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 JUNE 30, 2016

or

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

For the transition period from _____ to _____

Commission File Number 001-37420

SERITAGE GROWTH PROPERTIES
(Exact name of registrant as specified in its charter)

Maryland	**38-3976287**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**
489 Fifth Avenue, 18th Floor, New York, New York	**10017**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (212) 355-7800

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of August 1, 2016, the registrant had the following common shares outstanding:

Class	Shares Outstanding
Class A common shares of beneficial interest, par value $0.01 per share	25,855,574
Class B common shares of beneficial interest, par value $0.01 per share	1,589,020
Class C common shares of beneficial interest, par value $0.01 per share	5,742,637

SERITAGE GROWTH PROPERTIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited, amounts in thousands)

	Six Months Ended June 30, 2016
CASH FLOW FROM OPERATING ACTIVITIES	
Net loss	$ (27,279)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Equity in income of unconsolidated joint ventures	(2,998)
Distributions from unconsolidated joint ventures	8,193
Unrealized loss on interest rate cap	1,851
Stock-based compensation	534
Depreciation and amortization	76,833
Amortization of deferred financing costs	2,680
Amortization of above and below market leases, net	(330)
Straight-line rent adjustment	(8,227)
Change in operating assets and liabilities	
Tenants and other receivables	851
Prepaid expenses, deferred expenses and other assets	12,758
Restricted cash	(5,289)
Accounts payable, accrued expenses and other liabilities	5,453
Net cash provided by operating activities	65,030
CASH FLOW FROM INVESTING ACTIVITIES	
Development of real estate	(33,223)
Decrease in restricted cash	10,724
Net cash used in investing activities	(22,499)
CASH FLOW FROM FINANCING ACTIVITIES	
Payment of financing costs	(6)
Common dividends paid	(23,610)
Non-controlling interests distributions paid	(18,132)
Net cash used in financing activities	(41,748)
Net increase in cash and cash equivalents	783
Cash and cash equivalents, beginning of period	62,867
Cash and cash equivalents, end of period	$ 63,650
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash payments for interest	$ 30,073
Capitalized interest	1,283
Income taxes paid	313
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES	
Development of real estate financed with accounts payable	$ 5,676
Dividends and distribution declared and unpaid	13,953

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

The following table presents combined condensed financial data for all of the Company's unconsolidated joint ventures as of June 30, 2016 and December 31, 2015 (in thousands):

	June 30, 2016	December 31, 2015
ASSETS		
Investment in real estate		
Land	$ 214,109	$ 214,726
Buildings and improvements	601,324	603,265
Accumulated depreciation	(40,270)	(24,111)
	775,163	793,880
Construction in progress	4,007	1,481
Net investment in real estate	779,170	795,361
Cash and cash equivalents	20,894	19,903
Tenant and other receivables, net	3,771	4,990
Other assets, net	20,621	30,506
Total assets	$ 824,456	$ 850,760
LIABILITIES AND EQUITY		
Liabilities		
Accounts payable, accrued expenses and other liabilities	$ 11,142	$ 13,973
Total liabilities	11,142	13,973
Equity		
Partnership equity	807,315	823,923
Retained earnings	5,999	12,864
Total equity	813,314	836,787
Total liabilities and equity	$ 824,456	$ 850,760

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
EQUITY IN INCOME OF UNCONSOLIDATED JOINT VENTURES		
Total revenue	$ 16,309	$ 33,847
Property operating expenses	(3,196)	(6,600)
Depreciation and amortization	(11,183)	(20,922)
Operating income	1,930	6,325
Other expenses	(106)	(329)
Net income	$ 1,824	$ 5,996
Equity in income of unconsolidated joint ventures	$ 912	$ 2,998

Note 5 – Leases

Master Lease

On July 7, 2015, subsidiaries of Seritage and subsidiaries of Sears Holdings entered into the Master Lease. The Master Lease generally is a triple net lease with respect to all space which is leased thereunder to Sears Holdings, subject to proportional sharing by Sears Holdings for repair and maintenance charges, real property taxes, insurance and other costs and expenses which are common to both the space leased by Sears Holdings and other space occupied by unrelated third-party tenants in the same or other buildings pursuant to third-party leases, space which is recaptured pursuant to the Company recapture rights described below and all other space which is constructed on the properties. Under the Master Lease, Sears Holdings and/or one or more of its subsidiaries will be required to make all expenditures reasonably necessary to maintain the premises in good appearance, repair and condition for as long as they are in occupancy.

The Master Lease has an initial term of 10 years and contains three options for five-year renewals of the term and a final option for a four-year renewal. As of June 30, 2016, the annual base rent paid directly by Sears Holdings and its subsidiaries under the Master Lease was approximately $132.0 million. In each of the initial and first two renewal terms, annual base rent will be increased by 2.0% per annum for each lease year over the rent for the immediately preceding lease year. For subsequent renewal terms, rent will be set at the commencement of the renewal term at a fair market rent based on a customary third-party appraisal process, taking into account all the terms of the Master Lease and other relevant factors, but in no event will the renewal rent be less than the rent payable in the immediately preceding lease year.

The Master Lease provides the Company with the right to recapture up to approximately 50% of the space occupied by Sears Holdings at the 224 Wholly Owned Properties initially included in the Master Lease (subject to certain exceptions). While the Company will be permitted to exercise its recapture rights all at once or in stages as to any particular property, it will not be permitted to recapture all or substantially all of the space subject to the recapture right at more than 50 Wholly Owned Properties during any lease year. In addition, Seritage has the right to recapture any automotive care centers which are free-standing or attached as "appendages" to the properties, all outparcels or outlots and certain portions of the parking areas and common areas. Upon exercise of these recapture rights, the Company will generally incur certain costs and expenses for the separation of the recaptured space from the remaining Sears Holdings space and can reconfigure and rent the recaptured space to third-party tenants.

The Company also has the right to recapture 100% of the space occupied by Sears Holdings at each of 21 identified Wholly Owned Properties by making a specified lease termination payment to Sears Holdings, after which the Company can reposition and re-lease those stores. The lease termination payment is calculated as the greater of an amount specified at the time the Company entered into the Master Lease with Sears Holdings and an amount equal to 10 times the adjusted EBITDA attributable to such space within the Sears Holdings main store which is not attributable to the space subject to the separate 50% recapture right discussed above for the 12-month period ending at the end of the fiscal quarter ending immediately prior to recapturing such space.

As of June 30, 2016, the Company had exercised its recapture rights with respect to nine properties, including (i) three 100% recaptures in Braintree, MA, Honolulu, HI and Memphis, TN; (ii) the partial recapture of a full-line store in Wayne, NJ; (iii) the partial recapture of a full-line store and auto center in Fairfax, VA; and (iv) four auto centers in Albany, NY, Bowie, MD, Hagerstown, MD and San Antonio, TX. Subsequent to June 30, 2016, the Company submitted six additional recapture notices for (i) 100% of a full-line store in Orlando, FL; (ii) portions of the space occupied by Sears Holdings at full-line stores in Anderson, SC, North Hollywood, CA and Madison, WI; (iii) a portion of the space occupied by Sears Holdings at a full-line store and auto center in West Jordan, UT; and (iv) an outparcel for retail development in Ft. Wayne, IN.

The Master Lease also provides for certain rights to Sears Holdings to terminate the Master Lease with respect to Wholly Owned Properties that cease to be profitable for operation by Sears Holdings. In order to terminate the Master Lease with respect to a certain property, Sears Holdings must make a payment to the Company of an amount equal to one year of rent (together with taxes and other expenses) with respect to such property. Such termination right, however, will be limited so that it will not have the effect of reducing the fixed rent under the Master Lease by more than 20% per annum. Further, Sears Holdings must provide notice of not less than 90 days of their intent to exercise such termination right and such notice cannot be given prior to August 1, 2016.

Revenues from the Master Lease for the three and six months ended June 30, 2016 are as follows (in thousands and excluding the effect of straight-line rent):

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Rental income	$ 33,082	$ 66,467
Tenant reimbursements	14,516	31,268
Total revenue	$ 47,598	$ 97,735

Note 6 – Mortgage Loans Payable

On July 7, 2015, pursuant to the Transaction, the Company entered into a mortgage and mezzanine loan agreement (collectively, the "Loan Agreements"), providing for term loans in an initial principal amount of approximately $1.16 billion (collectively, the "Mortgage Loans") and a $100 million future funding facility (the "Future Funding Facility"), which the Company expects to be available to finance the redevelopment of properties in its portfolio from time to time, subject to satisfaction of certain conditions. No amounts were drawn under the Future Funding Facility as of June 30, 2016.

All outstanding principal and interest under the Mortgage Loans is due and payable on the payment dates and will mature on the payment date in July 2019, pursuant to the Loan Agreements. The Company has two one-year extension options subject to the payment of an extension fee and satisfaction of certain other conditions. Borrowings under the Mortgage Loans bear interest at the London Interbank Offered Rates ("LIBOR") plus, as of June 30, 2016, a weighted-average spread of 465 basis points; payments are made monthly on an interest-only basis. The weighted-average interest rates for the Mortgage Loans for the three and six months ended June 30, 2016 were 5.19% and 5.18%, respectively.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain statements contained herein constitute forward-looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are not guarantees of future performance. They represent our intentions, plans, expectations and beliefs and are subject to numerous assumptions, risks and uncertainties. Our future results, financial condition and business may differ materially from those expressed in these forward-looking statements. You can find many of these statements by looking for words such as "approximates," "believes," "expects," "anticipates," "estimates," "intends," "plans," "will," "would," "may" or other similar expressions in this Quarterly Report on Form 10-Q. Many of the factors that will determine the outcome of these and our other forward-looking statements are beyond our ability to control or predict. For further discussion of factors that could materially affect the outcome of our forward-looking statements, see "Risk Factors" in our Annual Report on Form 10-K for the period from July 7, 2015 (Date Operations Commenced) to December 31, 2015. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances occurring after the date of this Quarterly Report on Form 10-Q. The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto included in Part 1 of this Quarterly Report.

Overview

Seritage Growth Properties (NYSE: SRG), a Maryland real estate investment trust formed on June 3, 2015, is a fully integrated, self-administered and self-managed real estate investment trust ("REIT") as defined under Section 856(c) of the Internal Revenue Code (the "Code"). Seritage's assets are held by and its operations are primarily conducted through, directly or indirectly, the Operating Partnership. Under the partnership agreement of the Operating Partnership, Seritage, as the sole general partner, has exclusive responsibility and discretion in the management and control of the Operating Partnership. Unless otherwise expressly stated or the context otherwise requires, the "Company", "we," "us," and "our" as used herein refer to Seritage, the Operating Partnership, and its owned and controlled subsidiaries.

We are principally engaged in the acquisition, ownership, development, redevelopment, management, and leasing of diversified retail real estate throughout the United States. As of June 30, 2016, our portfolio included 42.4 million square feet of gross leasable area ("GLA"), consisting of 235 Wholly Owned Properties totaling 37.0 million square feet of GLA across 49 states and Puerto Rico, and interests in 31 JV Properties totaling over 5.4 million square feet of GLA across 17 states.

As of June 30, 2016, we leased a substantial majority of the space in our portfolio at all but 14 of the Wholly Owned Properties (such 14 properties, the "Third-Party Properties") to Sears Holdings under the Master Lease, with the remainder of such space leased to third-party tenants. The Third-Party Properties, which do not contain a Sears Holdings store or have any space leased to Sears Holdings, are leased solely to third-party tenants. A substantial majority of the space at the JV Properties is also leased to Sears Holdings under the JV Master Leases.

We generate revenues primarily by leasing our properties to tenants, including both Sears Holdings and third-party tenants, who operate retail stores (and potentially other uses) in the leased premises, a business model common to many publicly traded REITs. In addition to revenues generated under the Master Lease through rent payments from Sears Holdings, we generate revenue through leases to third-party tenants under existing and future leases for space at our properties.

The Master Lease provides us with the right to recapture up to approximately 50% of the space occupied by Sears Holdings at the 224 Wholly Owned Properties initially included in the Master Lease (subject to certain exceptions and limitations). In addition, Seritage has the right to recapture any automotive care centers which are free-standing or attached as "appendages" to the properties, and all outparcels or outlots and certain portions of parking areas and common areas. Upon exercise of this recapture right, we will generally incur certain costs and expenses for the separation of the recaptured space from the remaining Sears Holdings space and can reconfigure and rent the recaptured space to third-party tenants on potentially superior terms determined by us and for our own account. We also have the right to recapture 100% of the space occupied by Sears Holdings at each of 21 identified Wholly Owned Properties by making a specified lease termination payment to Sears Holdings, after which we expect to be able to reposition and re-lease those stores on potentially superior terms determined by us and for our own account. As of June 30, 2016, we had exercised recapture rights at nine properties, including three properties at which we held 100% recapture rights and four automotive care centers.

so much more to recapture and re-lease at materially higher rates

Retenanting and Redevelopment Projects

We are currently retenanting or redeveloping several properties primarily to convert single-tenant buildings occupied by Sears Holdings into multi-tenant properties occupied by a diversity of retailers and related concepts. The table below summarizes the Company's current redevelopment pipeline:

(dollars in thousands)

Property	Description	Total Project Square Feet	Total Estimated Dvlpmnt. Cost (1)	Total Estimated Project Cost (1)	Estimated Construction Start	Estimated Substantial Completion
King of Prussia, PA	Repurpose of former auto center space for Outback Steakhouse, Yard House and small shop retail	29,100	$ 3,900	$ 3,900	Underway	Q4 2016
Braintree, MA	100% recapture; redevelopment of existing building to be anchored by Nordstrom Rack and Saks Off 5th	90,000	11,700	12,100	Underway	Q4 2016
Honolulu, HI	100% recapture; redevelopment of existing building for Longs Drugs (CVS), PetSmart and Ross Dress for Less	79,000	8,500	19,700	Underway	Q2 2017
San Antonio, TX	Recapture and repurpose auto center space for Orvis, Jared's Jeweler and small shop retail	18,900	3,300	3,300	Underway	Q2 2017
Memphis, TN	100% recapture; demolish and construct new buildings for Nordstrom Rack, Ulta Beauty additional junior anchors, small shop retail and restaurants	135,200	24,100	25,200	Underway	Q3 2017
Ft. Wayne, IN	Site densification; new outparcel for BJ's Brewhouse	7,600	1,100	1,100	Q4 2016	Q2 2017
Albany, NY	Recapture and repurpose auto center space for BJ's Brewhouse and additional restaurants	28,000	5,700	5,700	Q4 2016	Q3 2017
Bowie, MD	Recapture and repurpose auto center space for BJ's Brewhouse	8,200	1,900	1,900	Q4 2016	Q3 2017
Hagerstown, MD	Recapture and repurpose auto center space for BJ's Brewhouse and additional restaurants	15,400	2,700	2,700	Q4 2016	Q4 2017
Wayne, NJ	Partial recapture; redevelopment of existing store to be anchored by Dave & Busters, additional junior anchors and restaurants	111,300	21,100	21,100	Q1 2017	Q4 2017
Fairfax, VA	Partial recapture; redevelopment of existing store and attached auto center for Dave & Busters, additional junior anchors and restaurants	110,300	18,600	18,600	Q1 2017	Q4 2017
Madison, WI	Partial recapture; redevelopment of existing store for Dave & Busters, additional junior anchors, small shop retail and restaurants	75,300	14,200	14,200	Q1 2017	Q4 2017
West Jordan, UT	Partial recapture; redevelopment of existing store and attached auto center for Burlington Stores and small shop retail	81,400	10,800	10,800	Q1 2017	Q4 2017
North Hollywood, CA	Partial recapture; redevelopment of existing store for Burlington Stores and additional retail	79,800	12,300	12,300	Q2 2017	Q1 2018
Orlando, FL	100% recapture; redevelopment of existing building to be anchored by Floor & Décor and Orchard Supply Hardware	139,200	19,600	19,900	Q2 2017	Q2 2018
Total		**1,008,700**	**$159,500**	**$172,500**		

(1) Total estimated development costs exclude, and total estimated project costs include, termination fees to recapture 100% of the property.

We plan to fund these projects with available cash balances, cash flow from operations, draws against the Future Funding Facility, and other potential capital raising activities.

The Company also acquired 15 retenanting or redevelopment projects that were in various stages of development at the closing of the Transaction. Of the 15 projects acquired by the Company, nine have been completed and delivered to tenants as of June 30, 2016. The remaining six projects, representing a total Company investment of approximately $11.3 million, are in process and have approximately $9.6 million remaining to be deployed as of June 30, 2016. Capital for these projects is held in a reserve account put in place at the closing of the Company's formation transaction and is included in restricted cash on the Company's condensed consolidated balance sheets.