items Seller is obligated to eliminate prior to the Closing in accordance with Section 4.1.1;

(b) those matters specifically set forth on Exhibit B attached hereto;

(c) all laws, ordinances, rules and regulations of the United States, the State of California, or any agency, department, commission, bureau or instrumentality of any of the foregoing having jurisdiction over the Real Property (each, a "**Governmental Authority**"), as the same may now exist or may be hereafter modified, supplemented or promulgated;

(d) all presently existing and future liens of real estate taxes or assessments and water rates, water meter charges, water frontage charges and sewer taxes, rents and charges, if any, provided that such items are not yet due and payable and are apportioned as provided in this Agreement;

(e) any exceptions disclosed in any amendment or update to the Title Commitment issued by the Title Company after the Effective Date that are not disclosed by the Title Commitment and that Purchaser shall have agreed or be deemed to have agreed to waive as an Unpermitted Exception under Section 4.1.1;

(f) rights of the tenants under a Lease either identified in the Lease Exhibit (as hereinafter defined) or entered into after the Effective Date in accordance with the terms of this Agreement, as tenants in possession only, with no rights or options to purchase any portion of the Property, except to the extent set forth in Exhibit M of this Agreement;

(g) all utility easements of record which Seller does not agree to cause to be removed or cured on or prior to the Closing;

(h) liens which are the responsibility of any tenant at the Real Property to cure, correct or remove;

(i) the printed exceptions which appear in the standard form owner's policy of the title insurance issued by the Title Company in the State of California; and

(j) Immaterial Exceptions.

Under no circumstance will Mandatory Objections constitute Permitted Exceptions.

4.2 Investigations.

4.2.1 Except for title matters not shown on the Commitment (which shall be governed by the provisions of Section 4.1 above), Purchaser acknowledges that pursuant to that certain Access Agreement dated May 17, 2019 (the “**Access Agreement**”), Purchaser has had the opportunity to conduct examinations, inspections, testing, studies and investigations of the Property and to review such information regarding the Property and such documents applicable to the Property as delivered or made available to Purchaser, in each case, as Purchaser deemed necessary and appropriate, and examined and investigated to its full satisfaction all facts, circumstances, and matters relating to the Property (including the physical condition and use, availability and adequacy of utilities, access, zoning, compliance with applicable Laws, environmental conditions, engineering and structural matters), title and survey matters, and any other matters it deemed necessary and appropriate, in Purchaser’s reasonable discretion, for purposes of consummating this Transaction (collectively, the “**Investigations**”), which Investigations shall at all times be subject to Purchaser’s compliance with the provisions of this Section 4.2. Except for any limitations as may be imposed in this Agreement, Purchaser shall have the right to continue its Investigations subject to the terms hereof until the earlier of (x) the Closing, and (y) the termination of this Agreement; provided that in no event shall such continued Investigations confer any right to terminate this Agreement except as expressly provided herein. During Purchaser’s continued Investigations, Seller shall provide Purchaser with reasonable access to the Real Property upon reasonable advance notice and shall also make available to Purchaser, at the offices of Seller and/or the property manager of the Property, access to all leases, service contracts, other contracts and agreements, and as reasonably requested by Purchaser, other Information (as herein after defined) with respect to the Property in Seller’s possession, all upon reasonable advance written notice; provided, however, in no event shall Seller be obligated to make available (1) any document or correspondence which would be subject to the attorney-client privilege; (2) any document or item which Seller is contractually or otherwise bound to keep confidential; (3) any documents pertaining to the marketing of the Property for sale to prospective purchasers; (4) any internal memoranda, reports or assessments relating to the Property; (5) appraisals of the Property whether prepared internally by Seller or Seller’s affiliates or externally; or (6) any documents which Seller considers confidential or proprietary. As of the date hereof, Seller has provided, to the extent such documents are in Seller’s possession or control, all currently in effect articles of incorporation, by-laws and resolutions of the Association, minutes of meetings of the board of directors of the Association and all declarations, agreements, instruments or other documents to which the Association is a party or under which the Association is delegated or assigned any management or administrative powers or obligations. Any entry upon the Property and all Investigations shall be made or performed during Seller’s normal business hours and at the sole risk and expense of Purchaser, and shall not interfere in any material respect with the activities on or about the Real Property of Seller, its tenants or their respective employees and invitees. Purchaser shall:

(a) promptly repair any damage to the Property resulting from any such Investigations and replace, refill and regrade any holes made in, or excavations of, any portion of the Property used for such Investigations so that the Property shall be in the same condition that it existed in prior to such Investigations; provided, however, Purchaser has no obligation to repair any Pre-Existing Conditions (as defined below);

- (b) fully comply with all laws applicable to the Investigations and all other activities undertaken in connection therewith;
- (c) permit Seller to have a representative present during all Investigations undertaken hereunder;
- (d) take all actions and implement all protections necessary to ensure that the Investigations and the equipment, materials, and substances generated, used or brought onto the Real Property in connection with the Investigations, pose no threat to the safety or health of persons or the environment, and cause no damage to the Property or other property of Seller or other persons;
- (e) upon Seller's request, upon termination of this Agreement, furnish to Seller, at no cost or expense to Seller, copies of all surveys, soil test results, engineering, asbestos, environmental and other studies and reports (other than internal analysis and proprietary information of Purchaser) relating to the Investigations which Purchaser shall obtain with respect to the Property;
- (f) maintain or cause to be maintained, at Purchaser's expense, a policy of commercial general liability insurance, with a broad form contractual liability endorsement and with a combined single limit of not less than \$2,000,000 per occurrence for bodily injury and property damage, automobile liability coverage including owned and hired vehicles with a combined single limit of \$2,000,000 per occurrence for bodily injury and property damage, and an excess umbrella liability policy for bodily injury and property damage in the amount of \$1,000,000, insuring Purchaser, Seller, J.P. Morgan Investment Management Inc., and JPMorgan Chase Bank, N.A., as additional insureds, against any injuries or damages to persons or property that may result from or are related to (i) Purchaser's and/or any of the Purchaser's Representatives' (as hereinafter defined) entry upon the Real Property, (ii) any Investigations or other activities conducted thereon, and/or (iii) any and all other activities undertaken by Purchaser and/or any of the Purchaser's Representatives at the Property, all of which insurance shall be on an "occurrence form" and otherwise in such forms reasonably acceptable to Seller and with an insurance company reasonably acceptable to Seller and shall provide that no cancellation or reduction thereof shall be effective until at least thirty (30) days after receipt by Seller of written notice thereof, and deliver a copy of such insurance policy to Seller prior to the first entry on the Real Property;
- (g) not cause the Investigations or any other activities undertaken by Purchaser or any of the Purchaser's Representatives to result in any liens, judgments or other encumbrances being filed or recorded against the Property (other than with respect to any Pre-Existing Conditions), and Purchaser shall, at its sole cost and expense, immediately discharge of record any such liens or encumbrances that are so filed or recorded (including, without limitation, liens for services, labor or materials furnished); and
- (h) indemnify, defend and hold harmless Seller and any agent, advisor, representative, affiliate, employee, director, officer, partner, member, beneficiary, investor, servant, shareholder, trustee or other person or entity (each, a "**Person**") acting on Seller's behalf or otherwise related to or affiliated with Seller (including Seller, collectively, the "**Seller Related Parties**") from and against any and all claims, demands, causes of action, losses, damages, liabilities, costs and expenses (including, without limitation, attorneys' fees and disbursements) (collectively, "**Claims**"), suffered or incurred by any of the Seller Related Parties and arising out of or in connection with (i) entry upon the Real Property by Purchaser or any of the Purchaser's Representatives, (ii) any Investigations or other activities conducted thereon by Purchaser or any of the Purchaser's Representatives, (iii) any liens or encumbrances filed or recorded against the Property as a consequence of the Investigations and/or (iv) any and all other activities undertaken by Purchaser or any of the Purchaser's Representatives with respect to the Property. The foregoing indemnity

shall not include any Claims to the extent resulting from (x) the mere discovery, by Purchaser or any of the Purchaser's Representatives, of pre-existing conditions on the Property during Investigations conducted pursuant to, and in accordance with, the terms of this Agreement and which are not exacerbated by the activities of any such Person (collectively, "**Pre-Existing Conditions**"), or (y) the gross negligence or willful misconduct of Seller or any Seller Related Party.

(i) Without limiting the foregoing, in no event shall Purchaser or any of the Purchaser's Representatives, without the prior written consent of Seller: (x) make any intrusive physical testing (environmental, structural or otherwise) at the Property (such as soil borings, water samplings or the like), (y) contact any of the tenants at the Property and/or (z) contact any Governmental Authority with respect to matters concerning the Property, except with respect to obtaining a zoning compliance letter and/or confirming the Entitlements (as hereinafter defined), provided that Seller or a Seller Related Party is copied on any correspondence and present during any discussions with any Governmental Authority.

(j) Purchaser's obligations under this Section 4.2.1 shall survive the Closing or a termination of this Agreement.

4.2.2 Property Information and Confidentiality. All Information (as hereinafter defined) provided to or obtained by Purchaser, whether prior to or after the date hereof, shall be subject to the following terms and conditions:

(a) Any Information provided or to be provided with respect to the Property is solely for the convenience of Purchaser and was or will be obtained from a variety of sources. None of the Seller Related Parties has made any independent investigation or verification of such information and, except as expressly set forth in this Agreement, makes no (and expressly disclaims all) representations and warranties as to the truth, accuracy or completeness of the Information, or any other studies, documents, reports or other information provided to Purchaser hereunder and expressly disclaims any implied representations as to any matter disclosed or omitted. None of the Seller Related Parties shall be liable for any mistakes, omissions, misrepresentations or any failure to investigate the Property nor shall any of the Seller Related Parties be bound in any manner by any verbal or written statements, representations, appraisals, environmental assessment reports, or other information pertaining to the Property or the operation thereof, except as expressly set forth in this Agreement.

(b) Purchaser agrees that neither Purchaser nor any of the Purchaser's Representatives shall, at any time or in any manner, either directly or indirectly, divulge, disclose or communicate to any Person, the Information, or any other knowledge or information acquired by Purchaser or any of the Purchaser's Representatives from any of the Seller Related Parties or by Purchaser's own inspections and investigations, other than matters that were in the public domain at the time of receipt by such Person. Without Seller's prior written consent, Purchaser shall not disclose and Purchaser shall direct each of the Purchaser's Representatives not to disclose to any Person, any of the terms, conditions or other facts concerning a potential purchase of the Property by Purchaser, including, without limitation, the status of negotiations. Notwithstanding the foregoing, Purchaser may (x) disclose such of the Information and its other reports, studies, documents and other matters generated by it and the terms of this Agreement (i) as required by law or court order (provided prior written notice of such disclosure shall be provided to Seller) and (ii) as Purchaser deems necessary or desirable to any of the Purchaser's Representatives in connection with Purchaser's Investigations and the Transaction, provided that those to whom such Information is disclosed are informed of the confidential nature thereof and agree(s) to keep the same confidential in accordance with the terms and conditions hereof and (y) make the public disclosures described in Section 10.24.

(c) Purchaser shall, and shall cause each of the Purchaser's Representatives to, use reasonable care to maintain in good condition all of the Information furnished or made available to such Person in accordance with this Section 4.2.2. If this Agreement is terminated, then, upon the request of Seller, Purchaser shall, and shall cause each of the Purchaser's Representatives to, promptly deliver to Seller all originals and copies of the Information in the possession of such Person, and to expunge and delete any of the Information maintained on any word processing or computer system or in any other electronic form to the extent practicable.

(d) As used in this Agreement, the term "**Information**" shall mean any of the following: (i) all information and documents in any way relating to the Property, the operation thereof or the sale thereof, including, without limitation, this Agreement, all leases and contracts furnished to, or otherwise made available (including, without limitation, in any electronic data room established by or on behalf of Seller) for review by, Purchaser or its directors, officers, employees, affiliates, partners, members, brokers, agents or other representatives, including, without limitation, attorneys, accountants, contractors, consultants, engineers and financial advisors (collectively, the "**Purchaser's Representatives**"), by any of the Seller Related Parties or any of their agents or representatives, including, without limitation, their contractors, engineers, attorneys, accountants, consultants, brokers or advisors, and (ii) all analyses, compilations, data, studies, reports or other information or documents prepared or obtained by Purchaser or any of the Purchaser's Representatives containing or based on, in whole or in part, the information or documents described in the preceding clause (i), the Investigations, or otherwise reflecting their review or investigation of the Property.

(e) Purchaser shall indemnify and hold harmless each of the Seller Related Parties from and against any and all Claims suffered or incurred by any of the Seller Related Parties and arising out of or in connection with the breach by Purchaser or any of the Purchaser's Representatives of the provisions of this Section 4.2.2.

(f) In addition to any other remedies available to Seller, Seller shall have the right to seek equitable relief, including, without limitation, injunctive relief and/or specific performance, against Purchaser or any of the Purchaser's Representatives in order to enforce the provisions of this Section 4.2.2.

(g) The provisions of this Section 4.2.2 shall survive a termination of this Agreement.

4.2.3 Identified Contracts. Attached hereto as Exhibit R is a list of the Contracts (as hereinafter defined) Purchaser will assume in connection with the Closing (collectively, the "**Assumed Contracts**"), and attached hereto as Exhibit S is a list of the Contracts Seller shall terminate in connection with the Closing (collectively, the "**Identified Contracts**"). For the purposes of this Agreement, the term Identified Contracts shall additionally include all Contracts that are not listed on Exhibits R or S attached hereto, other than any Contracts that are entered into by Seller after the Effective Date with Purchaser's consent in accordance with Section 7.2.2 of this Agreement. Seller shall, on the Closing Date, deliver notices of termination to the vendors under the Identified Contracts, terminating such Identified Contracts effective upon the earliest date that, pursuant to the terms of such Identified Contracts, such Identified Contracts may be terminated. If any of the Identified Contracts cannot be terminated without the payment of a fee, premium, penalty or other form of early termination compensation, Purchaser shall be responsible for paying such fee, premium, penalty or other compensation. Purchaser understands and agrees that, at Closing, Purchaser shall assume the obligations of Seller which arise after the Closing under any Assumed Contracts and any Contracts that are entered into after the Effective Date with Purchaser's approval in accordance with this Section 7.2.2 of this Agreement. Notwithstanding anything contained in this Agreement to the contrary, Seller shall, on

or before the Closing Date, deliver notice of termination and instructions to immediately cease any performance at the Property for any existing property management agreement with respect to the Property and any other agreements or contracts between Seller and the property manager which relate to the Property (including, without limitation, any office space for property management services, any parking leases and similar agreements); provided, however, Purchaser shall assume Seller's right, title and interest with respect to the lease dated September 25, 2009 between Hines Interests Limited Partnership and Seller, which expires August 31, 2019, in connection with the Closing pursuant to the terms of the Assignment and Assumption of Leases and Contracts (as hereinafter defined).

4.3 Tenant Estoppel Certificates.

4.3.1 Seller shall use commercially reasonable efforts (and, as used in this Agreement, commercially reasonable efforts shall not be deemed to include any obligation to institute legal proceedings, deliver notices of default or to expend any monies, other than monies to pay for reasonable and customary costs normally associated with requesting and pursuing similar tenant estoppel certificates) to obtain estoppel certificates (each, a "**Tenant Estoppel Certificate**", and collectively, the "**Tenant Estoppel Certificates**") from (i) LPL Holdings, Inc., (ii) all tenants of the Property that lease rentable space within the Property that is equal to or greater than 4,000 square feet and (iii) any other tenants of the Property such that Tenant Estoppel Certificates shall have been received from tenants that collectively lease at least seventy-five percent (75%) of the net rentable square footage within the Real Property as of the Effective Date. The certificates shall, subject to the further provisions of this Section, be substantially in the form (or containing substantially similar certifications as contained in the form) attached hereto as Exhibit D-1 (or if Seller, after attempting to obtain certificates in such form, is unable to obtain the same, then in the form, if any, prescribed in the applicable Lease or other operative document or in any form such that the Tenant has made substantially similar certifications as contained in the form attached hereto as Exhibit D-2, which certifications shall be deemed sufficient to satisfy the estoppel requirement for such Tenant) but in each case, the form shall be modified to make the statements contained therein factually correct. Notwithstanding anything to the contrary contained in this Agreement, a tenant shall not be required to make any certifications not specifically enumerated in the applicable Lease estoppel requirements.

4.3.2 Prior to the Effective Date, Seller has delivered to Purchaser, copies of the Tenant Estoppel Certificates, on the form required hereunder, with all blank spaces completed prior to their delivery to tenants under any of the Leases and Purchaser has approved the same.

4.3.3 Notwithstanding anything contained in this Section 4.3 to the contrary, if Purchaser fails to object in writing to any Tenant Estoppel Certificate received from a Tenant, to the extent different from the form delivered pursuant to Section 4.3.2, or to modifications to a Tenant Estoppel Certificate made by a Tenant, within two (2) Business Days after a copy of such certificate has been delivered to Purchaser, Purchaser shall be deemed to have approved the same; provided, that Purchaser shall be deemed to have objected to Tenant Estoppel Certificates that disclose (a) any uncured defaults by such tenants or Seller under the terms of the applicable Leases or any other material costs or other material obligations with respect to such Leases for which Purchaser may be reasonably likely to be liable after the Closing, in each case unless the same were previously disclosed in writing to Purchaser or contained in the Leases or the Information provided prior to the Effective Date or (b) material economic terms with respect to such Leases which conflict with the material economic terms disclosed by Seller in writing to Purchaser prior to the Effective Date.

4.4 Association Estoppel Certificate.

4.4.1 Seller shall use commercially reasonable efforts to obtain an estoppel certificate (the “**Association Estoppel Certificate**”) from La Jolla Commons Master Association, a California nonprofit mutual benefit corporation (the “**Association**”), with respect to the Association Documents (as hereinafter defined). The Association Estoppel Certificate shall, subject to the further provisions of this Section, be substantially in the form attached hereto as Exhibit Y.

4.4.2 Seller shall endeavor to deliver to Purchaser, for its review and approval, a copy of the Association Estoppel Certificate, on the form required hereunder, with all blank spaces completed prior to the delivery of the Association Estoppel Certificate to the Association. Unless Purchaser objects in writing to such completed Association Estoppel Certificate within two (2) Business Days after receipt thereof, Purchaser shall be deemed to have approved such completed Association Estoppel Certificate.

4.4.3 Notwithstanding anything contained in this Section 4.4 to the contrary, if Purchaser fails to object in writing to the Association Estoppel Certificate received from the Association, or to modifications to the Association Estoppel Certificate made by the Association, within two (2) Business Days after a copy of such certificate has been delivered to Purchaser, Purchaser shall be deemed to have approved the same.

4.5 Conditions Precedent to Obligations of Purchaser; No Financing Contingency. The obligation of Purchaser to consummate the Transaction shall be subject to (i) the performance and observance, in all material respects, by Seller of all covenants, warranties and agreements of this Agreement to be performed or observed by Seller prior to or on the Closing Date and (ii) the fulfillment on or before the Closing Date of all other conditions precedent to Closing benefiting Purchaser specifically enumerated in this Agreement (including, without limitation, the condition precedent that the Title Company be unconditionally and irrevocably committed to issue the Owner’s Policy to Purchaser at the Closing in accordance with Section 4.1.1(a)), any or all of which may be waived by Purchaser in its sole discretion. In the event that any of the conditions precedent to the Closing benefiting Purchaser are not satisfied or waived by Purchaser prior the Scheduled Closing Date, Purchaser shall have the right to terminate this Agreement by written notice delivered to Seller and Escrowee, in which case Escrowee shall return the Deposit to Purchaser. Notwithstanding anything to the contrary contained herein, Purchaser acknowledges and agrees that, while Purchaser may at its own risk attempt to obtain financing with regard to its acquisition of the Property, (i) Purchaser’s obtaining, or ability to obtain, financing for its acquisition of the Property is in no way a condition to Purchaser’s performance of its obligations under this Agreement, (ii) Purchaser’s performance of its obligations under this Agreement is in no way dependent or conditioned upon the availability of any financing whether generally in the marketplace or specifically in favor of Purchaser, and (iii) in no event shall the Closing be delayed on account of Purchaser’s obtaining, or ability to obtain, financing.

4.6 Conditions Precedent to Obligations of Seller. The obligation of Seller to consummate the Transaction shall be subject to the performance and observance, in all material respects, by Purchaser of all covenants, warranties and agreements of this Agreement to be performed or observed by Purchaser prior to or on the Closing Date and the fulfillment on or before the Closing Date of all other conditions precedent to Closing benefiting Seller specifically enumerated in this Agreement, any or all of which may be waived by Seller in its sole discretion.

5. Closing. The closing (the “**Closing**”) of the Transaction shall occur at 1:00 p.m. (Pacific time) on or before the date that is ten (10) days following the Effective Date (the “**Scheduled Closing Date**”) (as the same may be extended as expressly provided herein), **TIME BEING OF THE ESSENCE** with respect to the parties’ obligation to close on such date (the date on which the Closing shall occur being herein referred to as the “**Closing Date**”). It is contemplated that the Transaction shall be closed by means of a so called

“New York Style Closing”, with the concurrent delivery of the documents of title, the commitment to deliver the Owner’s Policy and the payment of the Purchase Price. Notwithstanding the foregoing, there shall be no requirement that Seller and Purchaser physically meet for the Closing, and all documents and funds to be delivered at the Closing shall be delivered to Escrowee unless the parties hereto mutually agree otherwise. Seller and Purchaser also agree that disbursement of the Purchase Price, as adjusted by the prorations, shall not be conditioned upon the recording of any document, but rather, upon the satisfaction or waiver of all conditions precedent to the Closing and the irrevocable agreement by the Title Company to issue the Owner’s Policy effective as of the Closing. The Closing shall constitute approval by each party of all matters to which such party has a right of approval and a waiver of all conditions precedent. Purchaser shall have the right to extend the Scheduled Closing Date by up to ten (10) days by (i) delivering written notice of Purchaser’s election to exercise such extension option to Seller and Escrowee, not less than three (3) Business Days prior to the Scheduled Closing Date and (ii) concurrently with the delivery of such written notice to Seller and Escrowee, depositing with Escrowee, by wire transfer of immediately available federal funds to the account designated by Escrowee, the sum of Five Million and No/100 Dollars (\$5,000,000.00) (the “**Extension Deposit**”). The Extension Deposit shall be nonrefundable to Purchaser, except as otherwise expressly provided in this Agreement, and held by Escrowee pursuant to the Escrow Agreement.

5.1. Seller Deliveries. At or prior to the Closing, Seller shall deliver or cause to be delivered to Purchaser or to the Escrowee, as the case may be the following items executed and acknowledged by Seller, as appropriate:

5.1.1 A deed (the “**Deed**”) in the form attached hereto as Exhibit F.

5.1.2 An assignment and assumption of leases and contracts (the “**Assignment and Assumption of Leases and Contracts**”), in the form attached hereto as Exhibit G.

5.1.3 A bill of sale and general assignment (the “**Bill of Sale**”), in the form attached hereto as Exhibit H.

5.1.4 A certification of non-foreign status in the form attached hereto as Exhibit I, and any required state certificate that is sufficient to exempt Seller from any state withholding requirement with respect to the Transaction.

5.1.5 All keys to the Improvements, to the extent the same are in Seller’s possession or control.

5.1.6 All original copies of the Leases, to the extent the same are in Seller’s possession or control.

5.1.7 All original copies of the Contracts that will bind Purchaser following Closing to the extent the same are in Seller’s possession or control (all items in Sections 5.1.5 through 5.1.7 may be either delivered at Closing or left at the management office at the Real Property, to the extent not previously delivered to Purchaser).

5.1.8 All applicable transfer tax forms, if any.

5.1.9 Such further instruments as may be reasonably required by the Title Company to record the Deed.

5.1.10 A notice to each of the tenants under the Leases in effect on the Closing Date (collectively, the “**Tenant Notices**”) in the form attached hereto as Exhibit J, advising tenants under such Leases of the sale of the Real Property to Purchaser and directing them to make all payments to Purchaser or its designee, which Tenant Notices Purchaser shall, at Purchaser’s sole cost and expense, either mail by certified mail return receipt requested or hand-deliver to each of the tenants under such Leases.

5.1.11 A notice to each of the vendors under the Assumed Contracts (collectively, the “**Vendor Notices**”) in the form attached hereto as Exhibit K or such other form as may be prescribed by the applicable Assumed Contract, advising them of the sale of the Real Property to Purchaser and the assignment to and assumption by Purchaser of Seller’s obligations in accordance with the Assignment and Assumption of Leases and Contracts and directing them to deliver to Purchaser or its designee all future statements or invoices under the Assumed Contracts for obligations that were assumed by Purchaser, which Vendor Notices Purchaser shall, at Purchaser’s sole cost and expense, mail by certified mail return receipt requested to each of the vendors under the Assumed Contracts.

5.1.12 An owner’s title certificate in the form attached hereto as Exhibit L.

5.1.13 Evidence reasonably satisfactory to the Title Company respecting the due organization of Seller and the due authorization and execution by Seller of this Agreement and the documents required to be delivered by Seller hereunder.

5.1.14 A settlement statement consistent with the provisions of this Agreement prepared by Seller and reasonably approved by Purchaser (the “**Settlement Statement**”).

5.1.15 All original copies of the Tenant Estoppel Certificates and the Association Estoppel Certificate, to the extent received by Seller.

5.1.16 A certificate (a “**Seller Update**”) of Seller dated as of the Closing Date certifying that the representations and warranties of Seller set forth in Section 7.1.1 of this Agreement, other than those made as of the Effective Date (the representations and warranties set forth in Section 7.1.1 of this Agreement, other than those made as of the Effective Date, being hereafter referred to as “**Seller Closing Date Representations**”) remain true and correct as of the Closing Date in all material respects, it being agreed that if any Seller Closing Date Representation shall no longer be true and correct on the Closing Date in any material respect for any reason other than by reason of a material breach of an express covenant of Seller contained in this Agreement and Seller is unable to deliver a Seller Update, the failure of Seller to deliver a Seller Update shall constitute a failure of a condition to Closing and shall not constitute a default by Seller under this Agreement, and unless Purchaser elects to waive such condition, Purchaser’s sole remedy in connection therewith shall be to terminate this Agreement by written notice to Seller and Escrowee. If Purchaser elects to terminate this Agreement pursuant to this Section 5.1.16, (1) Escrowee shall return the Deposit to Purchaser and (2) no party hereto shall have any further obligation under this Agreement except for the Surviving Obligations.

5.1.17 An assignment and assumption agreement (the “**Assignment and Assumption of Declarant Rights**”), in the form attached hereto as Exhibit V, which shall provide for La Jolla II Seller’s assignment to Purchaser, and Purchaser’s assumption from La Jolla II Seller, of all rights of the “Declarant” under that certain Declaration of Covenants, Conditions, Restrictions and Easements recorded in the Official Records of San Diego County, California as Document No. 2003-0847500 on July 16, 2003.

5.2. Purchaser Deliveries. At or prior to the Closing, Purchaser shall deliver or cause to be delivered to Seller or to the Escrowee, as the case may be, the following items, executed and acknowledged by Purchaser, as appropriate:

5.2.1 The Closing Payment required to be paid in accordance with Section 3.3.

5.2.2 The Assignment and Assumption of Leases and Contracts.

5.2.3 All applicable transfer tax forms, if any.

5.2.4 The Settlement Statement.

5.2.5 Such further instruments as may be reasonably necessary to record the Deed.

5.2.6 Evidence reasonably satisfactory to Seller and the Title Company respecting the due organization of Purchaser and the due authorization and execution by Purchaser of this Agreement and the documents required to be delivered by Purchaser hereunder.

5.2.7 The Assignment and Assumption of Declarant Rights.

5.3. Closing Costs. Seller shall pay (a) all state, county and city transfer taxes, including transfer taxes of the State of California, County of San Diego and City of San Diego, payable in connection with the Transaction, (b) the cost of the portion of the premium for the Owner's Policy that is applicable to standard coverage, (c) all personal property taxes imposed on Seller in connection with the Transaction, if any, and (d) fifty percent (50%) of the cost of Escrowee. Purchaser shall pay (a) the cost of any title endorsements and the cost of the portion of the premium for the Owner's Policy that is applicable to extended coverage, (b) the cost of the Survey (or any update thereto), (c) all recording charges payable in connection with the recording of the Deed, (d) all personal property taxes imposed on Purchaser in connection with the Transaction, if any, (e) fifty percent (50%) of the cost of Escrowee, and (f) all fees, costs or expenses in connection with Purchaser's Investigations. Any other closing costs shall be allocated in accordance with local custom. Except as expressly provided in the indemnities set forth in this Agreement, Seller and Purchaser shall pay their respective legal, consulting and other professional fees and expenses incurred in connection with this Agreement and the Transaction and their respective shares of prorations as hereinafter provided. The provisions of this Section 5.3 shall survive the Closing or a termination of this Agreement.

5.4. Prorations.

5.4.1 The following provisions shall govern the adjustments and prorations that shall be made at Closing and the allocation of income and expenses from the Property between Seller and Purchaser. Except as expressly provided in this Section 5.4.1, all items of operating revenue and operating expenses of the Property, with respect to the period on or prior to 11:59 p.m. local time at the Real Property on the day immediately preceding the Closing Date (the "**Cut-off Time**"), shall be for the account of Seller and all items of operating revenue and operating expenses of the Property with respect to the period from and after the Cut-off Time, shall be for the account of Purchaser. Without limitation on the foregoing the following shall be prorated as of the Cut-off Time:

(a) All real estate taxes and assessments on the Real Property shall be prorated on the basis of the fiscal year for which assessed. In no event shall Seller be charged with or be responsible for any increase in the taxes on the Real Property resulting from the sale of the Real Property or from any improvements made or leases entered into on or after the Closing Date. If any assessments on the Real

Property are payable in installments, then the installment for the current period shall be prorated (with Purchaser assuming the obligation to pay any installments due after the Closing Date).

(b) Subject to this Section 5.4.1(b), all fixed rent and regularly scheduled items of additional rent under the Leases, and other tenant charges if, as and when received. Seller shall provide a credit in an amount equal to all prepaid rentals for periods after the Closing Date and all refundable cash security deposits (to the extent the foregoing were made by tenants under the Leases and are not applied or forfeited prior to the Closing Date) to Purchaser on the Closing Date. Seller shall deliver to Purchaser at Closing any tenant security deposits which are held in the form of letters of credit. Rents and other tenant charges which are delinquent as of the Closing Date shall not be prorated on the Closing Date. Purchaser shall include such delinquencies in its normal billing and shall use commercially reasonable efforts to pursue the collection thereof in good faith after the Closing Date (but Purchaser shall not be required to litigate or declare a default under any of the Leases). To the extent Purchaser receives rents or other tenant charges on or after the Closing Date, such payments shall be applied first to the rents or other tenant charges that shall then be due and payable to Purchaser, and second to any delinquent rents or other tenant charges owed to Seller, with Seller's share thereof being held by Purchaser in trust for Seller and promptly delivered to Seller by Purchaser. Purchaser may not waive any delinquent rents or other tenant charges nor modify any of the Leases so as to reduce or otherwise affect amounts owed thereunder for any period in which Seller is entitled to receive a share of charges or amounts without first obtaining Seller's written consent, which consent may be given or withheld in Seller's sole and absolute discretion. Seller hereby reserves the right to pursue the collection of delinquent rents and any other amounts owed to Seller by any of the tenants; provided, however, Seller shall not be entitled to (i) terminate any of the Leases or any tenant's right to possession or (ii) exercise any landlord remedy against a tenant other than to continue or commence a legal action or proceeding for collection against any tenant owing delinquent rent or any other amount to Seller. Delivery of the Assignment and Assumption of Leases and Contracts shall not constitute a waiver by Seller of such right, and such right shall survive the Closing. Purchaser shall reasonably cooperate with Seller in any collection efforts hereunder (but shall not be required to litigate or declare a default under any of the Leases or incur any costs or expenses in connection with such cooperation). With respect to delinquent rents and any other amounts or other rights of any kind respecting tenants who are no longer tenants of the Real Property on the Closing Date or who vacate the Real Property following the Closing Date, Seller shall retain all rights relating thereto.

(c) Tenants are obligated to pay, as additional rent, certain escalations in base rent and pass throughs of operating and similar expenses pursuant to the terms of the Leases (collectively, "**Additional Rents**"). As to any Additional Rents that are based on estimates and that are subject to adjustment or reconciliation pursuant to the Leases after the Closing Date, Seller shall perform an estimated reconciliation for the portion of the 2019 calendar year that ends as of the Cut-off Time, with respect to Additional Rents received for such period from tenants and the underlying operating expenses to which they relate. If, based on Seller's estimated reconciliation, during the period commencing on January 1, 2019 and ending as of the Cut-off Time, Seller collected estimated Additional Rents in excess of any tenant's share of such expenses for the period as shown on such reconciliation, then Seller shall credit Purchaser for such excess and Purchaser shall be responsible for crediting or repaying such amounts to tenants. If, based on Seller's estimated reconciliation, during the period commencing on January 1, 2019 and ending as of the Cut-off Time, Seller collected estimated Additional Rents which are less than any tenant's share of such expenses for the period as shown on such reconciliation, then Purchaser shall credit Seller for such deficiency and Purchaser shall be responsible for obtaining such amounts from tenants. The parties shall "re-prorate" such Additional Rents (including, without limitation, any portions thereof that may be required to be refunded to tenants) at the time that such estimates are actually adjusted or reconciled pursuant to the terms of the Leases and based on expenses actually incurred by Seller as compared to Additional Rents collected by Seller from January 1, 2019 and ending as of the Cut-off Time (taking into account the credit, if any, given at Closing related thereto).

Any amounts that may be due Seller as a result of such re-prorations shall be paid by Purchaser to Seller within ten (10) Business Days after Purchaser collects such amounts from tenants (which Purchaser shall use commercially reasonable efforts to collect), and any amounts that may be due from Seller as a result of such re-prorations shall be paid by Seller to Purchaser within ten (10) Business Days after written request therefor is delivered to Seller by Purchaser accompanied by supporting statements and documents reasonably satisfactory to Seller (to the extent not previously credited at Closing as provided above). Seller shall be entitled to collect any Additional Rents owed to Seller directly from the applicable tenants to the extent relating to its period of ownership of the Property; provided, however, Seller shall not be entitled to (i) terminate any of the Leases or any tenant's right to possession or (ii) exercise any landlord remedy against a tenant other than to commence a legal action or proceeding for collection of such Additional Rents.

(d) Charges and payments under the Assumed Contracts or permitted renewals or replacements thereof assigned to Purchaser pursuant to the Assignment and Assumption of Leases and Contracts.

(e) Any prepaid items, including, without limitation, fees for licenses which are transferred to Purchaser at the Closing and annual permit and inspection fees.

(f) Utilities in connection with the Real Property, including, without limitation, telephone, steam, electricity, water, sewer and gas, on the basis of the most recently issued bills therefor, subject to adjustment after the Closing when the next bills are available, or if current meter readings are available, on the basis of such readings.

(g) Deposits with telephone and other utility companies, and any other Persons who supply goods or services in connection with the Real Property if the same are assigned to Purchaser at the Closing, which shall be credited in their entirety to Seller.

(h) Taxes payable by Seller relating to operations of the Real Property, including, without limitation, business and occupancy taxes and sales taxes, if any.

(i) All operating expenses and other items as are customarily apportioned between sellers and purchasers of real estate of a type similar to the Property and located in the same geographic area as the Property subject to the express terms of this Agreement including this Section 5.4

5.4.2 If any of the items described in Section 5.4.1 hereof cannot be apportioned at the Closing because of the unavailability of information as to the amounts which are to be apportioned or otherwise, or are incorrectly apportioned at Closing or subsequent thereto, such items shall be apportioned or reapportioned, as the case may be, as soon as practicable after the Closing Date or the date such error is discovered, as applicable; provided that neither party shall have the right to request apportionment or reapportionment of any such item at any time following the nine (9) month anniversary of the Closing Date (the "**Reproration Outside Date**"). If the Closing shall occur before a real estate or personal property tax rate or assessment is fixed for the tax year in which the Closing occurs, the apportionment of taxes at the Closing shall be upon the basis of the tax rate or assessment for the preceding fiscal year applied to the latest assessed valuation. Promptly after the new tax rate or assessment is fixed, the apportionment of taxes or assessments shall be recomputed and any discrepancy resulting from such recomputation and any errors or omissions in computing apportionments at Closing shall be promptly corrected and the proper party reimbursed, which obligations shall survive the Closing until the Reproration Outside Date.

5.4.3 Purchaser shall receive a credit against the Purchase Price in the amount that is equal to Nine Million Nine Hundred Twenty-Two Thousand Eight Hundred Sixty-Five and No/100 Dollars (\$9,922,865.00), less the amount of any Prospective Leasing Costs (as defined below) paid by Seller prior to the Closing Date (collectively, the “**Seller Prospective Leasing Costs**”). Seller shall deliver written notice of the amount of the Seller Prospective Leasing Costs to Purchaser on or before the date this is three (3) days prior to the Scheduled Closing Date, together with reasonable documentation evidencing the amount and payment of the Seller Prospective Leasing Costs. Following the Closing, Purchaser shall be responsible for the obligation to pay all of the Leasing Costs (as defined below). For the purposes of this Agreement, the term “**Prospective Leasing Costs**” shall mean all tenant improvement costs, rent and operating expense abatements and other out-of-pocket tenant inducements (such as moving, design and lease buyout costs) in connection with prospective leases of space within the Property that have not been executed by the Effective Date (the “**Prospective Leases**”) and any leasing commissions provided for in any Prospective Leases.

5.4.4 Purchaser shall receive a credit against the Purchase Price equal to all Existing Leasing Costs (as defined below), less the amount of any Existing Leasing Costs paid by Seller prior to the Closing Date (collectively, the “**Seller Existing Leasing Costs**”). Seller shall deliver written notice of the amount of the Seller Existing Leasing Costs to Purchaser on or before the date this is three (3) days prior to the Scheduled Closing Date, together with reasonable documentation evidencing the amount and payment of any Existing Leasing Costs made prior to the Closing Date. For the purposes of this Agreement, the term “**Existing Leasing Costs**” shall mean all tenant improvement costs, rent and operating expense abatements and other out-of-pocket tenant inducements (such as moving, design and lease buyout costs) that are outstanding as of the Effective Date in connection with the Leases and any leasing commissions provided for in any Leases executed prior to the Effective Date and relating to the current (or any prior, if applicable) term thereof. The Prospective Leasing Costs, Existing Leasing Costs and all brokerage and leasing commissions under the Leasing Commission Agreements shall be referred to herein, collectively, as the “**Leasing Costs**”. In no event shall Seller be required to credit Purchaser as Existing Leasing Costs any amount of Leasing Costs that were included in the credit for Prospective Leasing Costs set forth in Section 5.4.3 above.

5.4.5 Purchaser shall receive a credit against the Purchase Price in the amount of One Million Five Hundred Thirty-Four Thousand One Hundred Eighteen and No/100 Dollars (\$1,534,118.00) for speculative lease-up rent.

5.4.6 The provisions of this Section 5.4 shall survive the Closing until the Reproration Outside Date.

6. Condemnation or Destruction of Real Property. If, after the Effective Date but prior to the Closing Date, Seller becomes aware that either any portion of the Real Property is taken pursuant to eminent domain proceedings or condemnation or any portion of the Property is damaged or destroyed by fire or other casualty, then (i) Seller shall promptly deliver, or cause to be delivered, to Purchaser, notice of any such eminent domain proceedings or casualty and (ii) Purchaser shall have the right to adjourn the Scheduled Closing Date by such period of time as is reasonably necessary for Purchaser to evaluate the portion of the Property that has been taken, damaged or destroyed, but in no event longer than thirty (30) days and the parties to obtain an estimate of the costs to repair the damage or destruction or the value of the taking. Seller shall have no obligation to restore, repair or replace any portion of the Property or any such damage or destruction. Seller shall, at the Closing, assign to Purchaser all of Seller’s interest in all awards or other proceeds for such taking by eminent domain or condemnation or the proceeds of any insurance for such damage or destruction, as applicable, except to the extent that (i) such damage or destruction shall have been repaired prior to the Closing, (ii) any such awards, proceeds or insurance are attributable to lost rents or items applicable to any

period prior to the Closing, or (iii) Seller has incurred costs in connection with the repair of such damage or destruction or reasonable collection costs of Seller respecting any award or other proceeds for such taking by eminent domain or condemnation, in which case Seller shall be reimbursed for such costs from such award proceeds or insurance, as applicable. In connection with any assignment of awards, proceeds or insurance in accordance with the immediately preceding sentence, Purchaser shall receive a credit against the Purchase Price in an amount that is equal to the applicable deductible amount under Seller's insurance; provided, however, the amount of such credit shall not exceed the amount by which the cost, as of the Closing Date, to repair the damage or destruction (as determined by an independent third party contractor or engineer selected by Seller and reasonably approved by Purchaser) exceeds the insurance proceeds assigned to Purchaser. Furthermore, if any damage to or destruction of the Property is uninsured or underinsured, Purchaser shall receive a credit against the Purchase Price in an amount that is equal to the replacement cost for such damage or destruction (as determined by an independent third party contractor or engineer selected by Seller and reasonably approved by Purchaser), less the amount of any insurance proceeds assigned to Purchaser in accordance with this Section 6. Notwithstanding the foregoing provisions of this Section 6, (i) if the amount of the damage or destruction or the value of the taking (in each case, as determined by an independent third party contractor or engineer selected by Seller and reasonably approved by Purchaser) or the amount of condemnation award shall exceed the sum of Twenty Five Million and No/100 Dollars (\$25,000,000.00) or (ii) if any damage or destruction is uninsured and the amount of the damage or destruction (as determined by an independent third party contractor or engineer selected by Seller and reasonably approved by Purchaser) shall exceed the sum of Five Million and No/100 Dollars (\$5,000,000.00), Purchaser shall have the right to terminate this Agreement by delivering written notice of such termination to Seller and Escrowee within ten (10) days after notification to Purchaser of the estimated amount of the damages or the value of the taking. In any instance where this Agreement is terminated pursuant to this Section 6, the Deposit shall, provided that Purchaser is not otherwise in default of its obligations pursuant to this Agreement, be promptly returned to Purchaser, and this Agreement and the obligations of the parties hereunder shall terminate (and no party hereto shall have any further obligation under this Agreement except for the Surviving Obligations). The parties hereby waive the provisions of any statute which provides for a different outcome or treatment in the event of a casualty or a condemnation or eminent domain proceeding. The provisions of this Section 6 shall survive the Closing or a termination of this Agreement.

7. Representations, Warranties and Covenants.

7.1 Representations, Warranties and Covenants of Seller.

7.1.1 Representations and Warranties of Seller. Subject to the provisions of this Section 7.1.1, Seller hereby represents to Purchaser that:

(a) Leases. As of the Effective Date, the only leases affecting any portion of the Real Property are the Leases described on the Lease Exhibit. As used in this Agreement, "**Leases**" shall be deemed to mean, collectively, (i) the leases and all amendments, assignments, commencement date certificates and delivery date certificates described on Exhibit N attached hereto (the "**Lease Exhibit**") and (ii) the leases, licenses, and other occupancy agreements relating to the Real Property that are entered into by Seller after the Effective Date in accordance with this Agreement, if any. As of the Effective Date (x) to Seller's knowledge, the Leases described on the Lease Exhibit are in full force and effect, (y) the Leases described on the Lease Exhibit have not been amended except as set forth in the Lease Exhibit, and (z) the Lease Exhibit is true and correct in all material respects. Prior to the Effective Date, Seller delivered or made available true, correct and complete copies of the Leases described on the Lease Exhibit to Purchaser. As of the Effective Date, Seller has received no written notice of any default by Seller with respect to the Leases which has not been cured and, to the best of Seller's knowledge, no tenant under any Lease is in default under such

Lease. Exhibit Q lists, for all Leases in effect as of the Effective Date, all of the Existing Leasing Costs as of the Effective Date; provided, however, Seller shall have the right to correct Exhibit Q prior to the Closing Date in the event any inaccuracies are discovered, without any opportunity for Purchaser to terminate this Agreement in connection therewith.

(b) Contracts. The only maintenance, service and supply contracts, equipment leases, leasing commission agreements or other contracts or agreements (other than the Leases, management agreements, other agreements with the property manager that are not assumed at the Closing or are terminated by Seller at the Closing, parking agreements that are not assumed at the Closing or are terminated by Seller at the Closing and Permitted Exceptions) to which Seller is a party or is bound or, to Seller's knowledge, otherwise affecting any portion of the Property, are the Contracts. As used in this Agreement, "**Contracts**" shall be deemed to mean, collectively, (i) maintenance, service and supply contracts, and equipment leases described on Exhibit O-1 attached hereto, (ii) leasing commission agreements described on Exhibit O-2 attached hereto (the "**Leasing Commission Agreements**"), (iii) any leasing commissions described in the Leases and (iv) contracts and agreements that are entered into by Seller after the Effective Date in accordance with the terms of this Agreement, if any. As of the Effective Date, (x) to Seller's knowledge, the Contracts described on Exhibits O-1 and O-2 attached hereto are in full force and effect, (y) such Contracts have not been amended except as set forth in such exhibits and (z) Exhibits O-1 and O-2 are true and correct in all material respects. Prior to the Effective Date, Seller delivered true, correct and complete copies of the Contracts described on Exhibits O-1 and O-2 attached hereto to Purchaser.

(c) Litigation. Except as set forth on Exhibit T attached hereto, there is no pending or, to the best of Seller's knowledge, threatened in writing litigation or condemnation action against the Property or against Seller, other than claims which are personal injury claims that are, to Seller's knowledge, covered by insurance (subject to any deductible).

(d) No Insolvency. Seller has not (i) made a general assignment for the benefit of creditors, (ii) filed any voluntary petition in bankruptcy or suffered the filing of any involuntary petition by Seller's creditors, (iii) suffered the appointment of a receiver to take possession of all, or substantially all, of Seller's assets, (iv) suffered the attachment or other judicial seizure of all, or substantially all, of Seller's assets, (v) admitted in writing its inability to pay its debts as they come due, or (vi) made an offer of settlement, extension or composition to its creditors generally.

(e) Non-Foreign Person. Seller is not a "foreign person" as defined in Section 1445 of the Internal Revenue Code, as amended (the "**Code**").

(f) Due Authority. This Agreement has been duly authorized, executed, and delivered by, and is binding upon, Seller, and each agreement, instrument and document herein provided to be executed by Seller on the Closing Date will be duly authorized, executed, and delivered by, and be binding upon, Seller, and enforceable against Seller in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws of general application affecting the rights and remedies of creditors. Seller is a limited liability company, duly organized and validly existing and in good standing under the laws of the State of Delaware, is qualified to do business in the State of California, and is duly authorized and qualified to do all things required of it under this Agreement. This Agreement does not, and each agreement, instrument and document herein provided to be executed by Seller on the Closing Date will not, violate any provision of any agreement or judicial order to which Seller is a party or to which Seller or the Property is subject.

(g) Violation of Laws. Seller has not received written notice from any Governmental Authority of any material violation of any law applicable to the Property that has not been corrected.

(h) OFAC, PATRIOT Act, and Anti-Money Laundering Compliance. None of (A) Seller; (B) any Person controlling or controlled by Seller, directly or indirectly, including but not limited to any Person or Persons owning, in the aggregate, a fifty percent (50%) or greater direct or indirect ownership interest in Seller; (C) any Person, to the knowledge of Seller, having a legal or beneficial interest in Seller; or (D) any Officer or Director or (to the knowledge of Seller) any employee, agent, or representative of Seller (including any person acting in such capacity for or on behalf of Seller); or (F) any Person for whom Seller is acting as agent or nominee or otherwise in connection with the Transaction; is: (1) a country, territory, government, government instrumentality, individual or entity subject to sanctions under any U.S. federal, state, or local law or regulation, or non-U.S. law or regulation, including but not limited to any Executive Order issued by the President of the United States or any regulation administered by the Office of Foreign Assets Control of the United States Department of the Treasury, including but not limited to identification as a Specially Designated National or blocked person, or identification on the Denied Persons List, the Entity List, or the Unverified List maintained by the Bureau of Industry & Security, U.S. Department of Commerce, or under any order or regulation of (a) the United Nations; (b) the European Union or any of its member states; (c) Her Majesty's Treasury of the United Kingdom; or (d) any other governmental authority; (2) a Foreign Terrorist Organization designated by the United States Department of State, or (3) an individual or entity who the Purchaser knows, or reasonably should know, has engaged in or engages in terrorist activity, or has provided or provides material support or resources for terrorist activities or terrorist organizations, as prohibited by U.S. law, including but not limited to the USA PATRIOT Act, P.L. 107-56.

(i) Personal Property and Intangible Property. All Personal Property and Intangible Property transferred to Purchaser pursuant to the terms of this Agreement on the Closing Date is transferred free and clear of all liens and encumbrances.

(j) ERISA. Seller is not a party in interest with respect to any employee benefit or other plan within the meaning of Section 3(3) the Employee Retirement Income Security Act of 1974, as amended ("ERISA") or of Section 4975(e) (1) of the Code, which is subject to ERISA or Section 4975 of the Code and which is an investor in Seller.

(k) Real Estate Taxes. To Seller's knowledge, all real estate taxes which would be delinquent if unpaid will be paid in full or prorated at the Closing pursuant to Section 5.4 and there are no pending real estate tax protest or appeal proceedings by or for the benefit of Seller with respect to the Property.

Notwithstanding anything contained in this Agreement to the contrary, (i) if any of the representations or warranties of Seller contained in this Agreement or in any document or instrument delivered in connection herewith are false or inaccurate or if Seller is in breach or default of any of its obligations under this Agreement and if either (x) prior to the Effective Date, Purchaser shall have had actual knowledge of the false or inaccurate representations or warranties or other breach or default, or (y) the accurate state of facts pertinent to such false or inaccurate representations or warranties or evidence of such other breach or default was contained in any of the Information furnished or made available to or otherwise obtained by Purchaser prior to the Effective Date, then Seller shall have no liability or obligation respecting such representations or warranties that are false or inaccurate or such other breach or default (and Purchaser shall have no cause of action or right to terminate this Agreement with respect thereto), and the representations and warranties of Seller shall be deemed modified to the extent necessary to eliminate such false and inaccurate

information and to make such representations and warranties true and accurate in all respects; and (ii) if any of the representations or warranties of Seller that survive Closing contained in this Agreement or in any document or instrument delivered in connection herewith are false or inaccurate, or if Seller is in breach or default of any of its obligations under this Agreement that survive Closing, (ii) prior to Closing, (x) Purchaser shall obtain knowledge of such false or inaccurate representations or warranties or such other breach or default, or (y) the accurate state of facts pertinent to such false or inaccurate representations or warranties or evidence of such other breach or default was contained in any of the Information furnished or made available to or otherwise obtained by Purchaser following the Effective Date, and (iii) the Transaction closes notwithstanding Purchaser's right to terminate this Agreement pursuant to Sections 4.5 and 5.1.16 or otherwise, then Purchaser shall be deemed to have waived such breach or default, Seller shall have no liability or obligation respecting such false or inaccurate representations or warranties or such other breach or default, and Purchaser shall have no cause of action with respect thereto. The provisions of this paragraph shall survive the Closing.

References to the "knowledge", "best knowledge" and/or "actual knowledge" of Seller or words of similar import shall refer only to the current actual (as opposed to implied or constructive) knowledge of Lauren Graham and shall not be construed, by imputation or otherwise, to refer to the knowledge of Seller or any parent, subsidiary or affiliate of Seller or to any other officer, agent, manager, representative or employee of Seller or to impose upon her any duty to investigate the matter to which such actual knowledge, or the absence thereof, pertains. Notwithstanding anything to the contrary contained in this Agreement, Lauren Graham shall in no event have any personal liability hereunder.

The representations and warranties of Seller set forth in this Section 7.1.1 shall survive the Closing for a period of two hundred seventy (270) days. In furtherance thereof, Purchaser acknowledges and agrees that it shall have no right to make any claim against Seller on account of any breach of any representations or warranties set forth in this Section 7.1.1 unless an action on account thereof shall be filed in a court of competent jurisdiction prior to the expiration of the survival period set forth in this paragraph. To the fullest extent permitted by law, the foregoing shall constitute the express intent of the parties to shorten the period of limitations for bringing claims on account of Seller's breach of its representations and warranties contained in this Section 7.1.1 if a longer period would otherwise be permitted by applicable law.

7.1.2 GENERAL DISCLAIMER. EXCEPT AS SPECIFICALLY SET FORTH IN SECTIONS 7.1.1 AND 10.1.1 OF THIS AGREEMENT, THE SALE OF THE PROPERTY HEREUNDER IS AND WILL BE MADE ON AN "AS IS", "WHERE IS," AND "WITH ALL FAULTS" BASIS, WITHOUT REPRESENTATIONS AND WARRANTIES OF ANY KIND OR NATURE, EXPRESS, IMPLIED OR OTHERWISE, INCLUDING, WITHOUT LIMITATION, ANY REPRESENTATION OR WARRANTY CONCERNING TITLE TO THE PROPERTY, THE PHYSICAL CONDITION OF THE PROPERTY (INCLUDING, WITHOUT LIMITATION, THE CONDITION OF THE SOIL, AIR, WATER OR THE IMPROVEMENTS, OR THE MATTERS DESCRIBED IN EXHIBIT E), THE ENVIRONMENTAL CONDITION OF THE PROPERTY (INCLUDING, WITHOUT LIMITATION, THE PRESENCE OR ABSENCE OF HAZARDOUS SUBSTANCES ON OR AFFECTING THE PROPERTY), THE COMPLIANCE OF THE PROPERTY WITH APPLICABLE LAWS AND REGULATIONS (INCLUDING, WITHOUT LIMITATION, ZONING AND BUILDING CODES OR THE STATUS OF DEVELOPMENT OR USE RIGHTS RESPECTING THE REAL PROPERTY), THE FINANCIAL CONDITION OF THE PROPERTY OR ANY OTHER REPRESENTATION OR WARRANTY RESPECTING ANY INCOME, EXPENSES, CHARGES, LIENS OR ENCUMBRANCES, RIGHTS OR CLAIMS ON, AFFECTING OR PERTAINING TO THE PROPERTY OR ANY PART THEREOF. PURCHASER ACKNOWLEDGES THAT PURCHASER HAS EXAMINED, REVIEWED AND INSPECTED ALL MATTERS WHICH IN PURCHASER'S JUDGMENT BEAR UPON THE PROPERTY AND ITS VALUE AND SUITABILITY

FOR PURCHASER'S PURPOSES. PURCHASER IS A SOPHISTICATED PURCHASER WHO IS FAMILIAR WITH THE OWNERSHIP AND OPERATION OF REAL ESTATE PROJECTS SIMILAR TO THE PROPERTY AND THAT PURCHASER HAS HAD ADEQUATE OPPORTUNITY TO COMPLETE ALL PHYSICAL AND FINANCIAL EXAMINATIONS (INCLUDING, WITHOUT LIMITATION, ALL OF THE EXAMINATIONS, REVIEWS AND INVESTIGATIONS REFERRED TO IN SECTION 4) RELATING TO THE ACQUISITION OF THE PROPERTY HEREUNDER IT DEEMS NECESSARY, AND WILL ACQUIRE THE SAME SOLELY ON THE BASIS OF AND IN RELIANCE UPON SUCH EXAMINATIONS AND THE TITLE INSURANCE PROTECTION AFFORDED BY THE OWNER'S POLICY AND NOT ON ANY INFORMATION PROVIDED OR TO BE PROVIDED BY SELLER (OTHER THAN AS EXPRESSLY PROVIDED IN SECTIONS 7.1.1 AND 10.1.1 OF THIS AGREEMENT). EXCEPT AS TO MATTERS SPECIFICALLY SET FORTH IN THIS AGREEMENT: (A) PURCHASER WILL ACQUIRE THE PROPERTY SOLELY ON THE BASIS OF ITS OWN PHYSICAL AND FINANCIAL EXAMINATIONS, REVIEWS AND INSPECTIONS AND THE TITLE INSURANCE PROTECTION AFFORDED BY THE OWNER'S POLICY, AND (B) WITHOUT LIMITING THE FOREGOING (OTHER THAN AS EXPRESSLY PROVIDED IN SECTIONS 7.1.1 AND 10.1.1 OF THIS AGREEMENT), PURCHASER WAIVES ANY RIGHT IT OTHERWISE MAY HAVE AT LAW OR IN EQUITY, INCLUDING, WITHOUT LIMITATION, THE RIGHT TO SEEK DAMAGES FROM SELLER IN CONNECTION WITH THE ENVIRONMENTAL CONDITION OF THE PROPERTY, INCLUDING, WITHOUT LIMITATION, ANY RIGHT OF CONTRIBUTION UNDER THE COMPREHENSIVE ENVIRONMENTAL RESPONSE COMPENSATION AND LIABILITY ACT. THE PROVISIONS OF THIS SECTION 7.1.2 SHALL SURVIVE THE CLOSING.

7.2 Interim Covenants of Seller. Until the Closing Date or the sooner termination of this Agreement in accordance with the terms and conditions of this Agreement:

7.2.1 Seller shall maintain the Property in substantially the same manner as prior hereto pursuant to Seller's normal course of business (which maintenance obligations shall not include any obligation to make capital expenditures or expenditures not incurred in Seller's normal course of business), subject to reasonable wear and tear and further subject to destruction by casualty or other events beyond the control of Seller.

7.2.2 Seller shall not during the term of this Agreement modify, extend, renew or terminate any Contract (except as a result of a default by the other party thereunder) or enter into any additional contracts or agreements with respect to the Property without Purchaser's prior written consent, which consent may be granted or withheld by Purchaser in Purchaser's sole discretion. Purchaser's failure to deliver written notice of Purchaser's approval of any request for consent by Seller under this Section 7.2.2 within five (5) days following Seller's request therefor shall be deemed to constitute Purchaser's disapproval thereof; provided, however, if Purchaser fails to approve or disapproves the extension or replacement of a Contract necessary for the operation of the Property, Seller shall have the unilateral right to replace or extend the Contract without Purchaser's consent so long as Purchaser is not required to assume the same following the Closing.

7.2.3 (a) Seller shall not, during the term of this Agreement, enter into any new leases or, unless required by the term of an existing Lease, modify, extend, renew or terminate any Lease without the prior written consent of Purchaser, which consent may be granted or withheld in Purchaser's sole discretion. Purchaser's failure to deliver written notice of Purchaser's approval of any request for consent by Seller under this Section 7.2.3(a) within five (5) days following Seller's request therefor shall be deemed to constitute Purchaser's disapproval thereof.

(b) Notwithstanding anything to the contrary contained in this Agreement: (i) Seller makes no representations and assumes no responsibility with respect to the continued occupancy of the Property or any part thereof by any of the tenants, (ii) the removal of any tenant as a result of a default by such tenant, whether by summary proceedings or otherwise, prior to the Closing Date shall not give rise to any claim on the part of Purchaser and (iii) Purchaser agrees that it shall not be grounds for Purchaser's refusal to close this Transaction that (x) any of the tenants is no longer in possession of its leased premises, has failed to pay rent, is a holdover tenant or is in default under its lease on the Closing Date, or (y) any Contract has been terminated by the vendor that is a party thereto or any vendor that is a party to any Contract is in default under its Contract on the Closing Date and that Purchaser shall accept title without an abatement in or credit against the Purchase Price. The provisions of this Section 7.2.3(b) shall survive the Closing.

7.2.4 Seller shall use commercially reasonable efforts to keep in force and effect the insurance policies currently carried by Seller with respect to the Property or policies providing similar coverage through the Closing Date.

7.2.5 Seller shall (i) provide Purchaser with the names and contact information for the Persons who performed any work or services (including any manufacturing or installation work or services) or provided any materials (collectively, the "**Window Contractors**") in connection with the installation of the exterior windows within the buildings located upon the Land (collectively, the "**Exterior Windows**") and (ii) use commercially reasonable efforts to (a) facilitate and coordinate the transition of all communications with the Window Contractors regarding the Exterior Windows from Seller to Purchaser upon the Closing and (b) cause all of the Window Warranties to be assigned, to the extent assignable, from Seller to Purchaser in connection with the Closing.

7.2.6 Seller shall cause all Persons who serve on the board of directors of the Association or any committee or subcommittee of the Association as a result of Seller's appointment or nomination to resign from all such board, committee and subcommittee positions on the Closing Date.

7.2.7 Seller shall not, during the term of this Agreement, voluntarily cause to be encumbered all or any portion of the Property without the prior written consent of Purchaser, which consent may be granted or withheld in Purchaser's sole discretion.

7.3 Representations, Warranties and Covenants of Purchaser.

7.3.1 Representations and Warranties of Purchaser. Purchaser hereby represents and warrants to Seller that:

(a) Due Authority. This Agreement has been duly authorized, executed, and delivered by, and is binding upon, Purchaser, and each agreement, instrument and document herein provided to be executed by Purchaser on the Closing Date will be duly authorized, executed, and delivered by, and be binding upon, Purchaser, and enforceable against Purchaser in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws of general application affecting the rights and remedies of creditors. Purchaser is a limited liability company, duly organized, validly existing, and in good standing under the laws of the State of Delaware, is qualified to do business in the State of California, and is duly authorized and qualified to do all things required of it under this Agreement.

(b) Litigation. Except as set forth on Exhibit U attached hereto, there is no pending or, to Purchaser's knowledge, threatened in writing litigation against Purchaser, other than claims which

could not reasonably be expected to adversely impact Purchaser's ability to perform its obligations under this Agreement.

(c) No Insolvency. Purchaser has not (i) made a general assignment for the benefit of creditors, (ii) filed any voluntary petition in bankruptcy or suffered the filing of any involuntary petition by Purchaser's creditors, (iii) suffered the appointment of a receiver to take possession of all, or substantially all, of Purchaser's assets, (iv) suffered the attachment or other judicial seizure of all, or substantially all, of Purchaser's assets, (v) admitted in writing its inability to pay its debts as they come due, or (vi) made an offer of settlement, extension or composition to its creditors generally.

(d) OFAC, PATRIOT Act, and Anti-Money Laundering Compliance. The amounts payable by Purchaser to Seller hereunder are not and were not, directly or indirectly, derived from activities in contravention of U.S. federal, state, or local laws or regulations, or any non-U.S. law or regulation (including, without limitation, anti-money laundering laws and regulations). None of (A) Purchaser; (B) any Person controlling or controlled by Purchaser, directly or indirectly, including but not limited to any Person or Persons owning, in the aggregate, a fifty percent (50%) or greater direct or indirect ownership interest in Purchaser; (C) any Person, to the knowledge of Purchaser, having a legal or beneficial interest in Purchaser; or (D) any Officer or Director or (to the knowledge of Purchaser) any employee, agent, or representative of Purchaser (including any person acting in such capacity for or on behalf of Purchaser); or (F) any Person for whom Purchaser is acting as agent or nominee or otherwise in connection with the Transaction; is: (1) a country, territory, government, government instrumentality, individual or entity subject to sanctions under any U.S. federal, state, or local law or regulation, or non-U.S. law or regulation, including but not limited to any Executive Order issued by the President of the United States or any regulation administered by the Office of Foreign Assets Control of the United States Department of the Treasury, including but not limited to identification as a Specially Designated National or blocked person, or identification on the Denied Persons List, the Entity List, or the Unverified List maintained by the Bureau of Industry & Security, U.S. Department of Commerce, or under any order or regulation of (a) the United Nations; (b) the European Union or any of its member states; (c) Her Majesty's Treasury of the United Kingdom; or (d) any other governmental authority; (2) a Foreign Terrorist Organization designated by the United States Department of State, or (3) an individual or entity who the Purchaser knows, or reasonably should know, has engaged in or engages in terrorist activity, or has provided or provides material support or resources for terrorist activities or terrorist organizations, as prohibited by U.S. law, including but not limited to the USA PATRIOT Act, P.L. 107-56.

(e) ERISA. Purchaser is not a party in interest with respect to any employee benefit or other plan within the meaning of Section 3(3) of ERISA or of Section 4975(e)(1) of the Code, which is subject to ERISA or Section 4975 of the Code and which is an investor in Purchaser.

(f) Acknowledgement. The provisions of Exhibit E are incorporated herein by reference.

(g) Survival. The representations and warranties of Seller set forth in this Section 7.3.1 shall survive the Closing for a period of two hundred seventy (270) days. In furtherance thereof, Seller acknowledges and agrees that it shall have no right to make any claim against Purchaser on account of any breach of any representations or warranties set forth in this Section 7.3.1 unless an action on account thereof shall be filed in a court of competent jurisdiction prior to the expiration of the survival period set forth in this paragraph. To the fullest extent permitted by law, the foregoing shall constitute the express intent of the parties to shorten the period of limitations for bringing claims on account of Purchaser's breach of its

representations and warranties contained in this Section 7.3.1 if a longer period would otherwise be permitted by applicable law.

8. Indemnification and Release.

8.1 Indemnification by Purchaser. Purchaser shall hold harmless, indemnify and defend each of the Seller Related Parties from and against any and all third party claims related to the Property or the ownership, operation or maintenance thereof to the extent such claims arise out of acts or events occurring on or after the Closing Date.

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8.2 RELEASE. EFFECTIVE AS OF THE CLOSING, AND SUBJECT TO THE REPRESENTATIONS AND WARRANTIES OF SELLER SET FORTH IN SECTIONS 7.1.1 AND 10.1.1 OF THIS AGREEMENT AND ANY OBLIGATIONS OF SELLER WHICH SURVIVE THE CLOSING, PURCHASER SHALL BE DEEMED TO HAVE RELEASED EACH OF THE SELLER RELATED PARTIES FROM ALL CLAIMS WHICH PURCHASER OR ANY AGENT, REPRESENTATIVE, AFFILIATE, EMPLOYEE, DIRECTOR, OFFICER, PARTNER, MEMBER, SERVANT, SHAREHOLDER OR OTHER PERSON OR ENTITY ACTING ON BEHALF OF OR OTHERWISE RELATED TO OR AFFILIATED WITH PURCHASER HAS OR MAY HAVE ARISING FROM OR RELATED TO ANY MATTER OR THING RELATED TO OR IN CONNECTION WITH THE PROPERTY INCLUDING, WITHOUT LIMITATION, THE MATTERS DESCRIBED IN EXHIBIT E, THE DOCUMENTS AND INFORMATION REFERRED TO HEREIN, THE LEASES AND THE TENANTS THEREUNDER, THE CONTRACTS, ANY CONSTRUCTION DEFECTS, ERRORS OR OMISSIONS IN THE DESIGN OR CONSTRUCTION OF ALL OR ANY PORTION OF THE PROPERTY AND ANY ENVIRONMENTAL CONDITIONS, AND PURCHASER SHALL NOT LOOK TO ANY OF THE SELLER RELATED PARTIES IN CONNECTION WITH THE FOREGOING FOR ANY REDRESS OR RELIEF. THIS RELEASE SHALL BE GIVEN FULL FORCE AND EFFECT ACCORDING TO EACH OF ITS EXPRESSED TERMS AND PROVISIONS, INCLUDING, WITHOUT LIMITATION, THOSE RELATING TO UNKNOWN AND UNSUSPECTED CLAIMS, DAMAGES AND CAUSES OF ACTION.

AS PART OF THE PROVISIONS OF THIS SECTION, BUT NOT AS A LIMITATION THEREON, PURCHASER HEREBY AGREES, REPRESENTS AND WARRANTS THAT THE MATTERS RELEASED HEREIN ARE NOT LIMITED TO MATTERS WHICH ARE KNOWN OR DISCLOSED, AND PURCHASER HEREBY WAIVES ANY AND ALL RIGHTS AND BENEFITS WHICH IT NOW HAS, OR IN THE FUTURE MAY HAVE CONFERRED UPON IT, BY VIRTUE OF THE PROVISIONS OF FEDERAL, STATE OR LOCAL LAW, RULES OR REGULATIONS, INCLUDING, WITHOUT LIMITATION SECTION 1542 OF THE CIVIL CODE OF THE STATE OF CALIFORNIA, WHICH PROVIDES AS FOLLOWS:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE AND THAT WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY.

IN THIS CONNECTION AND TO THE FULLEST EXTENT PERMITTED BY LAW, PURCHASER HEREBY AGREES, REPRESENTS AND WARRANTS THAT PURCHASER REALIZES AND ACKNOWLEDGES THAT FACTUAL MATTERS NOW UNKNOWN TO PURCHASER MAY HAVE GIVEN OR MAY HEREAFTER GIVE RISE TO CAUSES OF ACTION, CLAIMS, DEMANDS, DEBTS, CONTROVERSIES, DAMAGES, COSTS, LOSSES AND EXPENSES WHICH ARE PRESENTLY UNKNOWN, UNANTICIPATED AND UNSUSPECTED, AND PURCHASER FURTHER AGREES, REPRESENTS AND WARRANTS THAT THE WAIVERS AND RELEASES HEREIN HAVE BEEN NEGOTIATED AND AGREED UPON IN LIGHT OF THAT REALIZATION AND THAT PURCHASER NEVERTHELESS HEREBY INTENDS TO RELEASE, DISCHARGE AND ACQUIT EACH OF THE SELLER RELATED PARTIES FROM ANY SUCH UNKNOWN CAUSES OF ACTION, CLAIMS, DEMANDS, DEBTS, CONTROVERSIES, DAMAGES, COSTS, LOSSES AND EXPENSES WHICH MIGHT IN ANY WAY BE INCLUDED IN THE WAIVERS AND MATTERS RELEASED AS SET FORTH IN THIS SECTION. THE PROVISIONS OF THIS SECTION ARE MATERIAL AND

INCLUDED AS A MATERIAL PORTION OF THE CONSIDERATION GIVEN TO SELLER BY PURCHASER IN EXCHANGE FOR SELLER'S PERFORMANCE HEREUNDER.

PURCHASER'S INITIALS: _____

SELLER'S INITIALS: _____

8.3 Survival. The provisions of this Section 8 shall survive the Closing.

9. Remedies For Default and Disposition of the Deposit.

9.1 SELLER DEFAULTS. IF THE TRANSACTION SHALL NOT BE CLOSED BY REASON OF SELLER'S BREACH OR DEFAULT UNDER THIS AGREEMENT, THEN PURCHASER SHALL HAVE, AS ITS SOLE AND EXCLUSIVE REMEDIES (ALL OTHER RIGHTS AND/OR REMEDIES, WHETHER AVAILABLE AT LAW OR IN EQUITY, BEING IRREVOCABLY WAIVED) THE RIGHT TO EITHER (A) TERMINATE THIS AGREEMENT (IN WHICH EVENT THE DEPOSIT SHALL BE RETURNED TO PURCHASER, SELLER SHALL PAY TO PURCHASER AN AMOUNT EQUAL TO PURCHASER'S REIMBURSABLE DUE DILIGENCE EXPENSES (AS HEREINAFTER DEFINED) AND NEITHER PARTY HERETO SHALL HAVE ANY FURTHER OBLIGATION OR LIABILITY TO THE OTHER EXCEPT FOR THE SURVIVING OBLIGATIONS, PURCHASER HEREBY WAIVING ANY RIGHT OR CLAIM TO DAMAGES FOR SELLER'S BREACH OR DEFAULT, OR (B) SPECIFICALLY ENFORCE SELLER'S OBLIGATION TO TRANSFER THE PROPERTY (IT BEING ACKNOWLEDGED THAT THE REMEDY OF SPECIFIC PERFORMANCE SHALL NOT BE APPLICABLE TO ANY OTHER COVENANT OR AGREEMENT OF SELLER CONTAINED HEREIN); PROVIDED THAT ANY ACTION BY PURCHASER FOR SPECIFIC PERFORMANCE MUST BE FILED, IF AT ALL, WITHIN FORTY-FIVE (45) DAYS OF SELLER'S BREACH OR DEFAULT, AND THE FAILURE TO FILE WITHIN SUCH PERIOD SHALL CONSTITUTE A WAIVER BY PURCHASER OF SUCH RIGHT AND REMEDY; PROVIDED, HOWEVER, NOTHING IN THIS SECTION SHALL BE CONSTRUED TO LIMIT PURCHASER'S RIGHTS OR DAMAGES UNDER THE INDEMNITY GIVEN BY SELLER TO PURCHASER UNDER SECTION 10.1.1 OF THIS AGREEMENT. IF PURCHASER SHALL NOT HAVE FILED AN ACTION FOR SPECIFIC PERFORMANCE WITHIN THE AFOREMENTIONED TIME PERIOD OR SO NOTIFIED SELLER OF ITS ELECTION TO TERMINATE THIS AGREEMENT, PURCHASER SHALL BE DEEMED FOR ALL PURPOSES OF THIS AGREEMENT TO HAVE ELECTED TO TERMINATE THIS AGREEMENT IN ACCORDANCE WITH CLAUSE (A) ABOVE. AS USED HEREIN, "**PURCHASER'S REIMBURSABLE DUE DILIGENCE EXPENSES**" SHALL MEAN AND REFER TO THIRD-PARTY OUT-OF-POCKET EXPENSES ACTUALLY INCURRED BY PURCHASER IN CONNECTION WITH THE NEGOTIATION AND PREPARATION OF THIS AGREEMENT AND THE ACCESS AGREEMENT, INCLUDING ATTORNEYS' FEES, AND IN CONNECTION WITH PURCHASER'S INVESTIGATIONS UNDER THIS AGREEMENT AND THE ACCESS AGREEMENT PRIOR TO THE TERMINATION OF THIS AGREEMENT BY PURCHASER; PROVIDED, HOWEVER, (I) IN NO EVENT SHALL SELLER BE OBLIGATED UNDER THIS AGREEMENT TO REIMBURSE PURCHASER FOR PURCHASER'S REIMBURSABLE DUE DILIGENCE EXPENSES (IN THE AGGREGATE) IN EXCESS OF ONE HUNDRED THOUSAND AND 00/100 DOLLARS (\$100,000.00) AND (II) SELLER'S OBLIGATION HEREUNDER TO REIMBURSE PURCHASER FOR PURCHASER'S REIMBURSABLE DUE DILIGENCE EXPENSES SHALL RELATE ONLY TO PURCHASER'S REIMBURSABLE DUE DILIGENCE EXPENSES WITH RESPECT TO WHICH PURCHASER DELIVERS TO SELLER A THIRD-PARTY INVOICE (WITH REASONABLE SUPPORTING INFORMATION AND DOCUMENTATION AND EVIDENCE OF PAYMENT) WITHIN THIRTY (30) DAYS AFTER THE DATE

ON WHICH PURCHASER GIVES SELLER WRITTEN NOTICE OF PURCHASER'S TERMINATION OF THIS AGREEMENT.

NOTWITHSTANDING THE FOREGOING OR ANYTHING TO THE CONTRARY IN THIS AGREEMENT, PURCHASER HEREBY WAIVES ANY RIGHT TO FILE ANY LIS PENDENS, NOTICE OF PENDENCY OF ACTION OR OTHER SIMILAR NOTICE OR FORM OF ATTACHMENT AGAINST THE PROPERTY, EXCEPT IN CONNECTION WITH PURCHASER'S FILING OF AN ACTION FOR SPECIFIC PERFORMANCE IN ACCORDANCE WITH THIS AGREEMENT.

9.2 PURCHASER DEFAULTS. IF THE TRANSACTION SHALL NOT BE CLOSED BY REASON OF PURCHASER'S BREACH OR DEFAULT UNDER THIS AGREEMENT, THEN THIS AGREEMENT SHALL TERMINATE AND THE RETENTION OF THE DEPOSIT HELD BY ESCROWEE AS OF THE DATE OF PURCHASER'S BREACH OR DEFAULT SHALL BE SELLER'S SOLE AND EXCLUSIVE REMEDY UNDER THIS AGREEMENT, SUBJECT TO THE SURVIVING OBLIGATIONS; PROVIDED, HOWEVER, NOTHING IN THIS AGREEMENT SHALL BE CONSTRUED TO LIMIT SELLER'S RIGHTS OR DAMAGES UNDER THE INDEMNITIES GIVEN BY PURCHASER TO SELLER UNDER SECTIONS 4.2.1(h), 4.2.2(e), 10.1.1 OR 10.24.2 OF THIS AGREEMENT OR LIMIT SELLER'S RIGHTS OR REMEDIES IF PURCHASER FILES OR CAUSES TO BE FILED ANY LIS PENDENS, NOTICE OF PENDENCY OF ACTION, OR OTHER SIMILAR NOTICE OR FORM OF ATTACHMENT AGAINST THE PROPERTY, EXCEPT IN CONNECTION WITH PURCHASER'S FILING OF AN ACTION FOR SPECIFIC PERFORMANCE IN ACCORDANCE WITH THIS AGREEMENT, OR LIMIT SELLER'S RIGHTS UNDER THE PROVISIONS OF SECTION 4.2.2(F) OF THIS AGREEMENT. IN CONNECTION WITH THE FOREGOING, PURCHASER EXPRESSLY AGREES THAT THE PROVISIONS OF THIS SECTION 9.2 ARE REASONABLE UNDER THE CIRCUMSTANCES AND THE PARTIES RECOGNIZE THAT SELLER WILL INCUR EXPENSE IN CONNECTION WITH THE TRANSACTION AND THAT THE PROPERTY WILL BE REMOVED FROM THE MARKET; FURTHER, THAT IT IS EXTREMELY DIFFICULT AND IMPRACTICABLE TO ASCERTAIN THE EXTENT OF DETRIMENT TO SELLER CAUSED BY THE BREACH OR DEFAULT BY PURCHASER UNDER THIS AGREEMENT AND THE FAILURE OF THE CONSUMMATION OF THE TRANSACTION OR THE AMOUNT OF COMPENSATION SELLER SHOULD RECEIVE AS A RESULT OF PURCHASER'S BREACH OR DEFAULT.

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IN PLACING THEIR INITIALS AT THE PLACES PROVIDED, EACH PARTY SPECIFICALLY CONFIRMS THE ACCURACY OF THE STATEMENTS MADE ABOVE AND THE FACT THAT EACH PARTY WAS REPRESENTED BY COUNSEL WHO EXPLAINED THE CONSEQUENCES OF THIS LIQUIDATED DAMAGES PROVISION AT THE TIME THIS AGREEMENT WAS MADE. THE PAYMENT OF SUCH AMOUNT AS LIQUIDATED DAMAGES IS NOT INTENDED AS A FORFEITURE OR PENALTY WITHIN THE MEANING OF CALIFORNIA CIVIL CODE SECTIONS 3275 OR 3369, BUT IS INTENDED TO CONSTITUTE LIQUIDATED DAMAGES TO SELLER PURSUANT TO CALIFORNIA CIVIL CODE SECTIONS 1671, 1676 AND 1677. UPON BREACH OR DEFAULT BY PURCHASER, THIS AGREEMENT SHALL BE TERMINATED AND NEITHER PARTY SHALL HAVE ANY FURTHER RIGHTS OR OBLIGATIONS HEREUNDER, EACH TO THE OTHER, EXCEPT FOR THE RIGHT OF SELLER TO COLLECT SUCH LIQUIDATED DAMAGES FROM PURCHASER. FURTHERMORE, EXCEPT IN CONNECTION WITH PURCHASER'S EXERCISE OF ITS RIGHT TO SPECIFICALLY ENFORCE THIS AGREEMENT PURSUANT TO SECTION 9.1, PURCHASER SHALL HAVE NO RIGHT TO SEEK DECLARATORY AND/OR INJUNCTIVE RELIEF AND/OR EQUITABLE RELIEF, OR TO RECORD A NOTICE OF THIS AGREEMENT OR ANY RIGHTS PURCHASER MAY HAVE HEREUNDER, OR TO RECORD OR FILE A NOTICE OF PENDENCY OF ANY ACTION OR PROCEEDINGS TO ENFORCE THIS AGREEMENT.

PURCHASER'S INITIALS: _____

SELLER'S INITIALS: _____

9.3 Disposition of Deposit. If the Transaction shall close, then the Deposit shall be applied as a partial payment of the Purchase Price. If the Transaction does not close, the Deposit shall be handled in accordance with the provisions set forth in this Agreement.

9.4 Survival. The provisions of this Section 9 shall survive a termination of this Agreement.

10. Miscellaneous.

10.1 Brokers.

10.1.1 Except as provided in Section 10.1.2 below, Seller represents and warrants to Purchaser, and Purchaser represents and warrants to Seller, that no broker or finder has been engaged by it, respectively, in connection with the Transaction. In the event of a claim for broker's or finder's fee or commissions in connection with the sale contemplated by this Agreement, then Seller shall indemnify, defend and hold harmless Purchaser from the same if it shall be based upon any statement or agreement alleged to have been made by Seller, and Purchaser shall indemnify, defend and hold harmless Seller from the same if it shall be based upon any statement or agreement alleged to have been made by Purchaser.

10.1.2 If and only if the Transaction closes, Seller has agreed to pay a brokerage commission to Eastdil Secured ("**Broker**") pursuant to a separate written agreement with Broker, subject in all respects to the terms and conditions of such separate written agreement. Section 10.1.1 hereof is not intended to apply to leasing commissions incurred in accordance with this Agreement.

10.2 Limitation of Liability.

10.2.1 Notwithstanding anything to the contrary contained in this Agreement or any documents executed in connection herewith, if the Closing of the Transaction shall have occurred, (i) the aggregate liability of Seller arising pursuant to or in connection with the representations, warranties, indemnifications, covenants or other obligations (whether express or implied) of Seller under this Agreement or any document or certificate executed or delivered in connection herewith (other than under the provisions of Sections 5.4 and 10.1 of this Agreement) shall not exceed Seven Million Eight Hundred Seventy-Five Thousand and No/100 Dollars (\$7,875,000) (the “**Liability Ceiling**”) and (ii) in no event shall Seller have any liability to Purchaser unless and until the aggregate liability of Seller arising pursuant to or in connection with the representations, warranties, indemnifications, covenants or other obligations (whether express or implied) of Seller under this Agreement or any document or certificate executed or delivered in connection herewith (other than under the provisions of Sections 5.4 and 10.1 of this Agreement) shall exceed Fifty Thousand Dollars (\$50,000) (the “**Liability Floor**”). If Seller’s aggregate liability to Purchaser shall exceed the Liability Floor, then Seller shall be liable for the entire amount thereof up to but not exceeding the Liability Ceiling.

10.2.2 None of the Seller Related Parties shall have any personal liability, directly or indirectly, under or in connection with this Agreement or any agreement made or entered into under or pursuant to the provisions of this Agreement, or any amendment or amendments to any of the foregoing made at any time or times, heretofore or hereafter, and Purchaser and its successors and assigns and, without limitation, all other Persons, shall look solely to Seller’s assets for the payment of any claim or for any performance, and Purchaser, on behalf of itself and its successors and assigns, hereby waives any and all such personal liability.

10.2.3 No agent, advisor, representative, affiliate, employee, director, officer, partner, member, beneficiary, investor, servant, shareholder, trustee or other person or entity acting on Purchaser’s behalf or otherwise related to or affiliated with Purchaser shall have any personal liability, directly or indirectly, under or in connection with this Agreement or any agreement made or entered into under or pursuant to the provisions of this Agreement, or any amendment or amendments to any of the foregoing made at any time or times, heretofore or hereafter, and Seller and its successors and assigns and, without limitation, all other Persons, shall look solely to Purchaser’s assets for the payment of any claim or for any performance, and Seller, on behalf of itself and its successors and assigns, hereby waives any and all such personal liability.

10.3 Exhibits; Entire Agreement; Modification. All exhibits attached and referred to in this Agreement are hereby incorporated herein as if fully set forth in (and shall be deemed to be a part of) this Agreement. This Agreement contains the entire agreement between the parties respecting the matters herein set forth and supersedes any and all prior agreements between the parties hereto respecting such matters. This Agreement may not be modified or amended except by written agreement signed by both parties.

10.4 Business Days. Whenever any action must be taken (including the giving of notice or the delivery of documents) under this Agreement during a certain period of time (or by a particular date) that ends (or occurs) on a non-Business Day, then such period (or date) shall be extended until the next succeeding Business Day. As used herein, the term “**Business Day**” shall be deemed to mean any day, other than a Saturday or Sunday, on which commercial banks in the State of New York or in the State of California are not required or are authorized to be closed for business.

10.5 Interpretation. Section headings shall not be used in construing this Agreement. Each party acknowledges that such party and its counsel, after negotiation and consultation, have reviewed and revised this Agreement. As such, the terms of this Agreement shall be fairly construed and the usual rule of

construction, to wit, that ambiguities in this Agreement should be resolved against the drafting party, shall not be employed in the interpretation of this Agreement or any amendments, modifications or exhibits hereto or thereto. Whenever the words “including”, “include” or “includes” are used in this Agreement, they shall be interpreted in a non-exclusive manner. Except as otherwise indicated, all Exhibit and Section references in this Agreement shall be deemed to refer to the Exhibits and Sections in this Agreement.

10.6 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, without giving effect to principles of conflicts of law except as specifically provided in any exhibit hereto which provides that the law of another jurisdiction shall govern that exhibit, in which event the law of the specified jurisdiction shall govern that exhibit.

10.7 Construction. Each party hereto acknowledges that it has participated in the drafting of this Agreement, and any applicable rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not be applied in connection with the construction or interpretation hereof. Each party has been represented by independent counsel in connection with this Agreement.

10.8 Successors and Assigns. Neither party hereto may assign or transfer its rights or obligations under this Agreement without the prior written consent of the other party, which consent may be given or withheld in the sole and absolute discretion of such other party; provided that, in the event of such an assignment or transfer, the transferee shall assume in writing all of the transferor’s obligations hereunder (but neither such transferor nor any subsequent transferor shall be released from its obligations hereunder). Notwithstanding and without limiting the foregoing, no consent given by any party hereto to any transfer or assignment of the other party’s rights or obligations hereunder shall be deemed to constitute a consent to any other transfer or assignment of the other party’s rights or obligations hereunder and no transfer or assignment in violation of the provisions hereof shall be valid or enforceable. Subject to the foregoing, this Agreement and the terms and provisions hereof shall inure to the benefit of and be binding upon the successors and assigns of the parties.

10.9 Notices. Except as set forth in Section 4.3, all notices, demands, consents, approvals, requests or other communications which any of the parties to this Agreement may desire or be required to give hereunder (collectively, “**Notices**”) shall be in writing and shall be given by personal delivery, electronic mail or reputable overnight courier service (charges prepaid) or United States registered or certified mail (postage prepaid, return receipt requested) addressed as hereinafter; provided, however, without affecting the sufficiency of delivery by electronic email and for confirmation purposes only, any Notice given by electronic mail shall also be given by personal delivery, reputable overnight courier service or United States registered or certified mail. Except as otherwise specified herein, the time period in which a response to any notice or other communication must be made, if any, shall commence to run on the earliest to occur of (a) if by personal delivery, the date of receipt, or attempted delivery, if such communication is refused; (b) if given by electronic mail, the date on which such email is received; and (c) if sent by overnight courier service or by mail (as aforesaid), the date of receipt or attempted delivery, if such courier service mailing is refused. Any Notice received after 5:00 P.M New York time or on a day other than a Business Day shall be deemed received on the first Business Day thereafter. Until further notice, Notices under this Agreement shall be addressed to the parties listed below as follows:

To Seller: HSPF La Jolla Commons I Investors LLC
HSPF La Jolla Commons II Investors LLC
HSPF La Jolla Commons III Investors LLC
c/o J.P. Morgan Investment Management Inc.
2029 Century Park East, Suite 4150
Los Angeles, California 90067
Attention:Lauren Graham
Telephone:(310) 860-7027
Email:lauren.b.graham@jpmchase.com

With a Copy To: HSPF La Jolla Commons I Investors LLC
HSPF La Jolla Commons II Investors LLC
HSPF La Jolla Commons III Investors LLC
c/o J.P. Morgan Investment Management Inc.
P.O. Box 5005
New York, New York 10163-5005

With a Copy To: Stroock & Stroock & Lavan LLP
2029 Century Park East
Los Angeles, California 90067
Attention:Loryn Arkow, Esq.
Telephone:(310) 556-5985
Email:larkow@stroock.com

To Purchaser: American Assets Trust, Inc.
11455 El Camino Real, Suite 200
San Diego, California 92130
Attention: Adam Wyll
Telephone: (858) 350-2600
Email: awyll@americanassets.com

With a Copy To: Latham & Watkins LLP
12670 High Bluff Drive
San Diego, CA 92130
Attention: James Mann
Telephone: (858) 523-5289
Email: james.mann@lw.com

To Escrowee: First American Title Insurance Company
3281 East Guasti Road, Suite 440
Ontario, California 91761
Attention: Christine Siegel
Telephone:(909) 510-6208
Email:csiegel@firstam.com

Any party may designate another addressee (and/or change its address) for Notices hereunder by a Notice given pursuant to this Section.

10.10 Third Parties. Nothing in this Agreement, whether expressed or implied, is intended to confer any rights or remedies under or by reason of this Agreement upon any other Person other than the parties hereto and their respective permitted successors and assigns, nor is anything in this Agreement intended to relieve or discharge the obligation or liability of any third Persons to any party to this Agreement, nor shall any provision give any third parties any right of subrogation or action over or against any party to this

Agreement. This Agreement is not intended to and does not create any third party beneficiary rights whatsoever.

10.11 Legal Costs. The parties hereto agree that they shall pay directly any and all legal costs which they have incurred on their own behalf in the preparation of this Agreement, all deeds and other agreements pertaining to the Transaction, and that such legal costs shall not be part of the closing costs.

10.12 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same document. Executed copies hereof may be delivered by facsimile or by email in a PDF attachment, and upon receipt, shall be deemed originals and binding upon the parties hereto. Without limiting or otherwise affecting the validity of executed copies hereof that have been delivered by facsimile or by email in a PDF attachment, the parties shall use diligent efforts to deliver originals as promptly as possible after execution.

10.13 Effectiveness. In no event shall any draft of this Agreement create any obligation or liability, it being understood that this Agreement shall be effective and binding only when a counterpart hereof has been executed and delivered by each party hereto. Seller shall have the right to discontinue negotiations and withdraw any draft of this Agreement at any time prior to the full execution and delivery of this Agreement by each party hereto. Purchaser assumes the risk of all costs and expenses incurred by Purchaser in any negotiations or due diligence investigations undertaken by Purchaser with respect to the Property.

10.14 No Implied Waivers. No failure or delay of either party in the exercise of any right or remedy given to such party hereunder or the waiver by any party of any condition hereunder for its benefit (unless the time specified in this Agreement for exercise of such right or remedy has expired) shall constitute a waiver of any other or further right or remedy nor shall any single or partial exercise of any right or remedy preclude other or further exercise thereof or any other right or remedy. No waiver by either party of any breach hereunder or failure or refusal by the other party to comply with its obligations shall be deemed a waiver of any other or subsequent breach, failure or refusal to so comply.

10.15 Discharge of Seller's Obligations. Except as otherwise expressly provided in this Agreement, Purchaser's acceptance of the Deed shall be deemed a discharge of all of the obligations of Seller hereunder and all of Seller's representations, warranties, covenants and agreements in this Agreement shall merge in the documents and agreements executed at the Closing and shall not survive the Closing, except and to the extent that, pursuant to the express provisions of this Agreement, any of such representations, warranties, covenants or agreements are to survive the Closing.

10.16 No Recordation. Neither this Agreement nor any memorandum hereof shall be recorded and any attempted recordation hereof shall be void and shall constitute a default hereunder.

10.17 Unenforceability. If all or any portion of any provision of this Agreement shall be held to be invalid, illegal or unenforceable in any respect, then such invalidity, illegality or unenforceability shall not affect any other provision hereof, and such provision shall be limited and construed as if such invalid, illegal or unenforceable provision or portion thereof were not contained herein unless doing so would materially and adversely affect a party or the benefits that such party is entitled to receive under this Agreement.

10.18 Waiver of Trial by Jury. **TO THE FULLEST EXTENT PERMITTED BY LAW, SELLER AND PURCHASER HEREBY WAIVE TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER ARISING IN TORT OR CONTRACT) BROUGHT BY**

EITHER AGAINST THE OTHER ON ANY MATTER ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS AGREEMENT.

10.19 Disclosure. Notwithstanding any terms or conditions in this Agreement to the contrary, any Person may disclose to any and all Persons, without limitation of any kind, the tax treatment and structure of the Transaction and all materials of any kind (including, without limitation, opinions or other tax analyses) that are provided relating to such tax treatment and tax structure. For the avoidance of doubt, this authorization is not intended to permit disclosure of the names of, or other identifying information regarding, the participants in the Transaction, or of any information or the portion of any materials not relevant to the tax treatment or structure of the Transaction.

10.20 Designation of Reporting Person. In order to assure compliance with the requirements of Section 6045 of the Code and any related reporting requirements of the Code, the parties hereto agree as follows:

10.20.1. The Title Company (for purposes of this Section, the “**Reporting Person**”), by its execution hereof, hereby assumes all responsibilities for information reporting required under Section 6045(e) of the Code.

10.20.2. Seller and Purchaser each hereby agree:

(a) to provide to the Reporting Person all information and certifications regarding such party, as reasonably requested by the Reporting Person or otherwise required to be provided by a party to the Transaction under Section 6045 of the Code; and

(b) to provide to the Reporting Person such party’s taxpayer identification number and a statement (on Internal Revenue Service Form W-9 or an acceptable substitute form, or on any other form the applicable current or future Code sections and regulations might require and/or any form requested by the Reporting Person), signed under penalties of perjury, stating that the taxpayer identification number supplied by such party to the Reporting Person is correct.

(c) Each party hereto agrees to retain this Agreement for not less than four years from the end of the calendar year in which Closing occurred, and to produce it to the Internal Revenue Service upon a valid request therefor.

(d) The addresses for Seller and Purchaser are as set forth in Section 10.9 hereof, and the real estate subject to the transfer provided for in this Agreement is described in Exhibit A.

10.21 Tax Reduction Proceedings. If any party hereto has heretofore filed, or shall hereafter file, applications for the reduction of the assessed valuation of the Property (other than any reduction of the assessed value relating to the Transactions contemplated herein and/or instituted certiorari proceedings to review such assessed valuations for any tax year that ends on or before June 30, 2019, Purchaser acknowledges and agrees that Seller shall have sole control of such proceedings, including, without limitation, the right to withdraw, compromise and/or settle the same or cause the same to be brought on for trial and to take, conduct, withdraw and/or settle appeals, and Purchaser hereby consents to such actions as Seller may take therein. If any party hereto has heretofore filed, or shall hereafter file, applications for the reduction of the assessed valuation of the Property and/or instituted certiorari proceedings to review such assessed valuations for any tax year that ends after June 30, 2019 (or for the prior tax year with respect to any reduction of the assessed value relating to the Transactions contemplated herein), Seller acknowledges and agrees that, following the

Closing, Purchaser shall have sole control of such proceedings, including, without limitation, the right to withdraw, compromise and/or settle the same or cause the same to be brought on for trial and to take, conduct, withdraw and/or settle appeals, and Seller hereby consents to such actions as Purchaser may take therein. Any refund or the savings or refund for any year or years prior to the tax year in which the Closing herein occurs shall belong solely to Seller. Any tax savings or refund for the tax year in which the Closing occurs shall be prorated between Seller and Purchaser after deduction of attorneys' fees and other expenses related to the proceeding and all sums payable to tenants under the Leases. Any refund or the savings or refund for any year or years following the tax year in which the Closing herein occurs shall belong solely to Purchaser. Purchaser and Seller agree that all sums payable to tenants under the Leases on account of such tax savings or refund shall be promptly paid to such tenants following receipt of such tax savings or refund. Seller shall execute all consents, receipts, instruments and documents which may reasonably be requested in order to facilitate settling such proceeding and collecting the amount of any refund or tax savings. Purchaser shall assume the retainer of the attorney, if any, representing Seller in any tax proceeding pending for the tax year in which the Closing occurs and the subsequent tax year, if applicable.

10.22 California Required Natural Hazard Disclosure. Seller has commissioned First American Title Insurance Company to prepare the natural hazard disclosure statement in the form required by California Civil Code Section 1103. Purchaser acknowledges that the Transaction is not subject to that Civil Code Section, but that nevertheless the form promulgated therein serves to satisfy other statutory disclosure requirements of the Government Code and Public Resources Code. Seller does not warrant or represent either the accuracy or completeness of the information on that form, and Purchaser shall use same merely as a guideline in its overall investigation of the Property.

10.23 No Offer. Seller's delivery of unsigned copies of this Agreement is solely for the purpose of review by the Purchaser, and neither the delivery nor any prior communications between the parties, whether oral or written, shall in any way be construed as an offer by Seller, nor in any way imply that Seller is under any obligation to enter the transaction which is the subject of this Agreement. The signing of this Agreement by Purchaser constitutes an offer which shall not be deemed accepted by Seller unless and until Seller has signed this Agreement and delivered a duplicate original to Purchaser.

10.24 SEC Requirements/Public Disclosure.

10.24.1 For the period of time commencing on the Effective Date and continuing through the nine (9) month anniversary of the Closing Date, Seller shall, from time to time, upon reasonable advance notice from Purchaser, provide Purchaser and its representatives, agents and employees with access to all financial and other information in Seller's possession relating to the Property pertaining to the period of Seller's ownership and operation of the Property (other than such matters that relate to the negotiation and execution of this Agreement or to transactions potentially competing with or alternative to the transactions contemplated by this Agreement), which information is relevant and reasonably necessary, in the reasonable opinion of the outside, third party accountants and counsel of American Assets Trust, Inc. ("**REIT**"), to enable REIT and its accountants to prepare financial statements in compliance with any or all of (1) Rule 3-14 of Regulation S-X of the Securities and Exchange Commission (the "**Commission**"); (2) any other rule issued by the Commission and applicable to REIT; and (3) any other applicable requirements of any registration statement, report or disclosure statement filed with the Commission by, or on behalf of, REIT. Seller acknowledges and agrees that Exhibit W sets forth a representative description of the information and documentation that REIT and the accountants may possibly require, to the extent in Seller's possession or control, in order to comply with (1), (2) and (3) above. Any access or furnishing of information must be conducted at Purchaser's expense during normal business hours, under the supervision of Seller's personnel, and in such a manner as to not unreasonably interfere with the normal operations of Seller. Notwithstanding

anything in this Agreement to the contrary, nothing in this Section 10.24.1 will obligate Seller or its representatives (x) to prepare or create any financial or other data or other information, summaries or materials of any kind or nature outside the ordinary course of business of Seller as of the Closing Date, (y) to incur any out-of-pocket expenses in connection with such cooperation unless reimbursed promptly by Purchaser or (z) to disclose to Purchaser or its representatives any information (A) if doing so would violate any contract or applicable law to which Seller is subject or (B) if Seller believes in good faith based on advice of counsel that doing so would jeopardize the ability to assert a claim of privilege (including the attorney-client and work product privileges). Furthermore, Seller, or in the event Seller is dissolved, an affiliate of Seller acceptable to Purchaser shall execute, if reasonably necessary, from time to time upon reasonable advanced notice, the form of audit letter attached as Exhibit X (the “**Audit Letter**”) to Purchaser’s auditor (the “**Auditor**”), as same may be modified as provided in Section 10.24.2(D); provided, however, that if Seller is requested to provide an Audit Letter, Purchaser shall reimburse Seller for any reasonable actual, third-party out-of-pocket costs and expenses, including attorneys’ and accountants’ reasonable fees and disbursements, that Seller incurs in order to comply with the foregoing requirement. The Seller’s covenants and agreements set forth in this Section 10.24.1 shall survive the Closing for a period of nine (9) months. The Purchaser’s covenants and agreements set forth in this Section 10.24.1 shall survive the Closing indefinitely.

10.24.2 Purchaser hereby acknowledges and agrees that (A) Seller’s sole duty under the penultimate sentence of Section 10.24.1 is to execute the proposed Audit Letter, which is for the sole purpose of enabling the Auditor to complete its audit and express an opinion as to Purchaser’s financial statements, (B) none of the statements of Seller in the Audit Letter shall constitute representations or warranties to Purchaser, (C) as the Audit Letter will be delivered after the Closing, if at all, Purchaser is not relying upon the contents of the Audit Letter or Seller’s willingness to execute the Audit Letter (except insofar as such willingness allows Purchaser to comply with Commission regulations and requirements) in making its decision to purchase the Property, (D) Seller may need to modify the contents of the Audit Letter to accurately reflect developments that arise after the Closing or are brought to the attention of the appropriate Seller representative(s) after the Closing, (E) as of the Effective Date, Seller has not made any inquiry or investigation into the matters addressed in the Audit Letter, and (F) Seller’s financial statements and financial information may not have been audited. Purchaser agrees to indemnify, defend and hold harmless Seller from any and all claims, demands, liabilities, losses, damages, liens, costs and expenses asserted by a third party or third parties against Seller arising from or relating to the Audit Letter and to pay Seller all costs and expenses, including reasonable attorneys’ fees and expenses, incurred in defending any such matter. The provisions of this Section 10.24.2 shall survive the Closing.

10.24.3 Additionally, notwithstanding anything to the contrary in this Agreement, Purchaser shall be entitled to, and intends to, (a) provide a summary of the material terms of this Agreement in its 8-K filing, and (b) file a complete copy of this Agreement, excepting therefrom all exhibits (provided, however, Purchaser shall have the right to file such exhibits with the complete copy of this Agreement in the event that (i) the filing of such exhibits is required by applicable law or (ii) Purchaser receives reasonable advice from Purchaser’s counsel that such exhibits should be filed with the complete copy of this Agreement), with the Commission upon filing its 10-Q, which will be available to the public, and additionally Purchaser shall be entitled to, and intends to, issue up to a maximum of three (3) press releases during the term of this Agreement. Purchaser shall not identify the Seller or any of its direct or indirect owners or other affiliates, including J.P. Morgan Investment Management Inc., and JPMorgan Chase Bank, N.A or any of their affiliates, in its press releases.

10.25 Tax Free Exchange. Notwithstanding anything to the contrary in this Agreement, Seller acknowledges and agrees that Purchaser shall have the right at the Closing to exchange the Property in a

transaction intended to qualify as a tax-free exchange under Section 1031 of the Code (the “**Tax-Free Exchange**”). If Purchaser elects to effect a Tax-Free Exchange pursuant to this Section 10.25, Purchaser shall provide written notice thereof to Seller prior to the Closing, in which case Purchaser shall enter into an exchange agreement and other exchange documents with a “qualified intermediary” (as defined in Treas. Reg. § 1.1031(k)-1(g)(4) of the Code) (the “**Exchange Party**”), pursuant to which Purchaser shall assign all of its right, title and interest (but not its liabilities or obligations) under this Agreement to the Exchange Party. Seller agrees to use reasonable efforts to accommodate Purchaser in effectuating a like-kind exchange pursuant to Section 1031 of the Code in connection with the sale of the Property; provided however, that (a) such exchange does not directly or indirectly reduce the Purchase Price, (b) such exchange will not delay or otherwise adversely affect the Closing, (c) there is no additional unreimbursed loss, cost, damage, tax, expense or adverse consequence incurred by Seller resulting from, or in connection with, such exchange (including, without limitation, any adverse consequences under ERISA), (d) all documents to be executed by Seller in connection with such exchange shall be subject to the approval of Seller, which approval shall not be unreasonably withheld provided that Purchaser has otherwise fully complied with the terms and provisions of this Section 10.25, and shall expressly state, without qualification, that Seller (x) is acting solely as an accommodating party to such exchange, (y) shall have no liability with respect thereto, and (z) is making no representation or warranty that the Tax-Free Exchange qualifies as a tax-free exchange under Section 1031 of the Code or any applicable state or local laws, (e) in no event shall Seller be obligated to acquire any property or otherwise be obligated to take title, or appear in the records of title, to any property in connection with such exchange, and (f) Purchaser shall pay all of the costs and expenses (including, without limitation, reasonable legal fees and expenses) reasonably incurred by Seller in connection with the consideration and/or consummation of any such exchange.

10.26 Cooperation During Operation and Management Transition. Following the Closing, Seller shall reasonably cooperate with Purchaser, at no cost to Seller (except to the extent Purchaser agrees to reimburse Seller for such costs), in connection with the transition of the operation and management of the Property from Seller to Purchaser. Pursuant to this Section 10.26, Seller shall use commercially reasonable efforts to cause the Seller Related Parties who were engaged with the operation and management of the Property prior to the Closing (such as employees who served on Seller’s asset and property management staffs) to be reasonably available to provide information and respond to questions regarding the systems, operations and policies relating to the Property, including all buildings and other structures located thereon to the extent such commercially reasonable efforts do not include or require Seller to expend any costs that Purchaser has not agreed to reimburse to Seller. Purchaser’s requests for cooperation by Seller and Seller Related Parties shall be limited to cooperation during the normal business hours of operation of Seller and Seller Related Parties and shall be made in a manner intended to minimize the impact on the business operations, resources and personnel of Seller and Seller Related Parties.

10.27 Association Tax Returns. Seller shall (i) cause all tax returns and other filings for the Association which relate to Seller’s period of ownership of the Property to be properly and timely filed with the applicable Governmental Authorities and (ii) timely pay all taxes that are owed by the Association and relate to Seller’s period of ownership of the Property. The provisions of this Section 10.27 shall survive the Closing.

10.28 Joint and Several Liability. The obligations and liabilities of each party that comprises the Seller hereunder and under any documents executed pursuant hereto or in connection herewith shall be joint and several obligations and liabilities of each of the parties that constitute the Seller regardless of which such party actually receives the benefits provided for herein or therein. To the extent this Agreement is assigned by Purchaser to more than one party, all such parties shall be jointly and severally liable to the same extent

as provided herein with respect to Seller hereunder and under any documents executed pursuant hereto or in connection herewith.

10.29 Environmental Inquiry. Purchaser acknowledges and agrees that Seller has indicated that the sole inquiry and investigation that Seller has conducted in connection with the environmental condition of the Property is to review the environmental reports in its possession, and that, for all purposes, including California Health and Safety Code Section 25359.7, Seller has acted reasonably in solely relying upon said inquiry and investigation. Purchaser acknowledges receipt of notice in accordance with the foregoing statute and receipt of the identified environmental reports.

10.30 Survival. Except as otherwise provided in this Section 10, the provisions of this Section 10 shall survive the Closing or a termination of this Agreement.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the date first above written.

SELLER:

HSPF LA JOLLA COMMONS I INVESTORS LLC,
a Delaware limited liability company

By: /s/ Lauren Bilger Graham
Name: Lauren Bilger Graham
Title: Authorized Signatory

HSPF LA JOLLA COMMONS II INVESTORS LLC,
a Delaware limited liability company

By: /s/ Lauren Bilger Graham
Name: Lauren Bilger Graham
Title: Authorized Signatory

HSPF LA JOLLA COMMONS III INVESTORS LLC,
a Delaware limited liability company

By: /s/ Lauren Bilger Graham
Name: Lauren Bilger Graham
Title: Authorized Signatory

[signatures continue on next page]

PURCHASER:

AAT LA JOLLA COMMONS, LLC
a Delaware limited liability company

By: /s/ Robert F. Barton

Name: Robert F. Barton

Title: Executive Vice President and Chief Financial Officer

By: /s/ Adam Wyll

Name: Adam Wyll

Title: Senior Vice President

JOINDER AS TO SECTION 10.20 ONLY:

FIRST AMERICAN TITLE INSURANCE COMPANY

By: /s/ Christine Siegel
Name Christine Siegel
Title Sr. National Commerical Escrow Officer

EXHIBIT A-1

(LA JOLLA COMMONS I Land)

Contents have been omitted pursuant to Item 601(a)(5) of Regulation S-K. See exhibit title for identification of the contents of this exhibit that have been omitted.

EXHIBIT A-2

(LA JOLLA COMMONS II LAND)

Contents have been omitted pursuant to Item 601(a)(5) of Regulation S-K. See exhibit title for identification of the contents of this exhibit that have been omitted.

EXHIBIT A-3

(LA JOLLA COMMONS III LAND)

Contents have been omitted pursuant to Item 601(a)(5) of Regulation S-K. See exhibit title for identification of the contents of this exhibit that have been omitted.

EXHIBIT B

(Title PROFORMA)

Contents have been omitted pursuant to Item 601(a)(5) of Regulation S-K. See exhibit title for identification of the contents of this exhibit that have been omitted.

EXHIBIT C

(INTENTIONALLY OMITTED)

EXHIBIT D-1

TENANT ESTOPPEL CERTIFICATE

Contents have been omitted pursuant to Item 601(a)(5) of Regulation S-K. See exhibit title for identification of the contents of this exhibit that have been omitted.

EXHIBIT D-2

TENANT ESTOPPEL CERTIFICATE - BASE FORM

Contents have been omitted pursuant to Item 601(a)(5) of Regulation S-K. See exhibit title for identification of the contents of this exhibit that have been omitted.

EXHIBIT E

PURCHASER ACKNOWLEDGMENT

Contents have been omitted pursuant to Item 601(a)(5) of Regulation S-K. See exhibit title for identification of the contents of this exhibit that have been omitted.

EXHIBIT F

(Deed)

Contents have been omitted pursuant to Item 601(a)(5) of Regulation S-K. See exhibit title for identification of the contents of this exhibit that have been omitted.

EXHIBIT G

ASSIGNMENT AND ASSUMPTION OF LEASES AND CONTRACTS

Contents have been omitted pursuant to Item 601(a)(5) of Regulation S-K. See exhibit title for identification of the contents of this exhibit that have been omitted.

EXHIBIT H

BILL OF SALE AND GENERAL ASSIGNMENT

Contents have been omitted pursuant to Item 601(a)(5) of Regulation S-K. See exhibit title for identification of the contents of this exhibit that have been omitted.

EXHIBIT I

CERTIFICATION OF NON-FOREIGN STATUS UNDER

TREASURY REGULATIONS SECTION 1.1445-2(b)

(ENTITY TRANSFEROR, AS SOLE OWNER OF DISREGARDED ENTITY)

Contents have been omitted pursuant to Item 601(a)(5) of Regulation S-K. See exhibit title for identification of the contents of this exhibit that have been omitted.

EXHIBIT J

(Form of Tenant Notice)

Contents have been omitted pursuant to Item 601(a)(5) of Regulation S-K. See exhibit title for identification of the contents of this exhibit that have been omitted.

EXHIBIT K

(Form of VENDOR Notice)

Contents have been omitted pursuant to Item 601(a)(5) of Regulation S-K. See exhibit title for identification of the contents of this exhibit that have been omitted.

EXHIBIT L

OWNER'S TITLE CERTIFICATE

Contents have been omitted pursuant to Item 601(a)(5) of Regulation S-K. See exhibit title for identification of the contents of this exhibit that have been omitted.

EXHIBIT M

(Tenant Options, Rights of First Refusal and Other Purchase Rights)

Contents have been omitted pursuant to Item 601(a)(5) of Regulation S-K. See exhibit title for identification of the contents of this exhibit that have been omitted.

EXHIBIT N

(Lease Exhibit)

Contents have been omitted pursuant to Item 601(a)(5) of Regulation S-K. See exhibit title for identification of the contents of this exhibit that have been omitted.

EXHIBIT O-1

**(Maintenance, Service and Supply Contracts,
and Equipment Leases)**

Contents have been omitted pursuant to Item 601(a)(5) of Regulation S-K. See exhibit title for identification of the contents of this exhibit that have been omitted.

EXHIBIT O-2

(Leasing Commission Agreements)

Contents have been omitted pursuant to Item 601(a)(5) of Regulation S-K. See exhibit title for identification of the contents of this exhibit that have been omitted.

EXHIBIT P

ESCROW AGREEMENT

Contents have been omitted pursuant to Item 601(a)(5) of Regulation S-K. See exhibit title for identification of the contents of this exhibit that have been omitted.

EXHIBIT Q

LIST OF EXISTING LEASING COSTS

Contents have been omitted pursuant to Item 601(a)(5) of Regulation S-K. See exhibit title for identification of the contents of this exhibit that have been omitted.

EXHIBIT R

(ASSUMED CONTRACTS)

Contents have been omitted pursuant to Item 601(a)(5) of Regulation S-K. See exhibit title for identification of the contents of this exhibit that have been omitted.

EXHIBIT S

(IDENTIFIED CONTRACTS)

Contents have been omitted pursuant to Item 601(a)(5) of Regulation S-K. See exhibit title for identification of the contents of this exhibit that have been omitted.

EXHIBIT T

(PENDING OR THREATENED LITIGATION - SELLER)

Contents have been omitted pursuant to Item 601(a)(5) of Regulation S-K. See exhibit title for identification of the contents of this exhibit that have been omitted.

EXHIBIT U

(PENDING OR THREATENED LITIGATION - PURCHASER)

Contents have been omitted pursuant to Item 601(a)(5) of Regulation S-K. See exhibit title for identification of the contents of this exhibit that have been omitted.

EXHIBIT V

ASSIGNMENT AND ASSUMPTION OF DECLARANT RIGHTS

Contents have been omitted pursuant to Item 601(a)(5) of Regulation S-K. See exhibit title for identification of the contents of this exhibit that have been omitted.

EXHIBIT W

(ACCOUNTING RECORDS)

Contents have been omitted pursuant to Item 601(a)(5) of Regulation S-K. See exhibit title for identification of the contents of this exhibit that have been omitted.

EXHIBIT X

(FORM OF AUDIT LETTER)

Contents have been omitted pursuant to Item 601(a)(5) of Regulation S-K. See exhibit title for identification of the contents of this exhibit that have been omitted.

EXHIBIT Y

(ASSOCIATION ESTOPPEL CERTIFICATE)

ESTOPPEL LETTER

Contents have been omitted pursuant to Item 601(a)(5) of Regulation S-K. See exhibit title for identification of the contents of this exhibit that have been omitted.

**CERTIFICATION PURSUANT
TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Ernest Rady, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Assets Trust, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2019

/s/ ERNEST RADY

Ernest Rady

Chairman, President and Chief Executive Officer

**CERTIFICATION PURSUANT
TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Ernest Rady, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Assets Trust, L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2019

/s/ ERNEST RADY

Ernest Rady

Chairman, President and Chief Executive Officer

**CERTIFICATION PURSUANT
TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Robert F. Barton, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Assets Trust, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2019

/s/ ROBERT F. BARTON

Robert F. Barton

EVP and Chief Financial Officer

**CERTIFICATION PURSUANT
TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Robert F. Barton, certify that:

1. I have reviewed this quarterly report on Form 10-Q of American Assets Trust, L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2019

/s/ ROBERT F. BARTON

Robert F. Barton

EVP and Chief Financial Officer

CERTIFICATION

The undersigned, Ernest Rady and Robert F. Barton, the Chief Executive Officer and Chief Financial Officer, respectively, of American Assets Trust, Inc. (the "Company"), pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each hereby certifies that, to the best of his knowledge:

(i) the Quarterly Report for the period ended June 30, 2019 of the Company (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ERNEST RADY

Ernest Rady
Chairman, President and Chief Executive Officer

/s/ ROBERT F. BARTON

Robert F. Barton
EVP and Chief Financial Officer

Date: August 2, 2019

CERTIFICATION

The undersigned, Ernest Rady and Robert F. Barton, the Chief Executive Officer and Chief Financial Officer, respectively, of American Assets Trust, L.P. (the "Operating Partnership"), pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each hereby certifies that, to the best of his knowledge:

(i) the Quarterly Report for the period ended June 30, 2019 of the Operating Partnership (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Operating Partnership.

/s/ ERNEST RADY

Ernest Rady

Chairman, President and Chief Executive Officer

/s/ ROBERT F. BARTON

Robert F. Barton

EVP and Chief Financial Officer

Date: August 2, 2019