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

FORM 10-Q

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

For the quarterly period ended September 30, 2017

or

o **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.)	**27-3338708 (American Assets Trust, Inc.)**
Maryland (American Assets Trust, L.P.)	**27-3338894 (American Assets Trust, L.P.)**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
11455 El Camino Real, Suite 200, San Diego, California	**92130**
(Address of Principal Executive Offices)	**(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. x Yes o No
American Assets Trust, L.P. x Yes o 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 and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted 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 and post such files).

American Assets Trust, Inc. x Yes o No
American Assets Trust, L.P. x Yes o 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	x		Accelerated Filer	o
Non-Accelerated Filer	o	(Do not check if a smaller reporting company)	Smaller reporting company	o

Emerging growth company	o			

American Assets Trust, L.P.

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

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.

o

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. o Yes x No
American Assets Trust, L.P. o Yes x No

American Assets Trust, Inc. had 47,127,760 shares of common stock, par value $0.01 per share, outstanding as of November 3, 2017.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the quarter ended September 30, 2017 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 September 30, 2017, American Assets Trust, Inc. owned an approximate 73.2% partnership interest in the Operating Partnership. The remaining 26.8% 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.

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 SEPTEMBER 30, 2017

PART 1 - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Real estate, at cost		
Operating real estate	$ 2,525,628	$ 2,241,061
Construction in progress	66,218	50,498
Held for development	9,391	9,447
	2,601,237	2,301,006
Accumulated depreciation	(519,391)	(469,460)
Net real estate	2,081,846	1,831,546
Cash and cash equivalents	94,207	44,801
Restricted cash	10,124	9,950
Accounts receivable, net	8,649	9,330
Deferred rent receivables, net	38,614	38,452
Other assets, net	42,178	52,854
TOTAL ASSETS	$ 2,275,618	$ 1,986,933
LIABILITIES AND EQUITY		
LIABILITIES:		
Secured notes payable, net	$ 279,867	$ 445,180
Unsecured notes payable, net	1,044,934	596,350
Unsecured line of credit	—	20,000
Accounts payable and accrued expenses	48,107	32,401
Security deposits payable	6,736	6,114
Other liabilities and deferred credits, net	47,423	48,337
Total liabilities	1,427,067	1,148,382
Commitments and contingencies (Note 12)		
EQUITY:		
American Assets Trust, Inc. stockholders’ equity		
Common stock, $0.01 par value, 490,000,000 shares authorized, 47,130,063 and 45,732,109 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	471	457
Additional paid-in capital	917,334	874,597
Accumulated dividends in excess of net income	(91,695)	(77,296)
Accumulated other comprehensive income	10,350	11,798
Total American Assets Trust, Inc. stockholders’ equity	836,460	809,556
Noncontrolling interests	12,091	28,995
Total equity	848,551	838,551
TOTAL LIABILITIES AND EQUITY	$ 2,275,618	$ 1,986,933

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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
REVENUE:				
Rental income	$ 78,135	$ 71,852	$ 221,100	$ 207,318
Other property income	4,204	4,124	12,137	11,208
Total revenue	82,339	75,976	233,237	218,526
EXPENSES:				
Rental expenses	21,177	20,591	60,877	58,634
Real estate taxes	8,535	7,396	23,975	20,446
General and administrative	4,958	4,513	15,171	13,456
Depreciation and amortization	21,192	17,992	63,360	53,159
Total operating expenses	55,862	50,492	163,383	145,695
OPERATING INCOME	26,477	25,484	69,854	72,831
Interest expense	(13,873)	(13,049)	(39,856)	(39,148)
Other (expense) income, net	(99)	(577)	403	(454)
NET INCOME	12,505	11,858	30,401	33,229
Net income attributable to restricted shares	(60)	(42)	(181)	(128)
Net income attributable to unitholders in the Operating Partnership	(3,351)	(3,342)	(8,220)	(9,377)
NET INCOME ATTRIBUTABLE TO AMERICAN ASSETS TRUST, INC. STOCKHOLDERS	$ 9,094	$ 8,474	$ 22,000	$ 23,724
EARNINGS PER COMMON SHARE				
Earnings per common share, basic	$ 0.19	$ 0.19	$ 0.47	$ 0.52
Weighted average shares of common stock outstanding - basic	46,898,086	45,377,719	46,650,403	45,282,643
Earnings per common share, diluted	$ 0.19	$ 0.19	$ 0.47	$ 0.52
Weighted average shares of common stock outstanding - diluted	64,093,066	63,272,702	64,081,697	63,180,637
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.26	$ 0.25	$ 0.78	$ 0.75
COMPREHENSIVE INCOME				
Net income	$ 12,505	$ 11,858	$ 30,401	$ 33,229
Other comprehensive (loss) - unrealized (loss) on swap derivative during the period	87	2,432	(1,427)	(11,443)
Reclassification of amortization of forward-starting swap included in interest expense	(319)	(58)	(794)	(173)
Comprehensive income	12,273	14,232	28,180	21,613
Comprehensive income attributable to non-controlling interest	(3,263)	(4,018)	(7,447)	(6,086)
Comprehensive income attributable to American Assets Trust, Inc.	$ 9,010	$ 10,214	$ 20,733	$ 15,527

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, 2016	45,732,109	$ 457	$ 874,597	$ (77,296)	$ 11,798	$ 28,995	$ 838,551
Net income	—	—	—	22,181	—	8,220	30,401
Common shares issued	700,000	7	30,068	—	—	—	30,075
Issuance of restricted stock	4,880	—	—	—	—	—	—
Forfeiture of restricted stock	(768)	—	—	—	—	—	—
Conversion of operating partnership units	693,842	7	10,752	—	—	(10,759)	—
Dividends declared and paid	—	—	—	(36,580)	—	(13,592)	(50,172)
Stock-based compensation	—	—	1,917	—	—	—	1,917
Other comprehensive loss - change in value of interest rate swaps	—	—	—	—	(8,635)	(3,459)	(12,094)
Other comprehensive income - unrealized gain on forward-starting interest rate swaps	—	—	—	—	7,765	2,902	10,667
Reclassification of amortization of forward-starting swap included in interest expense	—	—	—	—	(578)	(216)	(794)
Balance at September 30, 2017	47,130,063	$ 471	$ 917,334	$ (91,695)	$ 10,350	$ 12,091	$ 848,551

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

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

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
OPERATING ACTIVITIES		
Net income	$ 30,401	$ 33,229
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred rent revenue and amortization of lease intangibles	(2,233)	(2,297)
Depreciation and amortization	63,360	53,159
Amortization of debt issuance costs and debt fair value adjustments	2,625	3,354
Stock-based compensation expense	1,917	1,855
Settlement of derivative instruments	10,667	—
Other noncash interest expense	(794)	(173)
Other, net	1,665	1,168
Changes in operating assets and liabilities		
Change in restricted cash	115	1,177
Change in accounts receivable	211	(1,564)
Change in other assets	(548)	(23)
Change in accounts payable and accrued expenses	17,299	10,983
Change in security deposits payable	622	142
Change in other liabilities and deferred credits	462	1,717
Net cash provided by operating activities	125,769	102,727
INVESTING ACTIVITIES		
Acquisition of real estate	(278,141)	—
Capital expenditures	(34,757)	(45,583)
Change in restricted cash	(1,688)	200
Leasing commissions	(3,742)	(1,808)
Deposit on property acquisition	—	—
Net cash used in investing activities	(318,328)	(47,191)
FINANCING ACTIVITIES		
Change in restricted cash	1,400	—
Repayment of secured notes payable	(166,781)	(113,512)
Proceeds from unsecured term loan	—	150,000
Proceeds from unsecured line of credit	173,000	10,000
Repayment of unsecured line of credit	(193,000)	(40,000)
Proceeds from unsecured notes payable	450,000	—
Debt issuance costs	(2,557)	(2,107)
Proceeds from issuance of common stock, net	30,075	9,665
Dividends paid to common stock and unitholders	(50,172)	(47,536)
Shares withheld for employee taxes	—	(12)
Net cash provided by (used in) financing activities	241,965	(33,502)
Net increase in cash and cash equivalents	49,406	22,034
Cash and cash equivalents, beginning of period	44,801	39,925
Cash and cash equivalents, end of period	$ 94,207	$ 61,959

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)

	September 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Real estate, at cost		
Operating real estate	$ 2,525,628	$ 2,241,061
Construction in progress	66,218	50,498
Held for development	9,391	9,447
	2,601,237	2,301,006
Accumulated depreciation	(519,391)	(469,460)
Net real estate	2,081,846	1,831,546
Cash and cash equivalents	94,207	44,801
Restricted cash	10,124	9,950
Accounts receivable, net	8,649	9,330
Deferred rent receivables, net	38,614	38,452
Other assets, net	42,178	52,854
TOTAL ASSETS	$ 2,275,618	$ 1,986,933
LIABILITIES AND EQUITY		
LIABILITIES:		
Secured notes payable, net	$ 279,867	$ 445,180
Unsecured notes payable, net	1,044,934	596,350
Unsecured line of credit	—	20,000
Accounts payable and accrued expenses	48,107	32,401
Security deposits payable	6,736	6,114
Other liabilities and deferred credits	47,423	48,337
Total liabilities	1,427,067	1,148,382
Commitments and contingencies (Note 12)		
CAPITAL:		
Limited partners' capital, 17,194,980 and 17,888,822 units issued and outstanding as of September 30, 2017 and December 31, 2016, respectively	8,184	24,315
General partner's capital, 47,130,063 and 45,732,109 units issued and outstanding as of September 30, 2017 and December 31, 2016, respectively	826,110	797,758
Accumulated other comprehensive income	14,257	16,478
Total capital	848,551	838,551
TOTAL LIABILITIES AND CAPITAL	$ 2,275,618	$ 1,986,933

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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
REVENUE:				
Rental income	$ 78,135	$ 71,852	$ 221,100	$ 207,318
Other property income	4,204	4,124	12,137	11,208
Total revenue	82,339	75,976	233,237	218,526
EXPENSES:				
Rental expenses	21,177	20,591	60,877	58,634
Real estate taxes	8,535	7,396	23,975	20,446
General and administrative	4,958	4,513	15,171	13,456
Depreciation and amortization	21,192	17,992	63,360	53,159
Total operating expenses	55,862	50,492	163,383	145,695
OPERATING INCOME	26,477	25,484	69,854	72,831
Interest expense	(13,873)	(13,049)	(39,856)	(39,148)
Other (expense) income, net	(99)	(577)	403	(454)
NET INCOME	12,505	11,858	30,401	33,229
Net income attributable to restricted shares	(60)	(42)	(181)	(128)
NET INCOME ATTRIBUTABLE TO AMERICAN ASSETS TRUST, L.P.	$ 12,445	$ 11,816	$ 30,220	$ 33,101
EARNINGS PER UNIT - BASIC				
Earnings per unit, basic	$ 0.19	$ 0.19	$ 0.47	$ 0.52
Weighted average units outstanding - basic	64,093,066	63,272,702	64,081,697	63,180,637
EARNINGS PER UNIT - DILUTED				
Earnings per unit, diluted	$ 0.19	$ 0.19	$ 0.47	$ 0.52
Weighted average units outstanding - diluted	64,093,066	63,272,702	64,081,697	63,180,637
DISTRIBUTIONS PER UNIT	$ 0.26	$ 0.25	$ 0.78	$ 0.75
COMPREHENSIVE INCOME				
Net income	$ 12,505	$ 11,858	$ 30,401	$ 33,229
Other comprehensive (loss) - unrealized (loss) on swap derivative during the period	87	2,432	(1,427)	(11,443)
Reclassification of amortization of forward-starting swap included in interest expense	(319)	(58)	(794)	(173)
Comprehensive income	12,273	14,232	28,180	21,613
Comprehensive income attributable to Limited Partners	(3,263)	(4,018)	(7,447)	(6,086)
Comprehensive income attributable to General Partner	$ 9,010	$ 10,214	$ 20,733	$ 15,527

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, 2016	17,888,822	$ 24,315	45,732,109	$ 797,758	$ 16,478	$ 838,551
Net income	—	8,220	—	22,181	—	30,401
Contributions from American Assets Trust, Inc.	—	—	700,000	30,075	—	30,075
Conversion of operating partnership units	(693,842)	(10,759)	693,842	10,759	—	—
Issuance of restricted units	—	—	4,880	—	—	—
Forfeiture of restricted units	—	—	(768)	—	—	—
Distributions	—	(13,592)	—	(36,580)	—	(50,172)
Stock-based compensation	—	—	—	1,917	—	1,917
Other comprehensive loss - change in value of interest rate swap	—	—	—	—	(12,094)	(12,094)
Other comprehensive income - unrealized gain on forward-starting interest rate swaps	—	—	—	—	10,667	10,667
Reclassification of amortization of forward-starting swap included in interest expense	—	—	—	—	(794)	(794)
Balance at September 30, 2017	17,194,980	$ 8,184	47,130,063	$ 826,110	$ 14,257	$ 848,551

(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)

	Nine Months Ended September 30,	
	2017	2016
OPERATING ACTIVITIES		
Net income	$ 30,401	$ 33,229
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred rent revenue and amortization of lease intangibles	(2,233)	(2,297)
Depreciation and amortization	63,360	53,159
Amortization of debt issuance costs and debt fair value adjustments	2,625	3,354
Stock-based compensation expense	1,917	1,855
Settlement of derivative instruments	10,667	—
Other noncash interest expense	(794)	(173)
Other, net	1,665	1,168
Changes in operating assets and liabilities		
Change in restricted cash	115	1,177
Change in accounts receivable	211	(1,564)
Change in other assets	(548)	(23)
Change in accounts payable and accrued expenses	17,299	10,983
Change in security deposits payable	622	142
Change in other liabilities and deferred credits	462	1,717
Net cash provided by operating activities	125,769	102,727
INVESTING ACTIVITIES		
Acquisition of real estate	(278,141)	—
Capital expenditures	(34,757)	(45,583)
Change in restricted cash	(1,688)	200
Leasing commissions	(3,742)	(1,808)
Deposit on property acquisition	—	—
Net cash used in investing activities	(318,328)	(47,191)
FINANCING ACTIVITIES		
Change in restricted cash	1,400	—
Repayment of secured notes payable	(166,781)	(113,512)
Proceeds from unsecured term loan	—	150,000
Proceeds from unsecured line of credit	173,000	10,000
Repayment of unsecured line of credit	(193,000)	(40,000)
Proceeds from unsecured notes payable	450,000	—
Debt issuance costs	(2,557)	(2,107)
Contributions from American Assets Trust, Inc.	30,075	9,665
Distributions	(50,172)	(47,536)
Shares withheld for employee taxes	—	(12)
Net cash provided by (used in) financing activities	241,965	(33,502)
Net increase in cash and cash equivalents	49,406	22,034
Cash and cash equivalents, beginning of period	44,801	39,925
Cash and cash equivalents, end of period	$ 94,207	$ 61,959

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

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 178 employees providing substantial in-house expertise in asset management, property management, property development, leasing, tenant improvement construction, acquisitions, repositioning, redevelopment and financing.

As of September 30, 2017, we owned or had a controlling interest in 26 office, retail, multifamily and mixed-use operating properties, the operations of which we consolidate. Additionally, as of September 30, 2017, we owned land at four 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	Waikele Center	

Office

Torrey Reserve Campus	Lloyd District Portfolio
Solana Beach Corporate Centre	City Center Bellevue
The Landmark at One Market	
One Beach Street	
First & Main	

Multifamily

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

Mixed-Use

Waikiki Beach Walk Retail and Embassy Suites™ Hotel

Held for Development and/or Construction in Progress

Solana Beach Corporate Centre – Land
Solana Beach – Highway 101 – Land
Torrey Point – Construction in Progress
Lloyd District Portfolio – Construction in Progress

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, 2016.

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):

	Nine Months Ended September 30,	
	2017	2016
Supplemental cash flow information		
Total interest costs incurred	$ 41,009	$ 40,368
Interest capitalized	$ 1,153	$ 1,220
Interest expense	$ 39,856	$ 39,148
Cash paid for interest, net of amounts capitalized	$ 33,720	$ 36,070
Cash paid for income taxes	$ 296	$ 459
Supplemental schedule of noncash investing and financing activities		
Accounts payable and accrued liabilities for construction in progress	$ (3,019)	$ (471)
Accrued leasing commissions	$ 1,410	$ 275
Reduction to capital for prepaid offering costs	$ 129	$ —

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, 2016. Except for the adoption of the accounting standards during the first quarter of 2017 as discussed below, there have been no changes to our significant accounting policies during the nine months ended September 30, 2017.

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 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 January 2017, the FASB issued Accounting Standards Update ("ASU") No. 2017-1, *Business Combinations: Clarifying the Definition of a Business*. The pronouncement changes the definition of a business to assist entities with evaluating when a set of transferred assets and activities is a business. The pronouncement requires an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets; if so, the set of transferred assets and activities is not a business. The pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. The Company adopted the provisions of ASU 2017-01 effective January 1, 2017. For the period from January 1, 2017 through September 30, 2017, the Company acquired three properties for which we concluded that substantially all of the fair value of the assets acquired were concentrated in a single identifiable asset and that the assets therefore did not meet the definition of a business under ASU 2017-01. Acquisition transaction costs associated with these property acquisitions were approximately $0.2 million and were capitalized to real estate investments.

In November 2016, the FASB issued ASU 2016-18, Restricted Cash. This pronouncement will require companies to include restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The pronouncement will require a disclosure of a reconciliation between the statement of financial position and the statement of cash flows when the balance sheet includes more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents. Entities with material restricted cash and restricted cash equivalents balances will be required to disclose the nature of the restrictions. The ASU is effective for reporting periods beginning after December 15, 2017, with early adoption permitted, and will be applied retrospectively to all periods presented. As of September 30, 2017 and December 31, 2016 , we had $10.1 million and $10.0 million of restricted cash, respectively, on our consolidated balance sheets. Upon adoption of this ASU, restricted cash balances will be included along with cash and cash equivalents as of the end of period and beginning of period, respectively, on our consolidated statement of cash flows for all periods presented; separate line items showing changes in restricted cash balances will be eliminated from our consolidated statement of cash flows.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which amends ASC 718, Compensation – Stock Compensation. This pronouncement simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company adopted ASU 2016-09 in the first quarter of 2017 and the adoption did not have a material impact on our consolidated financial statements.

In February 2016, the FASB issued an ASU that establishes a right-of-use model that requires a lessee to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than twelve months. The accounting applied by lessors under this ASU is largely unchanged. Leases will be either classified as sales-type, finance or operating, with classification affecting the pattern of expense recognition in the income statement. The ASU also requires significant additional disclosures about the amount, timing and uncertainty of cash flows from leases. The ASU is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2018. A modified retrospective transition approach is required for lessors for sales-type, direct financing, and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are in the process of evaluating the impact this pronouncement will have on our consolidated financial statements.

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 fiscal years beginning after December 15, 2017. The Company will adopt ASU 2014-09 in the first quarter of 2018 using the modified retrospective approach. We have begun our process for implementing this standard, including performing a preliminary review of all revenue streams to identify any differences in the timing, measurement or presentation of revenue recognition. As of September 30, 2017, we have completed our assessment of the impact of this pronouncement for revenue generated from our Multifamily segment. The majority of revenue from our Multifamily segment is generated from leases that are specifically excluded from ASC 606. Additionally, we do not believe that ASC 606 will impact the amount or timing of revenue recognition for other revenue types generated from the Multifamily segment. We are continuing to evaluate this standard for revenue streams for our other segments and the allowable methods of adoption; however, the majority of our revenue from these other segments also consists of rental income from leasing arrangements, which are excluded from this standard. As the Company progresses further in its analysis, the scope of this assessment could be expanded to include other contract elements that could have an accounting impact under the new standard. The Company is also continuing to assess the potential effect that this new standard is expected to have on our consolidated financial statements as it relates to our leasing arrangements with our tenants and in concert with our assessment and anticipated adoption of the new leasing guidance under ASU 2016-02, Leases (see above). The ultimate impacts are currently unknown or not reasonably estimable at this time. The Company continues to evaluate other areas of the standard and is currently assessing the impact on its consolidated financial statements and notes to its consolidated financial statements and cannot reasonably estimate quantitative information related to the impact of the new standard on its consolidated financial statements at this time.

NOTE 2. REAL ESTATE

Property Asset Acquisitions

On April 28, 2017, we acquired the Pacific Ridge Apartments, a 533 unit luxury apartment community located in San Diego, California. The purchase price was approximately $232 million, excluding closing costs of approximately $0.1 million.

On July 6, 2017, we acquired Gateway Marketplace, an approximately 128,000 square feet dual-grocery anchored shopping center located in Chula Vista, California. The purchase price was approximately $42 million, excluding closing costs of approximately $0.1 million.

The properties were acquired with cash on hand and borrowings under our Amended and Restated Credit Agreement (as defined herein).

The financial information set forth below summarizes the Company’s purchase price allocations for the Pacific Ridge Apartments and Gateway Marketplace during the nine months ended September 30, 2017 (in thousands):

	Pacific Ridge Apartments	Gateway Marketplace
Land	$ 47,972	$ 17,363
Building	171,813	19,192
Land improvements	3,403	1,522
Furniture, fixtures, and equipment	3,281	930
Total real estate	226,469	39,007
Lease intangibles	5,592	2,920
Prepaid expenses and other assets	424	—
Assets acquired	$ 232,485	$ 41,927
Accounts payable and accrued expenses	$ 74	$ 203
Security deposits payable	673	22
Other liabilities and deferred credits	49	1,034
Liabilities assumed	$ 796	$ 1,259

The following table summarizes the operating results for the Pacific Ridge Apartments and Gateway Marketplace included in the Company's historical consolidated statement of operations for the period of acquisition through September 30, 2017 (in thousands):

	Pacific Ridge Apartments	Gateway Marketplace	Total
Revenues	$ 6,884	$ 806	$ 7,690
Operating expenses	$ 11,813	$ 499	$ 12,312
Operating (loss) income	$ (4,929)	$ 307	$ (4,622)
Net (loss) income attributable to American Assets Trust, Inc.	$ (4,929)	$ 307	$ (4,622)

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 September 30, 2017 and December 31, 2016 (in thousands):

	September 30, 2017	December 31, 2016
In-place leases	$ 54,206	$ 48,741
Accumulated amortization	(45,154)	(38,906)
Above market leases	21,262	21,667
Accumulated amortization	(19,854)	(19,579)
Acquired lease intangible assets, net	$ 10,460	$ 11,923
Below market leases	$ 67,423	$ 66,521
Accumulated accretion	(36,252)	(33,073)
Acquired lease intangible liabilities, net	$ 31,171	$ 33,448

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.

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 contract 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 September 30, 2017 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):

	September 30, 2017				December 31, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Deferred compensation liability	$ —	$ 1,158	$ —	$ 1,158	$ —	$ 1,006	$ —	$ 1,006
Interest rate swap asset	$ —	$ 3,624	$ —	$ 3,624	$ —	$ 16,428	$ —	$ 16,428
Interest rate swap liability	$ —	$ 358	$ —	$ 358	$ —	$ 1,067	$ —	$ 1,067

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 3.8% to 4.5%.

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):

	September 30, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Secured notes payable, net	$ 279,867	$ 287,361	$ 445,180	$ 457,621
Unsecured term loans, net	$ 248,555	$ 250,000	$ 247,883	$ 250,000
Unsecured senior guaranteed notes, net	$ 796,379	$ 808,384	$ 348,467	$ 351,357
Unsecured line of credit	$ —	$ —	$ 20,000	$ 20,000

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 March 29, 2016, we entered into a forward-starting interest rate swap contract (the "March 2016 Swap") with Wells Fargo Bank, National Association, to reduce the interest rate variability exposure of the projected interest cash flows of our then prospective new ten-year private placement. The forward-starting ten-year swap contract had a notional amount of $150 million, a termination date of March 31, 2027, a fixed pay rate of 1.8800%, and a receive rate equal to the three-month LIBOR, with fixed rate payments due semi-annually commencing September 29, 2017, floating payments due semi-annually commencing September 29, 2017, and floating reset dates the first day of each quarterly period. The forward-starting ten-year swap contract accrual period, March 31, 2017 to March 31, 2027, was designed to match the expected tenor of the then prospective new ten-year debt private placement.

On April 7, 2016, we entered into a forward-starting interest rate swap contract (the "April 2016 Swap") with Wells Fargo Bank, National Association, to reduce the interest rate variability exposure of the projected interest cash flows of our then prospective new ten-year private placement. The forward-starting ten-year swap contract had a notional amount of $100 million, a termination date of March 31, 2027, a fixed pay rate of 1.7480%, and a receive rate equal to the three-month LIBOR, with fixed rate payments due semi-annually commencing September 29, 2017, floating payments due semi-annually commencing September 29, 2017, and floating reset dates the first day of each quarterly period. The forward-starting ten-year swap contract accrual period, March 31, 2017 to March 31, 2027, was designed to match the expected tenor of our then prospective new ten-year debt private placement.

On January 18, 2017, we settled the March 2016 Swap and April 2016 Swap, resulting in a gain of approximately $10.4 million. This gain is included in accumulated other comprehensive income and will be amortized to interest expense over the life of the Series D Notes (as defined below). The forward-starting interest rate swap contracts have been deemed to be highly effective cash flow hedges and we elected to designate all the forward-starting swap contracts as accounting hedges.

On April 25, 2017, we entered into a treasury lock contract (the "April 2017 Treasury Lock") with Bank of America, National Association, to reduce the interest rate variability exposure of the projected interest cash flows of our then prospective new twelve-year private placement. The treasury lock contract had a notional amount of $100 million, termination date of May 18, 2017, a fixed pay rate of 2.313%, and a receive rate equal to the ten-year treasury rate on the settlement date.

On May 11, 2017, we settled the April 2017 Treasury Lock, resulting in a gain of approximately $0.7 million. This gain is 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.

On May 31, 2017, we entered into a treasury lock contract (the "May 2017 Treasury Lock") with Bank of America, National Association, to reduce the interest rate variability exposure of the projected interest cash flows of our then prospective new seven-year private placement. The treasury lock contract had a notional amount of $100 million, termination date of July 26, 2017, a fixed pay rate of 2.064%, and a receive rate equal to the seven-year treasury rate on the settlement date.

On June 23, 2017, we settled the May 2017 Treasury Lock, resulting in a loss of approximately $0.5 million. This loss is included in accumulated other comprehensive income and will be amortized to interest expense over seven 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 September 30, 2017 (dollars in thousands):

Swap Counterparty	Notional Amount	Effective Date	Maturity Date	Fair Value
Bank of America, N.A.	$ 100,000	1/9/2014	1/9/2019	$ (358)
U.S. Bank N.A.	$ 100,000	3/1/2016	3/1/2023	$ 2,396
Wells Fargo Bank, N.A.	$ 50,000	5/2/2016	3/1/2023	$ 1,228

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 hedged cash flows remain probable.

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, 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.

NOTE 6. OTHER ASSETS

Other assets consist of the following (in thousands):

	September 30, 2017	December 31, 2016
Leasing commissions, net of accumulated amortization of $27,376 and $25,194, respectively	$ 21,194	$ 18,131
Interest rate swap asset	3,624	16,428
Acquired above market leases, net	1,408	2,088
Acquired in-place leases, net	9,052	9,835
Lease incentives, net of accumulated amortization of $100 and $41, respectively	885	313
Other intangible assets, net of accumulated amortization of $1,102 and $1,128, respectively	240	206
Prepaid expenses and other	5,775	5,853
Total other assets	$ 42,178	$ 52,854

NOTE 7. OTHER LIABILITIES AND DEFERRED CREDITS

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

	September 30, 2017	December 31, 2016
Acquired below market leases, net	$ 31,171	$ 33,448
Prepaid rent and deferred revenue	9,450	7,720
Interest rate swap liability	358	1,067
Deferred rent expense and lease intangible	1,716	1,756
Deferred compensation	1,158	1,006
Deferred tax liability	201	265
Straight-line rent liability	3,309	3,028
Other liabilities	60	47
Total other liabilities and deferred credits, net	$ 47,423	$ 48,337

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. and certain of its subsidiaries have guaranteed the Operating Partnership's obligations under the (i) amended and restated credit facility, (ii) term loan and (iii) senior guaranteed notes. Additionally, American Assets Trust, Inc. has provided carve-out guarantees on certain property-level debt.

Debt of American Assets Trust, L.P.

Secured notes payable

The following is a summary of our total secured notes payable outstanding as of September 30, 2017 and December 31, 2016 (in thousands):

	Principal Balance as of		Stated Interest Rate	
Description of Debt	**September 30, 2017**	**December 31, 2016**	**as of September 30, 2017**	**Stated Maturity Date**
Waikiki Beach Walk—Retail (1)(2)	$ —	$ 130,310	5.39%	July 1, 2017
Solana Beach Corporate Centre III-IV (3)(4)	—	35,440	6.39%	August 1, 2017
Loma Palisades (1)	73,744	73,744	6.09%	July 1, 2018
One Beach Street (1)	21,900	21,900	3.94%	April 1, 2019
Torrey Reserve—North Court (3)	20,120	20,399	7.22%	June 1, 2019
Torrey Reserve—VCI, VCII, VCIII (3)	6,795	6,884	6.36%	June 1, 2020
Solana Beach Corporate Centre I-II (3)	10,774	10,927	5.91%	June 1, 2020
Solana Beach Towne Centre (3)	35,914	36,424	5.91%	June 1, 2020
City Center Bellevue (1)	111,000	111,000	3.98%	November 1, 2022
	280,247	447,028		
Unamortized fair value adjustment	—	(1,347)		
Debt issuance costs, net of accumulated amortization of $1,150 and $1,029, respectively	(380)	(501)		
Total Secured Notes Payable Outstanding	**$ 279,867**	**$ 445,180**		

(1) Interest only.
(2) Loan repaid in full, without premium or penalty, on March 1, 2017.
(3) Principal payments based on a 30-year amortization schedule.
(4) Loan repaid in full, without premium or penalty, on April 3, 2017.

Certain loans require us to comply with various financial covenants. As of September 30, 2017, the Operating Partnership was in compliance with these financial covenants.

Unsecured notes payable

The following is a summary of the Operating Partnership's total unsecured notes payable outstanding as of September 30, 2017 and December 31, 2016 (in thousands):

	Principal Balance as of		Stated Interest Rate	
Description of Debt	**September 30, 2017**	**December 31, 2016**	**as of September 30, 2017**	**Stated Maturity Date**
Term Loan A	$ 100,000	$ 100,000	Variable (1)	January 9, 2019 (2)
Senior Guaranteed Notes, Series A	150,000	150,000	4.04% (3)	October 31, 2021
Term Loan B	100,000	100,000	Variable (4)	March 1, 2023
Term Loan C	50,000	50,000	Variable (5)	March 1, 2023
Senior Guaranteed Notes, Series F	100,000	—	3.78% (6)	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	—	4.29% (7)	March 1, 2027
Senior Guaranteed Notes, Series E	100,000	—	4.24% (8)	May 23, 2029
	1,050,000	600,000		
Debt issuance costs, net of accumulated amortization of $5,473 and $4,317, respectively	(5,066)	(3,650)		
Total Unsecured Notes Payable	**$ 1,044,934**	**$ 596,350**		

(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 3.08% through its maturity date and extension options, subject to adjustments based on our consolidated leverage ratio.
(2) The Operating Partnership has an option to extend the term loan up to one time, with such extension for a 12-month period. The foregoing extension option is exercisable by us subject to the satisfaction of certain conditions.
(3) The Operating Partnership entered into a one-month forward-starting seven-year 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.
(4) 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.
(5) 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.
(6) 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.
(7) 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.
(8) 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.

On March 1, 2017, the Operating Partnership entered into a Note Purchase Agreement for the private placement of $250 million of 4.29% Senior Guaranteed Notes, Series D, due March 1, 2027 (the "Series D Notes"). The Series D Notes were issued on March 1, 2017 and will pay interest quarterly on the last day of January, April, July and October until their respective maturities.

On May 23, 2017, the Operating Partnership entered into a Note Purchase Agreement for the private placement of $100 million of 4.24% Senior Guaranteed Notes, Series E, due May 23, 2029 (the "Series E Notes"). The Series E Notes were issued on May 23, 2017 and will pay interest semi-annually on the 23rd of May and November until their respective maturities.

On July 19, 2017, the Operating Partnership entered into a Note Purchase Agreement for the private placement of $100 million of 3.78% Senior Guaranteed Notes, Series F, due July 19, 2024 (the "Series F Notes"). The Series F Notes were issued on July 19, 2017 and will pay interest semi-annually on the 31st of January and July until their respective maturities.

The Operating Partnership may prepay at any time all, or from time to time any part of, the Series D Notes, Series E Notes, or Series F Notes (as applicable), in an amount not less than 5% of the aggregate principal amount of any series of the Series D Notes, Series E Notes, or Series F Notes (as applicable) then outstanding in the case of a partial prepayment, at 100% of the principal amount so prepaid plus a Make-Whole Amount (as defined in the applicable Note Purchase Agreements).

Each Note Purchase Agreement contains a number of customary financial covenants, including, without limitation, tangible net worth thresholds, secured and unsecured leverage ratios and fixed charge coverage ratios. Subject to the terms of the applicable Note Purchase Agreement and either the Series D Notes, Series E Notes, or Series F Notes (as applicable), upon certain events of default, including, but not limited to, (i) a default in the payment of any principal, Make-Whole Amount or interest under the Series D Notes, Series E Notes, and Series F Notes (as applicable), and (ii) a default in the payment of certain other indebtedness of the Operating Partnership, the Company or their subsidiaries, the principal and accrued and unpaid interest and the Make-Whole Amount on the outstanding Series D Notes, Series E Notes, and Series F Notes (as applicable) will become due and payable at the option of the Purchasers.

The Operating Partnership’s obligations under the Series D Notes, Series E Notes, and Series F Notes are fully and unconditionally guaranteed by the Company and certain of their subsidiaries.

Certain loans require us to comply with various financial covenants. As of September 30, 2017, the Operating Partnership was in compliance with these financial covenants.

Credit Facility

On January 9, 2014, the Operating Partnership entered into an amended and restated credit agreement (the "Amended and Restated Credit Facility") which amended and restated the then in-place credit facility. The Amended and Restated Credit Facility provides for aggregate, unsecured borrowing of $350 million, consisting of a revolving line of credit of $250 million ("Revolver Loan") and a term loan of $100 million ("Term Loan A"). The Amended and Restated Credit Facility has an accordion feature that may allow the Operating Partnership to increase the availability thereunder up to an additional $250 million, subject to meeting specified requirements and obtaining additional commitments from lenders. At September 30, 2017, there was no outstanding balance under the Revolver Loan.

Borrowings under the Amended and Restated Credit Facility initially bear interest at floating rates equal to, at our option, either (1) LIBOR, plus a spread which ranges from (a) 1.35%-1.95% (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) the Eurodollar rate plus 100 bps, plus a spread which ranges from (i) 0.35%-0.95% (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.

The Revolver Loan initially matures on January 9, 2018, subject to the Operating Partnership's option to extend the Revolver Loan up to two times, with each such extension for a six-month period. Term Loan A initially matures on January 9, 2016, subject to the Operating Partnership's option to extend Term Loan A up to three times, with each such extension for a 12-month period. The foregoing extension options are exercisable by the Operating Partnership subject to the satisfaction of certain conditions. Effective as of January 9, 2017, the Operating Partnership exercised the second of three options to extend the maturity date of Term Loan A to January 9, 2018.

As of September 30, 2017, the Operating Partnership was in compliance with the Amended and Restated Credit Facility financial covenants.

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 17,194,980 common units (the “noncontrolling common units”), and represented approximately 26.8% of the ownership interests in our Operating Partnership at September 30, 2017. 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 nine months ended September 30, 2017, 693,842 common units were converted into shares of our common stock.

Earnings Per Unit of the Operating Partnership

Basic earnings 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 earnings per unit for the three month periods ended September 30, 2017 and 2016 does not include the weighted average of 231,977 and 169,963 unvested Operating Partnership units, respectively, 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 earnings per unit for the nine months ended September 30, 2017 and 2016 does not include the weighted average of 232,041 and 171,760 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. The sales of shares of our common stock made through the ATM equity program are made in "at-the-market" offerings as defined in Rule 415 of the Securities Act of 1933, as amended. During the three and nine months ended September 30, 2017, 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 September 30, 2017	Nine Months Ended September 30, 2017
Number of shares of common stock issued through ATM programs	—	700,000
Weighted average price per share	N/A	$43.46
Proceeds, gross	$ —	$ 30,425
Sales agent compensation	—	(304)
Offering costs	—	(46)
Proceeds, net	$ —	$ 30,075

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 September 30, 2017, we had the capacity to issue up to an additional $176.2 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.

Dividends

The following table lists the dividends declared and paid on our shares of common stock and noncontrolling common units during the nine months ended September 30, 2017:

Period	Amount per Share/Unit	Period Covered	Dividend Paid Date
First Quarter 2017	$ 0.26	January 1, 2017 to March 31, 2017	March 30, 2017
Second Quarter 2017	$ 0.26	April 1, 2017 to June 30, 2017	June 29, 2017
Third Quarter 2017	$ 0.26	July 1, 2017 to September 30, 2017	September 28, 2017

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 nine months ended September 30, 2017:

	Units	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2017	232,765	$31.24
Granted	4,880	$40.99
Vested	(4,900)	$40.81
Forfeited	(768)	$30.62
Nonvested at September 30, 2017	231,977	$31.25

We recognize noncash compensation expense ratably over the vesting period, and accordingly, we recognized $0.6 million in noncash compensation expense for each of the three month periods ended September 30, 2017 and 2016, which is included in general and administrative expense on the consolidated statements of comprehensive income. We recognized $1.9 million in noncash compensation expenses for the nine months ended September 30, 2017 and 2016. Unrecognized compensation expense was $2.0 million at September 30, 2017.

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 are considered participating securities, were 231,977 and 169,963 for the three months ended September 30, 2017 and 2016, respectively, and 232,041 and 171,760 for the nine months ended September 30, 2017 and 2016, 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 and nine months ended September 30, 2017 and 2016, diluted shares exclude incentive restricted stock as these awards are considered contingently issuable. 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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
NUMERATOR				
Net income from operations	$ 12,505	$ 11,858	$ 30,401	$ 33,229
Less: Net income attributable to restricted shares	(60)	(42)	(181)	(128)
Less: Income from operations attributable to unitholders in the Operating Partnership	(3,351)	(3,342)	(8,220)	(9,377)
Net income attributable to common stockholders—basic	$ 9,094	$ 8,474	$ 22,000	$ 23,724
Income from operations attributable to American Assets Trust, Inc. common stockholders—basic	$ 9,094	$ 8,474	$ 22,000	$ 23,724
Plus: Income from operations attributable to unitholders in the Operating Partnership	3,351	3,342	8,220	9,377
Net income attributable to common stockholders—diluted	$ 12,445	$ 11,816	$ 30,220	$ 33,101
DENOMINATOR				
Weighted average common shares outstanding—basic	46,898,086	45,377,719	46,650,403	45,282,643
Effect of dilutive securities—conversion of Operating Partnership units	17,194,980	17,894,983	17,431,294	17,897,994
Weighted average common shares outstanding—diluted	64,093,066	63,272,702	64,081,697	63,180,637
Earnings per common share, basic	$ 0.19	$ 0.19	$ 0.47	$ 0.52
Earnings per common share, diluted	$ 0.19	$ 0.19	$ 0.47	$ 0.52

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.

A deferred tax liability is included in our consolidated balance sheets of $0.2 million and $0.3 million as of September 30, 2017 and December 31, 2016, respectively, in relation to real estate asset basis differences of property subject to the Texas margin tax and certain prepaid expenses of our TRS.

Income tax expense is recorded in other income (expense), net on our consolidated statements of comprehensive income. For the three and nine months ended September 30, 2017, we recorded income tax expense of $0.2 million and income tax benefit of $0.03 million, respectively. For the three and nine months ended September 30, 2016, we recorded income tax expense of $0.6 million for each period.

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

At The Landmark at One Market, we lease (the "Annex Lease"), as lessee, a building adjacent to The Landmark under an operating lease effective through June 30, 2021, which we have the option to extend until 2031 by way of two five-year extension options.

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

Current minimum annual payments under the leases are as follows, as of September 30, 2017 (in thousands):

Year Ending December 31,			
2017 (three months ending December 31, 2017)	$	810	(1)
2018		3,274	
2019		3,347	
2020		3,422	
2021		3,460	(2)
Thereafter		24,823	
Total	$	39,136	

(1) Lease payments on the FHB Sublease are based on the stated lease rate of $70,578 through the end of the lease term, December 31, 2021.
(2) Lease payments on the Annex Lease will be equal to fair rental value from July 2021 through the end of the options lease term. In the table, we have shown the option lease payments for this period based on the stated rate for the month of June 2021 of $217,744.

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 calendar 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.

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 $7.5 million based on operating performance through September 30, 2017.

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 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.

In connection with our initial public offering, we entered into tax protection agreements with certain limited partners of our Operating Partnership. These agreements provide that if we dispose of any interest with respect to Carmel Country Plaza, Carmel Mountain Plaza, Del Monte Center, Loma Palisades, Lomas Santa Fe Plaza, Waikele Center or the Torrey Plaza (formerly ICW Plaza) portion of Torrey Reserve Campus, in a taxable transaction during the period from the closing of our initial public offering through January 19, 2018, we will indemnify such limited partners for their tax liabilities attributable to their share of the built-in gain that existed with respect to such property interest as of the time of our initial public offering and tax liabilities incurred as a result of the reimbursement payment. Subject to certain exceptions and limitations, the indemnification rights will terminate for any such protected partner that sells, exchanges or otherwise disposes of more than 50% of his or her common units. We have no present intention to sell or otherwise dispose of the properties or interest therein in taxable transactions during the restriction period. If we were to trigger the tax protection provisions under these agreements, we would be required to pay damages in the amount of the taxes owed by these limited partners (plus additional damages in the amount of the taxes incurred as a result of such payment).

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. Thirteen 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 32.7% of total revenues for the nine months ended September 30, 2017. 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 33.9% of total revenues for the nine months ended September 30, 2017. 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 nine months ended September 30, 2017 and 2016, no tenant accounted for more than 10% of our total rental revenue.

NOTE 13. OPERATING LEASES

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 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 and also may include percentage rents based on the tenant's level of sales achieved. 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.

As of September 30, 2017, 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,		
2017 (three months ending December 31, 2017)	$	43,663
2018		170,293
2019		140,849
2020		117,179
2021		95,218
Thereafter		255,893
Total	$	823,095

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.

NOTE 14. COMPONENTS OF RENTAL INCOME AND EXPENSE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Minimum rents				
Retail	$ 19,520	$ 18,524	$ 56,598	$ 55,548
Office	23,494	22,458	69,829	67,427
Multifamily	11,473	7,451	28,957	19,806
Mixed-use	2,671	2,650	7,813	7,962
Cost reimbursement	8,838	8,344	24,854	23,832
Percentage rent	700	685	1,611	1,572
Hotel revenue	11,006	11,371	30,216	30,045
Other	433	369	1,222	1,126
Total rental income	$ 78,135	$ 71,852	$ 221,100	$ 207,318

Minimum rents include $0.0 million and $(0.3) million for the three months ended September 30, 2017 and 2016, respectively, and $(0.3) million for each of the nine month periods ended September 30, 2017 and 2016, respectively, to recognize minimum rents on a straight-line basis. In addition, net amortization of above and below market leases included in minimum rents were $0.8 million and $0.9 million for the three months ended September 30, 2017 and 2016, respectively, and $2.5 million and $2.6 million for the nine months ended September 30, 2017 and 2016, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Rental operating	$ 8,625	$ 8,404	$ 25,135	$ 23,996
Hotel operating	6,233	6,158	18,530	17,744
Repairs and maintenance	3,202	3,069	8,717	8,506
Marketing	506	432	1,404	1,454
Rent	774	722	2,325	2,190
Hawaii excise tax	1,231	1,255	3,201	3,250
Management fees	606	551	1,565	1,494
Total rental expenses	$ 21,177	$ 20,591	$ 60,877	$ 58,634

NOTE 15. OTHER INCOME, NET

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Interest and investment income	$ 111	$ 24	$ 371	$ 63
Income tax benefit (expense)	(210)	(601)	32	(643)
Other non-operating income	—	—	—	126
Total other income (expense), net	$ (99)	$ (577)	$ 403	$ (454)

NOTE 16. RELATED PARTY TRANSACTIONS

At Torrey Plaza, we previously leased space to 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. Our lease agreement with ICW expired on December 31, 2016. Rental revenue recognized on the leases of $1.6 million for the nine months ended September 30, 2016 is included in rental income. Additionally, we maintain a workers' compensation insurance policy with ICW, which was renewed on July 1, 2016 and the premium was approximately $0.2 million for the period July 1, 2016 through July 1, 2017. We renewed this policy with ICW during the second quarter of 2017 and the premium is approximately $0.2 million for the period July 1, 2017 through July 1, 2018.

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 $0.8 million and $0.7 million for the nine months ended September 30, 2017 and 2016, respectively, is included in rental expenses on the statements of comprehensive income.

On occasion, we utilize aircraft services provided by AAI Aviation, Inc. ("AAIA"), an entity owned and controlled by Ernest Rady, our Chief Executive Officer, President and Chairman of the Board. For each of the nine month periods ended September 30, 2017 and 2016, we incurred approximately $0.1 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.

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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Total Retail				
Property revenue	$ 26,547	$ 25,064	$ 76,292	$ 74,316
Property expense	(6,934)	(7,159)	(20,419)	(20,203)
Segment profit	19,613	17,905	55,873	54,113
Total Office				
Property revenue	26,653	25,818	79,002	76,416
Property expense	(7,874)	(8,146)	(23,720)	(23,395)
Segment profit	18,779	17,672	55,282	53,021
Total Multifamily				
Property revenue	12,410	8,053	31,324	21,407
Property expense	(5,281)	(3,288)	(12,574)	(8,960)
Segment profit	7,129	4,765	18,750	12,447
Total Mixed-Use				
Property revenue	16,729	17,041	46,619	46,387
Property expense	(9,623)	(9,394)	(28,139)	(26,522)
Segment profit	7,106	7,647	18,480	19,865
Total segments’ profit	$ 52,627	$ 47,989	$ 148,385	$ 139,446

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Total segments' profit	$ 52,627	$ 47,989	$ 148,385	$ 139,446
General and administrative	(4,958)	(4,513)	(15,171)	(13,456)
Depreciation and amortization	(21,192)	(17,992)	(63,360)	(53,159)
Interest expense	(13,873)	(13,049)	(39,856)	(39,148)
Other (expense) income, net	(99)	(577)	403	(454)
Net income	12,505	11,858	30,401	33,229
Net income attributable to restricted shares	(60)	(42)	(181)	(128)
Net income attributable to unitholders in the Operating Partnership	(3,351)	(3,342)	(8,220)	(9,377)
Net income attributable to American Assets Trust, Inc. stockholders	$ 9,094	$ 8,474	$ 22,000	$ 23,724

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

	September 30, 2017	December 31, 2016
Net Real Estate		
Retail	$ 662,820	$ 629,261
Office	811,193	813,414
Multifamily	425,771	203,014
Mixed-Use	182,062	185,857
	$ 2,081,846	$ 1,831,546
Secured Notes Payable [(1)]		
Retail	$ 35,914	$ 36,424
Office	170,589	206,550
Multifamily	73,744	73,744
Mixed-Use	—	130,310
	$ 280,247	$ 447,028

(1) Excludes unamortized fair market value adjustments and debt issuance costs of $0.4 million and $1.8 million as of September 30, 2017 and December 31, 2016, respectively.

Capital expenditures for each segment for the three and nine months ended September 30, 2017 and 2016 were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Capital Expenditures [(1)]				
Retail	$ 3,803	$ 2,203	$ 7,849	$ 11,867
Office	10,555	11,637	25,715	33,276
Multifamily	1,953	213	4,521	2,032
Mixed-Use	211	100	414	216
	$ 16,522	$ 14,153	$ 38,499	$ 47,391

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

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, 2016.*

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 September 30, 2017, our portfolio was comprised of twelve retail shopping centers; seven 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 September 30, 2017, we owned land at four 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 73.2% of our Operating Partnership as of September 30, 2017. Accordingly, we consolidate the assets, liabilities and results of operations of our Operating Partnership.

Acquisitions

On April 28, 2017, we acquired the Pacific Ridge Apartments, a 533 unit, multifamily community, built in 2013 and located in San Diego, California. The purchase price was approximately $232 million, excluding closing costs and prorations. On July 6, 2017, we acquired Gateway Marketplace, an approximately 128,000 square feet dual-grocery anchored shopping center located in Chula Vista, California. The purchase price was approximately $42 million, excluding closing costs and prorations. On September 1, 2017, we acquired the building and related improvements in which Forever 21 and Gold's Gym are currently in tenancy at Del Monte Center for approximately $5.3 million.

These properties were acquired with cash on hand and borrowings under our Amended and Restated Credit Agreement.

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, 2016. We have not made any material changes to these policies during the periods covered by this report.

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 nine months ended September 30, 2017 and 2016. For the quarter ended September 30, 2017, Torrey Reserve Campus and Lloyd District Portfolio were removed from non-same-store properties and classified as same-store properties when compared to the designations for the quarter ended September 30, 2016. These properties were classified as redevelopment same-store properties in prior periods, however, as construction activity has ceased and comparable periods of operation are available, redevelopment same-store classification is no longer applicable. For the quarter ended September 30, 2017, Pacific Ridge Apartments and Gateway Marketplace were classified as a non-same-store properties as they were acquired on April 28, 2017 and July 6, 2017, respectively.

For the nine months ended September 30, 2017, Lloyd District Portfolio was transferred into same-store properties due to the completion of development activity at Hassalo on Eighth - Retail, which was completed during the fourth quarter of 2016. For the nine months ended September 30, 2017, Pacific Ridge Apartments and Gateway Marketplace were classified as non-same-store properties as they were acquired on April 28, 2017 and July 6, 2017, respectively, when compared to the designations for the nine months ended September 30, 2016.

In our determination of same-store and redevelopment same-store properties for the nine months ended September 30, 2017, Torrey Reserve Campus has been identified as a same-store redevelopment property due to significant construction activity. Office same-store net operating income increased approximately 5.7% for the nine months ended September 30, 2017 compared to the same period in 2016. Office redevelopment same-store net operating income increased approximately 4.3% for the nine months ended September 30, 2017 compared to the same period in 2016.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Same-Store	22	20	21	20
Non-Same Store	4	4	5	4
Total Properties	26	24	26	24
Redevelopment Same-Store	N/A	N/A	22	22
Total Development Properties	4	4	4	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 retenanting. 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 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 September 30, 2017, we signed 12 retail leases for a total of 24,711 square feet of retail space including 24,190 square feet of comparable space leases (leases for which there was a prior tenant), at an average rental rate decrease on a cash basis of 1.2% and an average rental rate increase on a GAAP basis of 8.4%. New retail leases for comparable spaces were signed for 4,785 square feet at an average rental rate decrease on a cash and GAAP basis of 12.3% and 2.5%, respectively. Renewals for comparable retail spaces were signed for 19,405 square feet at an average rental rate decrease on a cash basis of 0.1% and an average rental rate increase on a GAAP basis of 9.6%. Tenant improvements and incentives were $57.47 per square foot of retail space for comparable new leases for the three months ended September 30, 2017, mainly attributed to tenants at Del Monte Center.

During the three months ended September 30, 2017, we signed 22 office leases for a total of 123,140 square feet of office space including 68,920 square feet of comparable space leases, at an average rental rate increase on a cash and GAAP basis of 10.3% and 14.5%, respectively. New office leases for comparable spaces were signed for 20,253 square feet at an average rental rate increase on a cash and GAAP basis of 15.8% and 26.0%, respectively. Renewals for comparable office spaces were signed for 48,667 square feet at an average rental rate increase on a cash and GAAP basis of 7.5% and 8.7%, respectively. Tenant improvements and incentives were $43.34 per square foot of office space for comparable new leases for the three months ended September 30, 2017, mainly attributed to tenants at City Center Bellevue and One Beach Street.

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 2017 generally become effective over the following year, though some may not become effective until 2018 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 2017, 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 $1.4 million and $6.2 million for the three months ended September 30, 2017 and 2016, respectively. We capitalized external and internal costs related to both development and redevelopment activities combined of $8.7 million and $24.7 million for the nine months ended September 30, 2017 and 2016, respectively.

We capitalized external and internal costs related to other property improvements combined of $8.4 million and $8.6 million for the three months ended September 30, 2017 and 2016, respectively. We capitalized external and internal costs related to other property improvements combined of $23.0 million and $20.4 million for the nine months ended September 30, 2017 and 2016, respectively.

We capitalized internal costs for salaries and related benefits for development and redevelopment activities and other property improvements, which are not significant for the three and nine months ended September 30, 2017 and 2016, 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 $0.4 million and $0.3 million for the three months ended September 30, 2017 and 2016, respectively. We capitalized interest costs related to development activities of $1.2 million for each of the nine month periods ended September 30, 2017 and 2016, 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 September 30, 2017 to the three months ended September 30, 2016

The following summarizes our consolidated results of operations for the three months ended September 30, 2017 compared to our consolidated results of operations for the three months ended September 30, 2016. As of September 30, 2017, our operating portfolio was comprised of 26 retail, office, multifamily and mixed-use properties with an aggregate of approximately 6.1 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 September 30, 2017, we owned land at four of our properties that we classified as held for development and/or construction in progress. As of September 30, 2016, our operating portfolio was comprised of 24 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, 1,579 residential units (including 122 RV spaces) and a 369-room hotel. Additionally, as of September 30, 2016, 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 September 30, 2017 and 2016 (dollars in thousands):

	Three Months Ended September 30,			
	2017	2016	Change	%
Revenues				
Rental income	$ 78,135	$ 71,852	$ 6,283	9 %
Other property income	4,204	4,124	80	2
Total property revenues	82,339	75,976	6,363	8
Expenses				
Rental expenses	21,177	20,591	586	3
Real estate taxes	8,535	7,396	1,139	15
Total property expenses	29,712	27,987	1,725	6
Total property income	52,627	47,989	4,638	10
General and administrative	(4,958)	(4,513)	(445)	10
Depreciation and amortization	(21,192)	(17,992)	(3,200)	18
Interest expense	(13,873)	(13,049)	(824)	6
Other expense, net	(99)	(577)	478	(83)
Net income	12,505	11,858	647	5
Net income attributable to restricted shares	(60)	(42)	(18)	43
Net income attributable to unitholders in the Operating Partnership	(3,351)	(3,342)	(9)	—
Net income attributable to American Assets Trust, Inc. stockholders	$ 9,094	$ 8,474	$ 620	7 %

Revenue

Total property revenues. Total property revenue consists of rental revenue and other property income. Total property revenue increased $6.4 million, or 8%, to $82.3 million for the three months ended September 30, 2017 compared to $76.0 million for the three months ended September 30, 2016. The percentage leased was as follows for each segment as of September 30, 2017 and 2016:

	Percentage Leased (1)	
	September 30,	
	2017	2016
Retail	97.0%	97.0%
Office	89.9%	89.9%
Multifamily	91.3%	91.7%
Mixed-Use (2)	93.7%	98.8%

(1) The percentage leased includes the square footage under lease, including leases which may not have commenced as of September 30, 2017 or September 30, 2016, 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 $6.3 million, or 9%, to $78.1 million for the three months ended September 30, 2017 compared to $71.9 million for the three months ended September 30, 2016. Rental revenue by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio(1)			
	Three Months Ended September 30,				Three Months Ended September 30,			
	2017	2016	Change	%	2017	2016	Change	%
Retail	$ 26,191	$ 24,724	$ 1,467	6 %	$ 25,049	$ 24,590	$ 459	2 %
Office	25,385	24,294	1,091	4	25,324	24,247	1,077	4
Multifamily	11,519	7,462	4,057	54	4,823	4,615	208	5
Mixed-Use	15,040	15,372	(332)	(2)	15,040	15,372	(332)	(2)
	$ 78,135	$ 71,852	$ 6,283	9 %	$ 70,236	$ 68,824	$ 1,412	2 %

(1) For this table and tables following, the same-store portfolio excludes: (i) Hassalo on Eighth - Multifamily, which became available for occupancy in July and October of 2015; (ii) Hassalo on Eighth - Retail, which was placed in operation in April and July of 2016; (iii) the Pacific Ridge Apartments as it was acquired on April 28, 2017; (iv) Gateway Marketplace as it was acquired on July 6, 2017; and (v) land held for development.

Total retail rental revenue increased $1.5 million for the three months ended September 30, 2017 compared to the three months ended September 30, 2016 primarily due to the acquisition of Gateway Marketplace on July 6, 2017, which had rental revenue of approximately $0.8 million during the period. The increase in total retail rental revenue is also attributed to the completion of Hassalo on Eighth - Retail, which became available for occupancy during 2016, and had incremental rental revenue during the three months ended September 30, 2017 of approximately $0.2 million. Same-store retail rental revenue increased $0.5 million for the three months ended September 30, 2017 compared to the three months ended September 30, 2016 primarily due to higher annualized base rents and additional cost reimbursements at Lomas Santa Fe Plaza and Alamo Quarry Market. The increases in same-store retail rental revenue are offset by lower annualized base rents at Waikele Center during the quarter.

Total office rental revenue increased $1.1 million for the three months ended September 30, 2017 compared to the three months ended September 30, 2016 due to higher annualized base rents and additional cost reimbursements during the three months ended September 30, 2017, primarily at the Lloyd District Portfolio, The Landmark at One Market, Torrey Reserve Campus and First & Main. The increase in total office rental revenue during the quarter is offset by a decrease in the percentage leased at One Beach Street.

Total multifamily rental revenue increased $4.1 million for the three months ended September 30, 2017 compared to the three months ended September 30, 2016 primarily due to the acquisition of the Pacific Ridge Apartments on April 28, 2017, which had rental revenue of approximately $3.8 million during the quarter. Same-store multifamily rental revenue increased $0.2 million compared to the three months ended September 30, 2016 due to higher average base rent per unit of $1,866 for the three months ended September 30, 2017 compared to $1,732 for the three months ended September 30, 2016.

Mixed-use rental revenue decreased $0.3 million for the three months ended September 30, 2017 compared to the three months ended September 30, 2016 primarily due to lower revenue per available room of $324 for the three months ended September 30, 2017 compared to $335 for the three months ended September 30, 2016.

Other property income. Other property income increased $0.1 million, or 2%, to $4.2 million for the three months ended September 30, 2017 compared to $4.1 million for the three months ended September 30, 2016. Other property income by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Three Months Ended September 30,				Three Months Ended September 30,			
	2017	2016	Change	%	2017	2016	Change	%
Retail	$ 356	$ 340	$ 16	5 %	$ 312	$ 314	$ (2)	(1)%
Office	1,268	1,524	(256)	(17)	1,329	1,571	(242)	(15)
Multifamily	891	591	300	51	400	319	81	25
Mixed-Use	1,689	1,669	20	1	1,689	1,669	20	1
	$ 4,204	$ 4,124	$ 80	2 %	$ 3,730	$ 3,873	$ (143)	(4)%

Office property income decreased $0.3 million for the three months ended September 30, 2017 primarily due to lease termination fees for tenants at Torrey Reserve Campus received during the three months ended September 30, 2016.

Multifamily other property income increased $0.3 million for the three months ended September 30, 2017 primarily due to the acquisition of the Pacific Ridge Apartments on April 28, 2017, which had other property income of approximately $0.2 million during the quarter. The increase is also attributed to an increase in occupancy at Hassalo on Eighth - Multifamily for the three months ended September 30, 2017.

Property Expenses

Total Property Expenses. Total property expenses consist of rental expenses and real estate taxes. Total property expenses increased $1.7 million, or 6%, to $29.7 million, for the three months ended September 30, 2017 compared to $28.0 million for the three months ended September 30, 2016.

Rental Expenses. Rental expenses increased $0.6 million, or 3%, to $21.2 million for the three months ended September 30, 2017 compared to $20.6 million for the three months ended September 30, 2016. Rental expense by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Three Months Ended September 30,				Three Months Ended September 30,			
	2017	2016	Change	%	2017	2016	Change	%
Retail	$ 3,456	$ 4,252	$ (796)	(19)%	$ 3,309	$ 4,210	$ (901)	(21)%
Office	5,064	5,127	(63)	(1)	5,065	5,127	(62)	(1)
Multifamily	3,756	2,506	1,250	50	1,333	1,265	68	5
Mixed-Use	8,901	8,706	195	2	8,901	8,706	195	2
	$ 21,177	$ 20,591	$ 586	3 %	$ 18,608	$ 19,308	$ (700)	(4)%

Retail rental expenses decreased $0.8 million for the three months ended September 30, 2017 compared to the three months ended September 30, 2016 primarily due a decrease in bad debt expense for the three months ended September 30, 2017 at Waikele Center and Carmel Mountain Plaza attributed to the Sports Authority bankruptcy in 2016. The decrease in retail rental expenses was minimally offset by rental expenses for Gateway Marketplace, which was acquired on July 6, 2017, and had rental expenses of approximately $0.1 million during the period.

Multifamily rental expenses increased $1.3 million for the three months ended September 30, 2017 compared to the three months ended September 30, 2016 primarily due to the acquisition of the Pacific Ridge Apartments on April 28, 2017, which had rental expenses of approximately $1.3 million during the quarter.

Mixed-use rental expenses increased $0.2 million for the three months ended September 30, 2017 compared to the three months ended September 30, 2016 primarily due to an increase in bad debt expense at the retail portion of our mixed-use property during the quarter.

Real Estate Taxes. Real estate taxes increased $1.1 million, or 15%, to $8.5 million for the three months ended September 30, 2017 compared to $7.4 million for the three months ended September 30, 2016. Real estate tax expense by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Three Months Ended September 30,				Three Months Ended September 30,			
	2017	2016	Change	%	2017	2016	Change	%
Retail	$ 3,478	$ 2,907	$ 571	20 %	$ 3,307	$ 2,863	$ 444	16 %
Office	2,810	3,019	(209)	(7)	2,807	3,016	(209)	(7)
Multifamily	1,525	782	743	95	439	433	6	1
Mixed-Use	722	688	34	5	722	688	34	5
	$ 8,535	$ 7,396	$ 1,139	15 %	$ 7,275	$ 7,000	$ 275	4 %

Retail real estate taxes increased $0.6 million for the three months ended September 30, 2017 compared to the three months ended September 30, 2016 primarily due to an increase in the assessed value of Alamo Quarry Market and the acquisition of Gateway Marketplace on July 6, 2017, which had real estate taxes of approximately $0.1 million during the period. The increase in retail real estate taxes for the three months ended September 30, 2017 is approximately 90% recoverable from tenants.

Office real estate taxes decreased $0.2 million for the three months ended September 30, 2017 compared to the three months ended September 30, 2016 primarily due to nonrecurring real estate taxes for tenants with tax exemptions at One Beach Street.

Multifamily real estate taxes increased $0.7 million for the three months ended September 30, 2017 compared to the three months ended September 30, 2016 primarily due to the acquisition of the Pacific Ridge Apartments on April 28, 2017, which had real estate taxes of approximately $0.7 million during the quarter.

Property Operating Income

Property operating income increased $4.6 million, or 10%, to $52.6 million for the three months ended September 30, 2017, compared to $48.0 million for the three months ended September 30, 2016. Property operating income by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Three Months Ended September 30,				Three Months Ended September 30,			
	2017	2016	Change	%	2017	2016	Change	%
Retail	$ 19,613	$ 17,905	$ 1,708	10 %	$ 18,745	$ 17,831	$ 914	5 %
Office	18,779	17,672	1,107	6	18,781	17,675	1,106	6
Multifamily	7,129	4,765	2,364	50	3,451	3,236	215	7
Mixed-Use	7,106	7,647	(541)	(7)	7,106	7,647	(541)	(7)
	$ 52,627	$ 47,989	$ 4,638	10 %	$ 48,083	$ 46,389	$ 1,694	4 %

Total retail property operating income increased $1.7 million for the three months ended September 30, 2017 compared to the three months ended September 30, 2016 primarily due to the acquisition of Gateway Marketplace on July 6, 2017 and higher annualized base rents and additional cost reimbursements at same-store retail properties during the quarter. The increase is also attributed to the decrease in bad debt expense for same-store retail properties during the quarter.

Office property operating income increased $1.1 million for the three months ended September 30, 2017 compared to the three months ended September 30, 2016 primarily due to an increase in annualized base rents and additional cost reimbursements during the three months ended September 30, 2017.

Total multifamily property operating income increased $2.4 million for the three months ended September 30, 2017 compared to the three months ended September 30, 2016 primarily due to the acquisition of the Pacific Ridge Apartments on April 28, 2017. Same-store property operating income increased $0.2 million for the three months ended September 30, 2017 compared to the three months ended September 30, 2016 primarily due to higher average base rent per unit during the quarter.

Mixed use property operating income decreased $0.5 million for the three months ended September 30, 2017 compared to the three months ended September 30, 2016 primarily due to lower revenue per available room at the hotel and increase in bad debt expense at the retail portion of our mixed-use property during the quarter.

Other

General and Administrative. General and administrative expenses increased $0.4 million, or 10%, to $5.0 million for the three months ended September 30, 2017, compared to $4.5 million for the three months ended September 30, 2016. This increase was primarily due to an increase in employee-related costs.

Depreciation and Amortization. Depreciation and amortization expense increased $3.2 million, or 18%, to $21.2 million for the three months ended September 30, 2017, compared to $18.0 million for the three months ended September 30, 2016. This increase was primarily due to depreciation and amortization attributable to the acquisitions of Pacific Ridge Apartments on April 28, 2017, which had depreciation and amortization expense of approximately $3.0 million during the quarter, and Gateway Marketplace on July 6, 2017, which had depreciation and amortization expense of approximately $0.2 million during the quarter.

Interest Expense. Interest expense increased $0.8 million, or 6%, to $13.9 million for the three months ended September 30, 2017, compared to $13.0 million for the three months ended September 30, 2016. This increase was primarily due to the closing of our offerings of Series D Notes on March 1, 2017, Series E Notes on May 23, 2017 and Series F Notes on July 19, 2017, offset by the payoff of property mortgages for Southbay Marketplace fourth quarter of 2016, Waikiki Beach Walk - Retail during the first quarter of 2017 and Solana Beach Corporate Center III-IV during the second quarter of 2017.

Other Expense, Net. Other income, net decreased $0.5 million, or 83%, to $0.1 million for the three months ended September 30, 2017, compared to $0.6 million for the three months ended September 30, 2016, primarily due to a decrease in tax expense during the period attributed to losses associated with our TRS lease.

Comparison of the Nine Months Ended September 30, 2017 to the Nine Months Ended September 30, 2016

The following summarizes our consolidated results of operations for the nine months ended September 30, 2017 compared to our consolidated results of operations for the nine months ended September 30, 2016.

The following table sets forth selected data from our unaudited consolidated statements of income for the nine months ended September 30, 2017 and 2016 (dollars in thousands):

	Nine Months Ended September 30,			
	2017	2016	Change	%
Revenues				
Rental income	$ 221,100	$ 207,318	$ 13,782	7 %
Other property income	12,137	11,208	929	8
Total property revenues	233,237	218,526	14,711	7
Expenses				
Rental expenses	60,877	58,634	2,243	4
Real estate taxes	23,975	20,446	3,529	17
Total property expenses	84,852	79,080	5,772	7
Total property income	148,385	139,446	8,939	6
General and administrative	(15,171)	(13,456)	(1,715)	13
Depreciation and amortization	(63,360)	(53,159)	(10,201)	19
Interest expense	(39,856)	(39,148)	(708)	2
Other income (expense), net	403	(454)	857	189
Net income	30,401	33,229	(2,828)	(9)
Net income attributable to restricted shares	(181)	(128)	(53)	41
Net income attributable to unitholders in the Operating Partnership	(8,220)	(9,377)	1,157	(12)
Net income (loss) attributable to American Assets Trust, Inc. stockholders	$ 22,000	$ 23,724	$ (1,724)	(7)%

Revenue

Total property revenues. Total property revenue consists of rental revenue and other property income. Total property revenue increased $14.7 million, or 7%, to $233.2 million for the nine months ended September 30, 2017 compared to $218.5 million for the nine months ended September 30, 2016. The percentage leased was as follows for each segment as of September 30, 2017 and 2016:

	Percentage Leased (1) September 30,	
	2017	2016
Retail	97.0%	97.0%
Office	89.9%	89.9%
Multifamily	91.3%	91.7%
Mixed-Use (2)	93.7%	98.8%

(1) The percentage leased includes the square footage under lease, including leases which may not have commenced as of September 30, 2017 or September 30, 2016, 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 $13.8 million, or 7%, to $221.1 million for the nine months ended September 30, 2017 compared to $207.3 million for the nine months ended September 30, 2016. Rental revenue by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio(1)			
	Nine Months Ended September 30,				Nine Months Ended September 30,			
	2017	2016	Change	%	2017	2016	Change	%
Retail	$ 75,161	$ 73,369	1,792	2%	$ 73,364	$ 73,146	$ 218	—%
Office	74,996	72,400	2,596	4	61,977	59,780	2,197	4
Multifamily	29,053	19,831	9,222	47	14,090	13,541	549	4
Mixed-Use	41,890	41,718	172	—	41,890	41,718	172	—
	$ 221,100	$ 207,318	$ 13,782	7%	$ 191,321	$ 188,185	$ 3,136	2%

(1) For this table and tables following, the same-store portfolio excludes: (i) Torrey Reserve Campus due to significant redevelopment activity during the period; (ii) Hassalo on Eighth - Multifamily, which became available for occupancy in July and October of 2015; (iii) Hassalo on Eighth - Retail, which was placed in operation in April and July of 2016; (iv) the Pacific Ridge Apartments as it was acquired April 28, 2017; (v) Gateway Marketplace as it was acquired on July 6, 2017; and (vi) land held for development.

Total retail rental revenue increased $1.8 million for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 primarily due to the acquisition of Gateway Marketplace on July 6, 2017, which had rental revenue of approximately $0.8 million during the period. The increase in total retail rental revenue is also attributed to the completion of Hassalo on Eighth - Retail, which became available for occupancy during 2016, and had incremental rental revenue of approximately $0.8 million during the period. Same-store retail rental revenue increased $0.2 million for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 primarily due to higher annualized base rents and additional cost reimbursements at Lomas Santa Fe Plaza, Carmel Mountain Plaza and Alamo Quarry Market. The increases in same-store retail rental revenue are offset by a decrease in vacancy and lower annualized base rents at Waikele Center during the period.

Total office rental revenue increased $2.6 million for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 due to higher annualized base rents and additional cost reimbursements during the period, primarily at Lloyd District Portfolio, The Landmark at One Market, First & Main and Torrey Reserve Campus.

Multifamily rental revenue increased $9.2 million for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 primarily due to the acquisition of the Pacific Ridge Apartments on April 28, 2017, which had rental revenue of approximately $6.6 million for the period. The increase in multifamily rental revenue is also attributed to an increase in occupancy at Hassalo on Eighth - Multifamily for the nine months ended September 30, 2017, which had incremental rental revenue of approximately $2.1 million during the period. Same-store multifamily rental revenue increased $0.5 million during the period due to higher average base rent per unit of $1,810 during the nine months ended September 30, 2017 compared to $1,688 during the nine months ended September 30, 2016.

Mixed-use rental revenue increased $0.2 million for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 due to higher revenue per available room of $300 for the nine months ended September 30, 2017 compared to $297 for the nine months ended September 30, 2016 and an increase in occupancy to 93% for nine months ended September 30, 2017 compared to 90% for the nine months ended September 30, 2016.

Other property income. Other property income increased $0.9 million, or 8%, to $12.1 million for the nine months ended September 30, 2017 compared to $11.2 million for the nine months ended September 30, 2016. Other property income by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Nine Months Ended September 30,				Nine Months Ended September 30,			
	2017	2016	Change	%	2017	2016	Change	%
Retail	$ 1,131	$ 947	$ 184	19 %	$ 991	$ 921	$ 70	8%
Office	4,006	4,016	(10)	—	4,020	3,803	217	6
Multifamily	2,271	1,576	695	44	1,028	935	93	10
Mixed-Use	4,729	4,669	60	1	4,729	4,669	60	1
	$ 12,137	$ 11,208	$ 929	8 %	$ 10,768	$ 10,328	$ 440	4%

Total retail other property income increased $0.2 million for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 primarily due to an increase in lease termination fees at Del Monte Center and an increase in parking garage income at Hassalo on Eighth - Retail during the period.

Same-store office other property income increased $0.2 million for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 primarily due to parking garage income at Lloyd District Portfolio due to the completion of the shared Hassalo on Eighth parking garage, which was placed into service during the fourth quarter of 2015, and an increase in lease termination fees at One Beach Street.

Total multifamily other property income increased $0.7 million for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 due to the acquisition of the Pacific Ridge Apartments on April 28, 2017, which had other property income of approximately $0.3 million during the period and an increase in occupancy at Hassalo on Eighth - Multifamily, which had incremental other property income of approximately $0.3 million during the period.

Property Expenses

Total Property Expenses. Total property expenses consist of rental expenses and real estate taxes. Total property expenses increased by $5.8 million, or 7%, to $84.9 million for the nine months ended September 30, 2017, compared to $79.1 million for the nine months ended September 30, 2016. This increase in total property expenses was attributable primarily to the factors discussed below.

Rental Expenses. Rental expenses increased $2.2 million, or 4%, to $60.9 million for the nine months ended September 30, 2017, compared to $58.6 million for the nine months ended September 30, 2016. Rental expense by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Nine Months Ended September 30,				Nine Months Ended September 30,			
	2017	2016	Change	%	2017	2016	Change	%
Retail	$ 10,412	$ 11,487	$ (1,075)	(9)%	$ 10,154	$ 11,374	$ (1,220)	(11)%
Office	15,411	15,284	127	1	12,822	13,033	(211)	(2)
Multifamily	8,973	7,253	1,720	24	3,763	3,599	164	5
Mixed-Use	26,081	24,610	1,471	6	26,081	24,610	1,471	6
	$ 60,877	$ 58,634	$ 2,243	4 %	$ 52,820	$ 52,616	$ 204	— %

Total retail rental expenses decreased $1.1 million for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 primarily due to a decrease in bad debt expense for Waikele Center related to the Sports Authority bankruptcy recorded during the second quarter of 2016. The decrease in retail rental expenses was minimally offset by rental expenses for Gateway Marketplace, which was acquired on July 6, 2017, and had rental expenses of approximately $0.1 million during the period.

Total office rental expenses increased $0.1 million for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 primarily due to an increase in bad debt expense for the nine months ended September 30, 2017 at One Beach Street and an increase in building expenses at Torrey Reserve Campus attributed to an increase in occupancy at the property during the period. The increase in total office rental expenses is offset by a decrease in salary expense at the Lloyd District Portfolio.

Total multifamily rental expenses increased $1.7 million for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 primarily due to the acquisition of the Pacific Ridge Apartments on April 28, 2017, which had rental expenses of approximately $1.8 million during the period. The increase in total multifamily rental expenses was offset by a decrease in salary expense and utility expenses at Hassalo on Eighth.

Mixed-use rental expenses increased $1.5 million during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 primarily due to an increase in bad debt expense primarily at the hotel portion of our mixed-use property attributable to a bankruptcy filed by one of the hotel's travel agencies. The increase in rental expenses is also attributed to an increase in room expenses at the hotel portion of our mixed-use property attributable to the increase in occupancy during the period.

Real Estate Taxes. Real estate tax expense increased $3.5 million, or 17%, to $24.0 million for the nine months ended September 30, 2017 compared to $20.4 million for the nine months ended September 30, 2016. Real estate tax expense by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Nine Months Ended September 30,				Nine Months Ended September 30,			
	2017	2016	Change	%	2017	2016	Change	%
Retail	$ 10,007	$ 8,716	$ 1,291	15%	$ 9,736	$ 8,625	$ 1,111	13%
Office	8,309	8,111	198	2	6,632	6,519	113	2
Multifamily	3,601	1,707	1,894	111	1,300	1,282	18	1
Mixed-Use	2,058	1,912	146	8	2,058	1,912	146	8
	$ 23,975	$ 20,446	$ 3,529	17%	$ 19,726	$ 18,338	$ 1,388	8%

Total retail real estate taxes increased $1.3 million for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 primarily due to an increase in the assessed values of Alamo Quarry Market and Waikele Center. The increase is also attributed to the acquisition of Gateway Marketplace on July 6, 2017, which had real estate taxes of approximately $0.1 million during the period. The increase in retail real estate taxes for the nine months ended September 30, 2017 is approximately 89% recoverable from tenants.

Total office real estate taxes increased $0.2 million for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 primarily due to an increase in the assessed values of City Center Bellevue and Torrey Reserve Campus. The increase in real estate taxes is partially offset by nonrecurring real estate taxes for tenants with tax exemptions at First & Main. The increase in office real estate taxes for the nine months ended September 30, 2017 is approximately 22% recoverable from tenants.

Multifamily real estate taxes increased $1.9 million for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 primarily due to the acquisition of the Pacific Ridge Apartments on April 28, 2017, which had real estate taxes of approximately $1.2 million during the quarter. The increase is also attributed to receipt of assessed taxes at Hassalo on Eighth - Multifamily, which were estimated for by the Company during the prior period and had incremental real estate tax expense of approximately $0.7 million during the period.

Mixed-use real estate taxes increased $0.1 million for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 primarily due to an increase in real estate taxes for the hotel portion of our mixed-use property that are assessed annually based on the hotel's room rates, which have increased from the prior year.

Property Operating Income

Property operating income increased $8.9 million, or 6%, to $148.4 million for the nine months ended September 30, 2017, compared to $139.4 million for the nine months ended September 30, 2016. Property operating income by segment was as follows (dollars in thousands):

	Total Portfolio				Same-Store Portfolio			
	Nine Months Ended September 30,				Nine Months Ended September 30,			
	2017	2016	Change	%	2017	2016	Change	%
Retail	$ 55,873	$ 54,113	$ 1,760	3 %	$ 54,465	$ 54,068	$ 397	1 %
Office	55,282	53,021	2,261	4	46,543	44,031	2,512	6
Multifamily	18,750	12,447	6,303	51	10,055	9,595	460	5
Mixed-Use	18,480	19,865	(1,385)	(7)	18,480	19,865	(1,385)	(7)
	$ 148,385	$ 139,446	$ 8,939	6 %	$ 129,543	$ 127,559	$ 1,984	2 %

Total retail property operating income increased $1.8 million during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 primarily due to the acquisition of Gateway Marketplace on July 6, 2017 and an increase in the percentage leased at Hassalo on Eighth - Retail during the period. The increase is also attributed to the decrease in bad debt expense for same-store retail properties during the period.

Total office property operating income increased $2.3 million during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 primarily due to higher annualized base rents and additional cost reimbursements during the nine months ended September 30, 2017.

Total multifamily property operating income increased $6.3 million for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 primarily due to the acquisition of the Pacific Ridge Apartments on April 28, 2017 and an increase in occupancy at Hassalo on Eighth - Multifamily during the period. Same-store property operating income increased $0.5 million for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016 primarily due to higher average base rent per unit during the period.

Mixed-use property operating income decreased $1.4 million during the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. The decrease was primarily due to an increase in bad debt expense during the period at the hotel attributed to a bankruptcy filed by one of the hotel's travel agents and for tenants at the retail portion of our mixed-use property.

Other

General and Administrative. General and administrative expenses increased $1.7 million, or 13%, to $15.2 million for the nine months ended September 30, 2017, compared to $13.5 million for the nine months ended September 30, 2016. This increase was primarily due to an increase in employee-related costs.

Depreciation and Amortization. Depreciation and amortization expense increased $10.2 million, or 19%, to $63.4 million for the nine months ended September 30, 2017, compared to $53.2 million for the nine months ended September 30, 2016. This increase was primarily due to depreciation and amortization attributable to the acquisitions of Pacific Ridge Apartments on April 28, 2017, which had depreciation and amortization expense of approximately $8.8 million during the period, and Gateway Marketplace on July 6, 2017, which had depreciation and amortization expense of approximately $0.2 million during the period. The increase is also due to the depreciation and amortization attributable to the completion of the Hassalo on Eighth retail buildings completed in 2016.

Interest Expense. Interest expense increased $0.7 million, or 2%, to $39.9 million for the nine months ended September 30, 2017 compared to $39.1 million for the nine months ended September 30, 2016. This increase was primarily due to the closing of our offerings of Series D Notes on March 1, 2017, Series E Notes on May 23, 2017 and Series F Notes on July 19, 2017, offset by the payoff of property mortgages for Southbay Marketplace fourth quarter of 2016, Waikiki Beach Walk - Retail during the first quarter of 2017 and Solana Beach Corporate Center III-IV during the second quarter of 2017.

Other Income (Expense), Net. Other income, net increased $0.9 million, or 189%, to $0.4 million for the nine months ended September 30, 2017, compared to other expense, net of $0.5 million for the nine months ended September 30, 2016, primarily due to an increase in interest and investment income attributed to higher cash balances during the period. The decrease is also attributed to income tax benefit during the period attributed to losses associated with our TRS lease.

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 September 30, 2017, the company owned an approximate 73.2% partnership interest in the Operating Partnership. The remaining 26.8% 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 8 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 September 30, 2017, 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 2015, the company filed a universal shelf registration statement on Form S-3 with the SEC, which was deemed automatically effective and which provides for the registration of unspecified amounts of securities. 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. The sales of shares of the company's common stock made through the ATM equity program are made in “at-the-market” offerings as defined in Rule 415 of the Securities Act. As of September 30, 2017, we had the capacity to issue up to an additional $176.2 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.

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 our net taxable income. As of September 30, 2017, we held $94.2 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 2017 will depend upon acquisition opportunities, the level of improvements and redevelopments on existing properties and the timing and cost of development of Torrey Point. Construction for Torrey Point was completed during the third quarter of 2017, resulting in approximately 88,000 additional square feet of office space. We expect to invest approximately $56 million related to Torrey Point, of which approximately $38 million has been incurred as of September 30, 2017, noting the remaining amount will be incurred as the property is leased to tenants. 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 2015, the Operating Partnership filed a universal shelf registration on Form S-3 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 nine months ended September 30, 2017 to the nine months ended September 30, 2016

Cash and cash equivalents were $94.2 million and $62.0 million at September 30, 2017 and 2016, respectively.

Net cash provided by operating activities increased $23.0 million to $125.8 million for the nine months ended September 30, 2017 compared to $102.7 million for the nine months ended September 30, 2016. The increase in cash from operations was due to the acquisition of the Pacific Ridge Apartments, which were acquired on April 28, 2017 and the settlements of the March 2016 Swap and April 2016 Swap, which will be amortized over the Series D Notes, and April 2017 Treasury Lock, which will be amortized over the Series E Notes.

Net cash used in investing activities increased $271.1 million to $318.3 million for the nine months ended September 30, 2017 compared to $47.2 million for the nine months ended September 30, 2016. The increase was primarily due to the acquisitions of Pacific Ridge Apartments on April 28, 2017 and Gateway Marketplace on July 6, 2017, offset by the completion of development activity at the Hassalo on Eighth retail buildings during 2016.

Net cash provided by financing activities increased $275.5 million to cash provided of $242.0 million for the nine months ended September 30, 2017 compared to cash used of $33.5 million for the nine months ended September 30, 2016. The increase in cash provided by financing activities was primarily due to the closing of Series D Notes issued on March 1, 2017 and Series E Notes on May 23, 2017 and Series F Notes on July 19, 2017. The increase is offset by repayment of the mortgage at Waikiki Beach Walk Retail and Solana Beach Corporate Centre III-IV in 2017.

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 nine months ended September 30, 2017 and 2016 computed in accordance with GAAP (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Net operating income	$ 52,627	$ 47,989	$ 148,385	$ 139,446
General and administrative	(4,958)	(4,513)	(15,171)	(13,456)
Depreciation and amortization	(21,192)	(17,992)	(63,360)	(53,159)
Interest expense	(13,873)	(13,049)	(39,856)	(39,148)
Other income, net	(99)	(577)	403	(454)
Net income	$ 12,505	$ 11,858	$ 30,401	$ 33,229

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 (loss) (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 nine months ended September 30, 2017 to net income, the nearest GAAP equivalent (in thousands, except per share and share data):

	Three Months Ended September 30,	Nine Months Ended September 30,
	2017	2017
Funds from Operations (FFO)		
Net income	$ 12,505	$ 30,401
Plus: Real estate depreciation and amortization	21,192	63,360
Funds from operations	33,697	93,761
Less: Nonforfeitable dividends on incentive restricted stock awards	(59)	(177)
FFO attributable to common stock and units	$ 33,638	$ 93,584
FFO per diluted share/unit	$ 0.52	$ 1.46
Weighted average number of common shares and units, diluted [1]	64,094,454	64,083,186

(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 September 30, 2017, we had $1,080.2 million of fixed rate debt outstanding with an estimated fair value of $1,095.7 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 September 30, 2017 to be fixed rate debt as the rate is effectively fixed by an interest rate swap agreement. If interest rates at September 30, 2017 had been 1.0% higher, the fair value of those debt instruments on that date would have decreased by approximately $26.7 million. If interest rates at September 30, 2017 had been 1.0% lower, the fair value of those debt instruments on that date would have increased by approximately $46.4 million.

Variable Interest Rate Debt

At September 30, 2017, we had $250.0 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 5 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.

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 September 30, 2017, 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 September 30, 2017, 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 September 30, 2017, 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 September 30, 2017, 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, 2016.

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
10.8 (1)	Note Purchase Agreement, dated as of July 19, 2017, by and among American Assets Trust, Inc., American Assets Trust, L.P. 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*	The Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Comprehensive Income, (iii) Consolidated Statement of Equity, (iv) Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements that have been detail tagged.

* Filed herewith.

(1) Incorporated herein by reference to American Assets Trust, Inc.'s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 19, 2017.

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	/s/ ERNEST RADY
Ernest Rady Chairman, President and Chief Executive Officer (Principal Executive Officer)	Ernest Rady Chairman, President and Chief Executive Officer (Principal Executive Officer)
/s/ ROBERT F. BARTON	/s/ ROBERT F. BARTON
Robert F. Barton Executive Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)	Robert F. Barton Executive Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)
Date: November 3, 2017	Date: November 3, 2017

Exhibit 31.1

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: November 3, 2017

/s/ ERNEST RADY

Ernest Rady
Chairman, President and Chief Executive Officer

Exhibit 31.2

**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: November 3, 2017

/s/ ERNEST RADY

Ernest Rady
Chairman, President and Chief Executive Officer

Exhibit 31.3

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: November 3, 2017

/s/ ROBERT F. BARTON
Robert F. Barton
EVP and Chief Financial Officer

Exhibit 31.4

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: November 3, 2017

/s/ ROBERT F. BARTON
Robert F. Barton
EVP and Chief Financial Officer

Exhibit 32.1

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 September 30, 2017 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: November 3, 2017

Exhibit 32.2

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 September 30, 2017 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: November 3, 2017