

Section 1: 10-Q (10-Q)

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2019

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 000-55580

HIGHLANDS REIT, INC.

(Exact Name of Registrant as Specified in Its Charter)

Maryland
(State or Other Jurisdiction of
Incorporation or Organization)

81-0862795

(I.R.S. Employer Identification No.)

332 S Michigan Avenue, Ninth Floor
Chicago, Illinois
(Address of Principal Executive Offices)

60604
(Zip Code)

(312) 583-7990

(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. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging Growth Company
		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

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.

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock	N/A	N/A

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

As of May 6, 2019 there were 875,589,393 shares of the registrant's common stock outstanding.

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HIGHLANDS REIT, INC.**Condensed Consolidated Balance Sheets**

(Amounts in thousands, except share and per share amounts)

	March 31, 2019	December 31, 2018
	(Unaudited)	
Assets		
Investment properties		
Land	\$ 75,999	\$ 72,630
Building and other improvements	257,012	241,897
Construction in progress	41	32
Total	333,052	314,559
Less accumulated depreciation	(75,236)	(72,822)
Net investment properties	257,816	241,737
Cash and cash equivalents	99,990	80,512
Restricted cash and escrows	3,695	3,229
Accounts and rents receivable (net of allowance of \$1,156 and \$1,161)	6,494	5,861
Intangible assets, net	467	408
Deferred costs and other assets	4,212	4,233
Total assets	\$ 372,674	\$ 335,980
Liabilities		
Debt, net	\$ 74,871	\$ 34,953
Accounts payable and accrued expenses	7,883	11,653
Intangible liabilities, net	2,890	3,004
Other liabilities	2,020	2,270
Total liabilities	87,664	51,880
Commitments and contingencies		
Stockholders' Equity		
Common stock, \$0.01 par value, 1,000,000,000 shares authorized, 875,589,393 and 871,688,704 shares issued and outstanding as of March 31, 2019 and December 31, 2018, respectively	8,756	8,717
Additional paid-in capital	1,408,828	1,407,502
Accumulated distributions in excess of net income	(1,132,574)	(1,132,119)
Total stockholders' equity	285,010	284,100
Total liabilities and stockholders' equity	\$ 372,674	\$ 335,980

See accompanying notes to the condensed consolidated financial statements.

HIGHLANDS REIT, INC.**Condensed Consolidated Statements of Operations (unaudited)**
(Amounts in thousands, except share and per share amounts)

	Three Months Ended March 31,	
	2019	2018
Revenues		
Rental income	\$ 10,141	\$ 10,466
Other property income	116	179
Total revenues	\$ 10,257	\$ 10,645
Expenses		
Property operating expenses	1,904	2,304
Real estate taxes	1,306	1,474
Depreciation and amortization	2,730	3,131
General and administrative expenses	4,383	4,179
Total expenses	10,323	11,088
Gain on sale of investment properties, net	—	25
Loss from operations	\$ (66)	\$ (418)
Interest income	369	133
Interest expense	(758)	(706)
Loss before income taxes	(455)	(991)
Income tax benefit	—	155
Net loss	\$ (455)	\$ (836)
Net loss per common share, basic and diluted	\$ —	\$ —
Weighted average number of common shares outstanding, basic and diluted	873,379,003	870,102,100

See accompanying notes to the condensed consolidated financial statements.

HIGHLANDS REIT, INC.
Condensed Consolidated Statements of Equity (unaudited)
(Amounts in thousands, except share amounts)
Three Months Ended March 31, 2019 and 2018

	Common Stock		Additional Paid- in Capital	Accumulated Distributions in Excess of Net Income	Total
	Shares	Amount			
Balance at January 1, 2018	868,423,581	\$ 8,684	\$ 1,406,460	\$ (1,157,047)	\$ 258,097
Net loss	—	—	—	(836)	(836)
Share-based compensation	3,078,425	31	985	1	1,017
Common stock repurchased and retired	(116,334)	\$ (1)	\$ (40)	\$ —	\$ (41)
Balance at March 31, 2018	<u>871,385,672</u>	<u>\$ 8,714</u>	<u>\$ 1,407,405</u>	<u>\$ (1,157,882)</u>	<u>\$ 258,237</u>
Balance at January 1, 2019	871,688,704	\$ 8,717	\$ 1,407,502	\$ (1,132,119)	\$ 284,100
Net loss	—	—	—	(455)	(455)
Share-based compensation	3,900,689	\$ 39	\$ 1,326	\$ —	\$ 1,365
Balance at March 31, 2019	<u>875,589,393</u>	<u>\$ 8,756</u>	<u>\$ 1,408,828</u>	<u>\$ (1,132,574)</u>	<u>\$ 285,010</u>

See accompanying notes to the condensed consolidated financial statements.

HIGHLANDS REIT, INC.
Condensed Consolidated Statements of Cash Flow (unaudited)
(Amounts in thousands)

	Three Months Ended	
	March 31,	
	2019	2018
Cash flows from operating activities:		
Net loss	\$ (455)	\$ (836)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,730	3,129
Amortization of above and below market leases, net	(113)	(103)
Amortization of debt discounts and financing costs	38	21
Straight-line rental income	(392)	(54)
Gain on sale of investment properties, net	—	(25)
Non-cash stock-based compensation expense	1,994	1,851
Changes in assets and liabilities:		
Accounts and rents receivable	(242)	(425)
Deferred costs and other assets	(35)	(386)
Accounts payable and accrued expenses	(3,279)	(2,128)
Other liabilities	(250)	84
Net cash flows (used in) provided by operating activities	\$ (4)	\$ 1,128
Cash flows from investing activities:		
Capital expenditures and tenant improvements	(118)	(634)
Acquisition of investment properties, net	(7,621)	—
Proceeds from sale of investment properties	—	60
Payment of leasing fees	(17)	(219)
Net cash flows used in investing activities	\$ (7,756)	\$ (793)
Cash flows from financing activities:		
Payment of debt issuance costs	(392)	—
Proceeds from credit agreement	29,375	—
Principal payments of mortgage debt	(159)	(273)
Payment for tax withholding for share-based compensation	(1,120)	(876)
Net cash flows provided by (used in) financing activities	\$ 27,704	\$ (1,149)
Net increase (decrease) in cash and cash equivalents	\$ 19,944	\$ (814)
Cash, cash equivalents and restricted cash, at beginning of period	83,741	56,007
Cash, cash equivalents and restricted cash, at end of period	\$ 103,685	\$ 55,193

See accompanying notes to the condensed consolidated financial statements.

HIGHLANDS REIT, INC.**Condensed Consolidated Statements of Cash Flow (unaudited)**

(Dollar amounts in thousands)

	Three Months Ended March 31,	
	2019	2018
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 556	\$ 687
Cash paid for taxes	\$ 16	\$ 85
Supplemental schedule of non-cash investing and financing activities:		
Non-cash accruals for capital expense and investment in development	\$ —	\$ 427
Lease assets and liabilities arising from the recognition of right-of-use assets	\$ 303	\$ —
Assumption of mortgage debt on acquired properties	\$ 11,449	\$ —

See accompanying notes to the condensed consolidated financial statements.

HIGHLANDS REIT, INC.

Notes to Condensed Consolidated Financial Statements (unaudited)

(Amounts in thousands, except share and per share amounts)

March 31, 2019

The accompanying Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. Readers of this Quarterly Report should refer to the audited consolidated financial statements of Highlands REIT, Inc. for the year ended December 31, 2018, which are included in the Annual Report on Form 10-K, as filed with the U.S. Securities and Exchange Commission by Highlands REIT, Inc. on March 22, 2019, as certain note disclosures contained in such audited consolidated financial statements have been omitted from this Report. In the opinion of management, all adjustments (consisting of normal recurring accruals, except as otherwise noted) necessary for a fair presentation, and to make these financial statements not misleading, have been included in these financial statements.

1. Organization

Highlands REIT, Inc. (“Highlands”), which was formed in December 2015, is a Maryland corporation with a portfolio of office assets, industrial assets, retail assets, a correctional facility, multi-family assets, unimproved land and a bank branch. Prior to April 28, 2016, Highlands was a wholly-owned subsidiary of InvenTrust Properties Corp. (“InvenTrust” and formerly known as Inland American Real Estate Trust, Inc.).

On April 28, 2016, Highlands was spun-off from InvenTrust through a pro rata distribution by InvenTrust of 100% of the outstanding shares of common stock, \$0.01 par value per share (the “Common Stock”), of Highlands to holders of record of InvenTrust's common stock as of the close of business on April 25, 2016 (the “Record Date”). Each holder of record of InvenTrust's common stock received one share of Common Stock for every one share of InvenTrust's common stock held at the close of business on the Record Date (the “Distribution”). As a result, Highlands became an independent, self-advised, non-traded public company. Highlands has elected to be taxed, and currently qualifies, as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended (the “Code”) for U.S. federal income tax purposes commencing with Highlands' short taxable year ending December 31, 2016. In connection with the Distribution, Highlands entered into a Separation and Distribution Agreement, Transition Services Agreement and Employee Matters Agreement with InvenTrust.

Each asset is owned by a separate legal entity, which maintains its own books and financial records, and each entity's assets are not available to satisfy the liabilities of other affiliated entities, except as otherwise disclosed in Note 6.

As of March 31, 2019, the Company owned 17 assets and two parcels of unimproved land. As of December 31, 2018, the Company owned 15 assets and two parcels of unimproved land.

2. Summary of Significant Accounting Policies

The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Refer to the Company's audited consolidated financial statements for the year ended December 31, 2018 included in the Company's Annual Report on Form 10-K, filed with the U.S. Securities and Exchange Commission on March 22, 2019, as certain note disclosures contained in such audited financial statements have been omitted from these interim condensed consolidated financial statements.

Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of Highlands, as well as all of Highlands' wholly-owned subsidiaries (collectively, the “Company”). Wholly-owned subsidiaries generally consist of limited liability companies (LLCs) and limited partnerships (LPs). The effects of all significant intercompany transactions have been eliminated.

HIGHLANDS REIT, INC.

Notes to Condensed Consolidated Financial Statements (unaudited)

(Amounts in thousands, except share and per share amounts)

March 31, 2019

For the three months ended March 31, 2019 and 2018, comprehensive income equaled net income; therefore, separate condensed consolidated statements of comprehensive income are not included in the accompanying condensed consolidated financial statements.

Revenue Recognition

The Company commences revenue recognition on our leases based on a number of factors. In most cases, revenue recognition under a lease begins when the lessee takes possession of or controls the physical use of the leased asset. Generally, this occurs on the lease commencement date. The determination of who is the owner, for accounting purposes, of the tenant improvements determines the nature of the leased asset and when revenue recognition under a lease begins. If we are the owner, for accounting purposes, of the tenant improvements, then the leased asset is the finished space and revenue recognition begins when the lessee takes possession of the finished space, typically when the improvements are substantially complete. If we conclude we are not the owner, for accounting purposes, of the tenant improvements (the lessee is the owner), then the leased asset is the unimproved space and any tenant improvement allowances funded under the lease are treated as lease incentives which reduces revenue recognized over the term of the lease. In these circumstances, we begin revenue recognition when the lessee takes possession of the unimproved space for the lessee to construct their own improvements. We consider a number of different factors to evaluate whether the Company or the lessee is the owner of the tenant improvements for accounting purposes. These factors include:

- whether the lease stipulates how and on what a tenant improvement allowance may be spent;
- whether the tenant or landlord retains legal title to the improvements;
- the uniqueness of the improvements;
- the expected economic life of the tenant improvements relative to the length of the lease; and
- who constructs or directs the construction of the improvements.

The determination of who owns the tenant improvements, for accounting purposes, is subject to significant judgment. In making that determination, we consider all of the above factors. No one factor, however, necessarily establishes its determination.

Rental income is recognized on a straight-line basis over the term of each lease. The difference between rental income earned on a straight-line basis and the cash rent due under the provisions of the lease agreements is recorded as deferred rent receivable and is included as a component of accounts and rents receivable in the accompanying condensed consolidated balance sheets.

Rental income lease related receivables, which include contractual amounts accrued and unpaid from tenants and accrued straight-line rents receivable, are reduced for credit losses. Such amounts are recognized as a reduction to real estate rental revenues. We evaluate the collectability of lease receivables monthly using several factors including a lessee's creditworthiness. We recognize the credit loss on lease related receivables when, in the opinion of management, collection of substantially all lease payments is not probable. When collectability is determined not probable, any lease income subsequent to recognizing the credit loss is limited to the lesser of the lease income reflected on a straight-line basis or cash collected. The adoption of ASU 2016-02 resulted in an adjustment of \$92 to rental income and property operating expenses, associated with lease related receivables where collection of substantially all operating lease payments is not probable as of January 1, 2019. There were no material changes to that assessment as of March 31, 2019.

The Company records lease termination income if there is a signed termination agreement, all of the conditions of the agreement have been met and amounts due are considered collectible.

Real Estate

HIGHLANDS REIT, INC.

Notes to Condensed Consolidated Financial Statements (unaudited)

(Amounts in thousands, except share and per share amounts)

March 31, 2019

We allocate the purchase price of real estate to land, building, other building improvements, tenant improvements, and intangible assets and liabilities (such as the value of above- and below-market leases, in-place leases and origination costs associated with in-place leases). The values of above- and below-market leases are recorded as intangible assets, net, and intangible liabilities, net, respectively, in the condensed consolidated balance sheets, and are amortized as either a decrease (in the case of above-market leases) or an increase (in the case of below-market leases) to rental income over the remaining term of the associated tenant lease. The values associated with in-place leases are recorded in intangible assets, net in the condensed consolidated balance sheets and are amortized to depreciation and amortization expense in the condensed consolidated statements of operations over the remaining lease term. The difference between the contractual rental rates and our estimate of market rental rates is measured over a period equal to the remaining non-cancelable term of the leases, including below-market renewal options for which exercise of the renewal option appears to be reasonably assured. The remaining term of leases with renewal options at terms below market reflect the assumed exercise of such below-market renewal options and assume the amortization period would coincide with the extended lease term. We perform, with the assistance of a third-party certified valuation specialist, the following procedures for properties we acquire:

- Estimate the value of the property “as if vacant” as of the acquisition date;
- Allocate the value of the property among land, building, and other building improvements and determine the associated useful life for each;
- Calculate the value and associated life of above- and below-market leases on a tenant-by-tenant basis. The difference between the contractual rental rates and our estimate of market rental rates is measured over a period equal to the remaining term of the leases (using a discount rate which reflects the risks associated with the leases acquired, including geographical location, size of leased area, tenant profile and credit risk);
- Estimate the fair value of the tenant improvements, legal expenses and leasing commissions incurred to obtain the leases and calculate the associated useful life for each;
- Estimate the fair value of assumed debt, if any, and value the favorable or unfavorable debt position acquired; and
- Estimate the intangible value of the in-place leases based on lease execution costs of similar leases as well as lost rent payments during an assumed lease-up period and their associated useful lives on a tenant-by-tenant basis.

We recognize gains and losses from sales of investment properties and land in accordance with FASB ASC 610-20, “Gains and Losses From the Derecognition of Nonfinancial Assets.” We recognize gains and losses from sales of investment properties and land when we transfer control of a property and when it is probable that we will collect substantially all of the related consideration.

Capitalization and Depreciation

Real estate is reflected at cost less accumulated depreciation. Ordinary repairs and maintenance are expensed as incurred. Depreciation expense is computed using the straight-line method. Building and other improvements are depreciated based upon estimated useful lives of 30 years for building and improvements and 5-15 years for furniture, fixtures and equipment and site improvements. Tenant improvements are amortized on a straight-line basis over the lesser of the life of the tenant improvement or the lease term as a component of depreciation and amortization expense. Leasing fees are amortized on a straight-line basis over the life of the related lease as a component of depreciation and amortization expense. Loan fees are amortized on a straight-line basis, which approximates the effective interest method, over the life of the related loan as a component of interest expense. Direct and indirect costs that are clearly related to the construction and improvements of investment properties are capitalized. Costs incurred for property taxes and insurance are capitalized during periods in which activities necessary to get the asset ready for its intended use are in progress. Interest costs are also capitalized during such periods.

Assets Held for Sale

HIGHLANDS REIT, INC.

Notes to Condensed Consolidated Financial Statements (unaudited)

(Amounts in thousands, except share and per share amounts)

March 31, 2019

In determining whether to classify an investment property as held for sale, the Company considers whether: (i) management has committed to a plan to sell the investment property; (ii) the investment property is available for immediate sale, in its present condition; (iii) the Company has initiated a program to locate a buyer; (iv) the Company believes that the sale of the investment property is probable; (v) the Company has received a significant non-refundable deposit for the purchase of the property; (vi) the Company is actively marketing the investment property for sale at a price that is reasonable in relation to its fair value; and (vii) actions required for the Company to complete the plan indicate that it is unlikely that any significant changes will be made to the plan. If all of the above criteria are met, the Company classifies the investment property as held for sale. On the day that these criteria are met, the Company suspends depreciation on the investment properties held for sale, including depreciation for tenant improvements and additions, as well as on the amortization of acquired in-place leases. The investment properties and liabilities associated with those investment properties that are held for sale are classified separately on the condensed consolidated balance sheets for the most recent reporting period and recorded at the lesser of the carrying value or fair value less costs to sell.

There were no assets held for sale on the condensed consolidated balance sheet as of March 31, 2019 and December 31, 2018.

Impairment

The Company assesses the carrying values of the respective long-lived assets, whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be fully recoverable, such as a reduction in the expected holding period of the asset. If it is determined that the carrying value is not recoverable because the undiscounted cash flows do not exceed carrying value, the Company records an impairment loss to the extent that the carrying value exceeds fair value. The valuation and possible subsequent impairment of investment properties is a significant estimate that can and does change based on the Company's continuous process of analyzing each asset and reviewing assumptions about uncertain inherent factors, as well as the economic condition of the asset at a particular point in time. The use of projected future cash flows and related holding period is based on assumptions that are consistent with the estimates of future expectations and the strategic plan the Company uses to manage its underlying business. However, assumptions and estimates about future cash flows and capitalization rates are complex and subjective. Changes in economic and operating conditions and the Company's ultimate investment intent that occur subsequent to the impairment analyses could impact these assumptions and result in future impairment charges of the real estate assets.

Recently Issued Accounting Pronouncements

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. This ASU modifies the disclosure requirements on fair value measurements. The ASU removes the requirement to disclose: the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; the policy for timing of transfers between levels; and the valuation processes for Level 3 fair value measurements. Our effective date for adoption of this guidance is our fiscal year beginning January 1, 2020 with early adoption permitted. We are currently evaluating the effect that this guidance will have on our condensed consolidated financial statements.

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (“ASU 2016-02”), which established ASC 842, Leases, which introduces a lessee model that brings most leases on the balance sheet and, among other changes, eliminates the requirement in current GAAP for an entity to use bright-line tests in determining lease classification. ASC 842 allows for several practical expedients which permit the following: no reassessment of lease classification or initial direct costs; use of the standard's effective date as the date of initial application; and no separation of non-lease components from the related lease components and, instead, to account for those components as a single lease component if certain criteria are met. We elected these practical expedients, upon adoption, on January 1, 2019, using the effective date as our date of initial application. Therefore, financial information and disclosures under ASC 842 will not be provided for periods prior to January 1, 2019. The Company elected the practical expedient, among others, to not separate lease and non-lease components for all qualifying leases. Due to the new standard's narrowed definition of initial direct costs, beginning January 1, 2019, the Company recognizes expense as incurred on certain lease origination costs previously capitalized and amortized to expense over the lease

HIGHLANDS REIT, INC.**Notes to Condensed Consolidated Financial Statements (unaudited)**

(Amounts in thousands, except share and per share amounts)

March 31, 2019

term. Any costs no longer qualifying as initial direct costs are an increase to property operating expenses in the condensed consolidated statements of operations in the period of adoption and prospectively. As a lessee, the Company recognized a right-of-use asset and lease liability included in deferred costs and other assets and other liabilities, respectively, as of March 31, 2019, on the condensed consolidated balance sheet of approximately \$303, which was estimated by utilizing an average discount rate of approximately 4.5%, reflecting the Company's incremental borrowing rate. These estimates are based on the Company's ground lease arrangement as of March 31, 2019. As a lessor, the Company believes that substantially all of the Company's leases will continue to be classified as operating leases under the new standard and will continue to record revenues from rental properties on a straight-line basis. However, certain ground, anchor, and other long-term leases entered into or acquired have an increased likelihood of being classified as either sales-type or finance-type leases.

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments. ASU No. 2016-15 addresses eight specific cash flow issues with the objective of reducing diversity in practice. The cash flow issues include debt prepayment or debt extinguishment costs and proceeds from the settlement of insurance claims. The Company adopted ASU No. 2016-15 effective January 1, 2018. The impact to the statements of cash flow within the condensed consolidated financial statements for the three months ended March 31, 2019 and 2018, respectively, was not material.

In November 2016, the FASB issued ASU No. 2016-18, Classification and Presentation of Restricted Cash in the Statement of Cash Flows. ASU No. 2016-18 requires an explanation in the cash flow statement of a change in the total of (1) total cash, (2) cash equivalents, and (3) restricted cash or restricted cash equivalents. The Company adopted ASU No. 2016-18 effective January 1, 2018, the effects of which include presenting restricted cash and escrows with cash and cash equivalents in the condensed consolidated statements of cash flow. The Company is required to escrow cash balances for specific uses stipulated by certain of its lenders and other various agreements. As of March 31, 2019 and December 31, 2018, the Company's cash balances restricted for these uses were \$3,695 and \$3,229, respectively. The inclusion of restricted cash increased cash, cash equivalents and restricted cash, at the beginning of the year, in the condensed consolidated statement of cash flow by \$3,229 and \$2,155 as of January 1, 2019 and 2018, respectively, and cash, cash equivalents and restricted cash, by \$3,695 and \$3,229, as of March 31, 2019 and December 31, 2018, respectively.

	March 31, 2019	December 31, 2018
Cash and cash equivalents	\$ 99,990	\$ 80,512
Restricted cash	3,695	3,229
Total cash, cash equivalents and restricted cash	<u>\$ 103,685</u>	<u>\$ 83,741</u>

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (ASC 805) Clarifying the Definition of a Business (ASU 2017-01). ASU 2017-1 clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting, including acquisitions (including treatment of acquisition costs), disposals, goodwill, and consolidation. The guidance is effective for annual periods beginning after December 15, 2018, including interim periods within those periods. Early adoption of this standard is permitted. The Company early adopted ASU 2017-01 effective as of July 1, 2017, the effects of which were not material to the condensed consolidated financial statements.

In February 2017, the FASB issued ASU No. 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets. As it relates to gains on sale of real estate, we will apply the provisions of ASC 610-20, Gain or Loss From Derecognition of Non-financial Assets (ASC 610-20), and we expect to recognize any gains when we transfer control of a property and when it is probable that we will collect substantially all of the related consideration. The adoption of ASC 610-20 on January 1, 2018 did not have a material impact on our condensed consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07, Compensation – Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting. This ASU is intended to simplify aspects of share-based compensation issued to non-employees by making the guidance consistent with the accounting for employee share-based compensation. It is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2018. The adoption of ASU No. 2018-07 on January 1, 2019 did not have a material impact on our condensed consolidated financial statements.

HIGHLANDS REIT, INC.**Notes to Condensed Consolidated Financial Statements (unaudited)**

(Amounts in thousands, except share and per share amounts)

March 31, 2019**3. Acquired Properties**

The Company records identifiable assets and liabilities acquired at fair value. During the three months ended March 31, 2019, the Company acquired two multi-family assets for a gross acquisition price of \$19,070. Under ASU No. 2017-01, the Company determined these transactions should be accounted for as asset acquisitions. Accordingly, the Company capitalized transaction costs of approximately \$70.

4. Leases*Leasing as a lessor*

Revenue Recognition

We lease multifamily properties under operating leases with terms of generally one year or less. We lease commercial properties (our net lease, office and retail segments) under operating leases with an average term of approximately five years for the three months ended March 31, 2019 and ranging from four to ten years for the year ended December 31, 2018. We recognize rental income and rental abatements from our multifamily and commercial leases when earned on a straight-line basis over the lease term. Recognition of rental income commences when control of the leased space has been transferred to the tenant.

We recognize cost reimbursement income from pass-through expenses on an accrual basis over the periods in which the expenses were incurred. Pass-through expenses are comprised of real estate taxes, operating expenses and common area maintenance costs which are reimbursed by tenants in accordance with specific allowable costs per tenant lease agreements.

Parking revenues are derived from leases and monthly parking agreements. We recognize parking revenues from leases on a straight-line basis over the lease term and other parking revenues as earned.

Upon adoption of [ASU 2016-02](#), we elected not to bifurcate lease contracts into lease and non-lease components, since the timing and pattern of revenue is not materially different and the non-lease components are not the primary component of the lease. Accordingly, both lease and non-lease components are presented in rental income in our condensed consolidated financial statements. The adoption of [ASU 2016-02](#) did not result in a material change to our recognition of real estate rental revenue.

Lease related receivables, which include contractual amounts accrued and unpaid from tenants and accrued straight-line rents receivable, are reduced for credit losses. Such amounts are recognized as a reduction to real estate rental revenues. We evaluate the collectability of lease receivables monthly using several factors including a lessee's creditworthiness. We recognize the credit loss on lease related receivables when, in the opinion of management, collection of substantially all lease payments is not probable. While collectability is determined not probable, any lease income subsequent to recognizing the credit loss is limited to the lesser of the lease income reflected on a straight-line basis or cash collected.

Lease income related to the Company's operating leases is comprised of the following:

	Three Months Ended March 31,	
	2019	2018
Lease income related to fixed lease payments	\$ 8,203	\$ 8,515
Lease income related to variable lease payments	1,938	1,951
Other ⁽¹⁾	116	179
Lease income	\$ 10,257	\$ 10,645

(1) For the three months ended March 31, 2019 and 2018, respectively, other is primarily comprised of parking revenues and termination fees related to early lease expirations.

HIGHLANDS REIT, INC.**Notes to Condensed Consolidated Financial Statements (unaudited)**

(Amounts in thousands, except share and per share amounts)

March 31, 2019

Future Minimum Rental Income

As of March 31, 2019, commercial operating leases provide for future minimum rental income assuming no expiring leases are renewed, as follows. Apartment leases are not included as the terms are generally for one year or less.

2019	\$	20,985
2020		17,426
2021		14,130
2022		11,507
2023		10,439
Thereafter		36,382
Total	\$	110,869

As of December 31, 2018, commercial operating leases provide for future minimum rental income assuming no expiring leases are renewed, as follows:

2019	\$	27,551
2020		17,323
2021		14,014
2022		11,423
2023		10,358
Thereafter		36,357
Total	\$	117,026

Leasing as a Lessee

We lease a portion of the land underlying one of our retail assets, Sherman Plaza, from a third party through a ground lease covering such land with a lease term expiring in October 2042.

Upon adoption of [ASU 2016-02](#), we recognized a right of use asset (included in other assets) and lease liability (included in deferred costs and other liabilities) of \$303. We used a discount rate of approximately 4.5%, reflecting the Company's incremental borrowing rate.

The following table sets forth the undiscounted cash flows of our scheduled obligations for future minimum payments on our operating ground lease at March 31, 2019 and a reconciliation of those cash flows to the operating lease liability at March 31, 2019.

2019	\$	16
2020		21
2021		21
2022		21
2023		21
2024		21
Thereafter		373
		494
Imputed interest		(191)
Lease liability	\$	303

HIGHLANDS REIT, INC.

Notes to Condensed Consolidated Financial Statements (unaudited)

(Amounts in thousands, except share and per share amounts)

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The following table sets forth our scheduled obligations for future minimum payments on our operating ground lease at December 31, 2018.

2019	\$	21
2020		21
2021		21
2022		21
2023		21
2024		21
Thereafter		373
Total	\$	<u>499</u>

5. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following:

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
Accrued real estate taxes	\$ 5,837	\$ 5,669
Accrued compensation	950	3,232
Accrued interest payable	283	119
Other accrued expenses	813	2,633
	<u>\$ 7,883</u>	<u>\$ 11,653</u>

6. Debt

Total debt outstanding as of March 31, 2019 and December 31, 2018, net of unamortized deferred financing costs, was \$74,871 and \$34,953, respectively, and had a weighted average interest rate of 4.49% per annum. Deferred financing costs, net, as of March 31, 2019 and December 31, 2018 were \$1,469 and \$490, respectively. As of March 31, 2019, scheduled maturities for the Company's outstanding mortgage indebtedness and the credit facility had various due dates through December 2026, as follows:

For the year ended December 31,	<u>As of March 31, 2019</u>	<u>Weighted average interest rate</u>
2019	—	—%
2020	—	—%
2021	—	—%
2022	9,314	5.24%
Thereafter	67,026	4.39%
Total	<u>\$ 76,340</u>	<u>4.49%</u>

The Company's ability to pay off the mortgages when they become due is dependent upon the Company's ability either to refinance the related mortgage debt or to sell the related asset. With respect to each mortgage loan, if the applicable wholly-owned property-owning subsidiary is unable to refinance or sell the related asset, or in the event that the estimated asset value is less than the mortgage balance, the applicable wholly-owned property-owning subsidiary may, if appropriate, satisfy a mortgage obligation by transferring title of the asset to the lender or permitting a lender to foreclose.

HIGHLANDS REIT, INC.

Notes to Condensed Consolidated Financial Statements (unaudited)

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March 31, 2019

Some of the mortgage loans require compliance with certain covenants, such as debt service ratios, investment restrictions and distribution limitations. As of March 31, 2019 and December 31, 2018, the Company is in compliance with such covenants in all material respects.

The company assumed an allocated principal mortgage loan amount of \$11,449 in connection with the acquisition of The Detroit and Detroit Terraces on January 8, 2019. According to the terms of the note agreement, the contractual fixed interest rate is 3.99% and payments are interest only through September 30, 2022. The maturity date of the mortgage loan is on August 31, 2027.

On February 15, 2019, the Company entered into a Credit Agreement (the "Credit Agreement") by and among the Company, as borrower, The Huntington National Bank ("HNB"), individually and as administrative agent, issuing lender, lead arranger, book manager and syndication agent, and certain other lenders thereunder. The Credit Agreement provides for (i) a secured revolving credit facility (the "Revolving Credit Facility") with revolving commitments in an aggregate principal amount of \$50,000, including a letter of credit subfacility for 10% of the then available revolving commitments, and (ii) a secured term loan credit facility (the "Term Loan Facility" and together with the Revolving Credit Facility, the "Credit Facility") with term loan commitments in an aggregate principal amount of \$50,000.

The Credit Agreement provides that, subject to customary conditions, including obtaining lender commitments and compliance with its financial covenants under the Credit Agreement, the Company may seek to increase the aggregate lending commitments under the Credit Agreement by up to \$100,000, with such increase in total lending commitments to be allocated to increasing the revolving commitments and/or establishing one or more new tranches of term loans at the Company's request.

The Company currently expects to use borrowings under the Credit Facility for working capital purposes, repayment of indebtedness, capital expenditures, lease up costs, redevelopment costs, property acquisitions and other general corporate purposes. In connection with entering into the Credit Facility, the Company borrowed \$30.0 million under the Term Loan Facility as of March 31, 2019.

The Revolving Credit Facility has a maturity date of February 15, 2022, but can be extended at the Company's option for two additional one-year periods conditioned on, among other things, payment of a 15-basis points extension fee upon each such extension. The Term Loan Facility has a maturity date of February 15, 2024. The Company is permitted to prepay all or any portion of the loans under the Credit Facility prior to maturity without premium or penalty, subject to reimbursement of any LIBOR breakage costs of the lenders.

The interest rates applicable to loans under the Revolving Credit Facility are, at the Company's option, equal to either a base rate plus a margin ranging from 1.0% to 1.3% per annum or LIBOR plus a margin ranging from 2.0% to 2.3% per annum based on the debt to assets ratio of the Company and its consolidated subsidiaries. The interest rates applicable to loans under the Term Loan Facility are, at the Company's option, equal to either a base rate plus a margin ranging from 0.9% to 1.2% per annum or LIBOR plus a margin ranging from 1.9% to 2.2% per annum based on the debt to assets ratio of the Company and its consolidated subsidiaries. The Company has chosen the second option for the interest rate applicable to the current loan under the term loan facility during the three months ended March 31, 2019. In addition, the Company will pay (a) an unused facility fee on the revolving commitments under the Revolving Credit Facility ranging from 0.15% to 0.25% per annum, calculated daily based on the average unused commitments under the Revolving Credit Facility, and (b) with respect to any amount of the Term Loan Facility that remains undrawn during the period beginning thirty (30) days after the execution of the Credit Agreement and ending one year after execution of the Credit Agreement, an unused facility fee of 0.25% per annum, calculated daily based on the undrawn portion of the Term Loan Facility.

The Credit Facility is guaranteed, jointly and severally, by certain subsidiaries of the Company (the "Subsidiary Guarantors"), and is secured by a pledge of equity interests in the Subsidiary Guarantors. The Credit Agreement contains customary covenants that, among other things, restrict, subject to certain exceptions, the ability of the Company and its subsidiaries to incur indebtedness, grant liens on their assets, make certain types of investments, engage in acquisitions, mergers or consolidations, sell assets, enter into hedging transactions, enter into certain transactions with affiliates and make distributions. The Credit Agreement requires the Company to comply with financial covenants to be tested quarterly, including a maximum debt to asset value ratio, a minimum fixed charge coverage ratio, a minimum tangible net worth, a maximum variable rate debt to asset value ratio, a prohibition on recourse debt and a maximum amount of cross-collateralized non-

HIGHLANDS REIT, INC.**Notes to Condensed Consolidated Financial Statements (unaudited)**

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recourse debt. The Credit Agreement also contains certain covenants around the value and diversity of the properties owned by the Subsidiary Guarantors. The Credit Agreement also contains certain customary events of default, including the failure to make timely payments under the Credit Facility or other material indebtedness, the failure to satisfy certain covenants and specified events of bankruptcy and insolvency.

7. Fair Value Measurements

In accordance with ASC 820, Fair Value Measurement and Disclosures, the Company defines fair value based on the price that would be received upon sale of an asset or the exit price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company uses a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value. The fair value hierarchy consists of three broad levels, which are described below:

- Level 1 - Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.
- Level 2 - Observable inputs, other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The Company has estimated fair value using available market information and valuation methodologies the Company believes to be appropriate for these purposes. Considerable judgment and a high degree of subjectivity are involved in developing these estimates and, accordingly, they are not necessarily indicative of amounts that would be realized upon disposition.

Non-Recurring Measurements

During the three months ended March 31, 2019 and 2018, the Company did not identify any impairment triggers that required the assets to be measured at fair value.

Financial Instruments Not Measured at Fair Value

The table below represents the fair value of financial instruments presented at carrying values in the condensed consolidated financial statements as of March 31, 2019 and as of December 31, 2018.

	March 31, 2019		December 31, 2018	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Debt	\$ 76,340	\$ 79,738	\$ 35,443	\$ 35,222

The Company estimates the fair value of its debt instruments using a weighted average market effective interest rate of 3.47% and 4.70% per annum as of March 31, 2019 and December 31, 2018, respectively. The Company estimates the fair value of its mortgage loans and term loan facility by discounting the anticipated future cash flows of each instrument at rates currently offered to the Company by its lenders for similar debt instruments of comparable maturities. The rates used are based on credit spreads observed in the marketplace during the quarter for similar debt instruments, and a floor rate that the Company has derived using its subjective judgment for each asset segment. Based on this, the Company determines the appropriate rate for each of its individual mortgage loans and term loan facility based upon the specific terms of the agreement, including the term to maturity, the quality and nature of the underlying property and its leverage ratio. The weighted average market effective interest rates used range from 2.15% to 4.75% as of March 31, 2019. For certain debt, the Company estimates the fair value of debt instruments based on the fair value of the underlying collateral. The Company has determined that its debt instrument valuations are classified in Level 2 of the fair value hierarchy.

8. Income Taxes

The Company is taxed and operates in a manner that will allow the Company to continue to qualify as a REIT for U.S. federal income tax purposes. So long as it maintains its qualification as a REIT, the Company generally will not be subject to U.S. federal income tax on taxable income that is distributed to stockholders. A REIT is subject to a number of organizational and operational requirements, including a requirement that it distribute at least 90% of its REIT taxable income (subject to certain adjustments) to its stockholders each year. If the Company fails to continue to

qualify as a REIT in any taxable year, without the benefit of certain relief provisions, the Company will be subject to U.S. federal and state income tax on its taxable income at regular corporate tax rates and would not be able to re-elect REIT status during the four years following the year of the failure. Although the Company qualifies for taxation as a REIT, the Company may be subject to certain state and local taxes on its income and U.S. federal income and excise taxes on its undistributed income.

During the three months ended March 31, 2019 and March 31, 2018, an income tax benefit of \$0 and \$155, respectively, was included on the condensed consolidated statements of operations.

9. Segment Reporting

GAAP has established guidance for reporting information about a company's operating segments. The Company monitors and reviews its segment reporting structure in accordance guidance under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 280, Segment Reporting ("ASC 280") to determine whether any changes have occurred that would impact its reportable segments. During the year ended December 31, 2018, as a result of the evolution of the Company's operations and asset acquisitions, the Company has determined it no longer operates in three operating segments. The Company has concluded its multi-family assets now represent one operating segment. As a result of this change in the Company's segment reporting, the Company currently has four business segments, consisting of (i) net lease, (ii) retail, (iii) multi-tenant office and (iv) multi-family. The net lease segment consists of single-tenant office and industrial assets, as well as the Company's correctional facility. The Company's unimproved land assets are presented below in Other. The following table summarizes net property operations by segment for the three months ended March 31, 2019.

	<u>Total</u>	<u>Net Lease</u>	<u>Retail</u>	<u>Multi-Tenant Office</u>	<u>Multi-family</u>	<u>Other</u>
Rental income	\$ 10,141	\$ 3,180	\$ 4,992	\$ 753	\$ 1,216	\$ —
Other property income	116	—	21	—	95	—
Total income	10,257	3,180	5,013	753	1,311	—
Operating expenses	3,210	157	2,167	175	553	158
Net operating income (loss)	\$ 7,047	\$ 3,023	\$ 2,846	\$ 578	\$ 758	\$ (158)
Non-allocated expenses (a)	(7,113)					
Other income and expenses (b)	(389)					
Net loss	\$ (455)					
Balance Sheet Data						
Real estate assets, net (c)	\$ 258,284	\$ 35,927	\$ 113,941	\$ 26,808	\$ 72,130	\$ 9,478
Non-segmented assets (d)	114,390					
Total assets	\$ 372,674					
Capital expenditures	\$ 118	—	95	8	15	—

(a) Non-allocated expenses consist of general and administrative expenses and depreciation and amortization.

(b) Other income and expenses consists of interest income and interest expense

(c) Real estate assets include intangible assets, net of amortization.

HIGHLANDS REIT, INC.

Notes to Condensed Consolidated Financial Statements (unaudited)

(Amounts in thousands, except share and per share amounts)

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- (d) Non-segmented assets include cash and cash equivalents, restricted cash and escrows, accounts and rents receivable and deferred costs and other assets

The following table summarizes net property operations by segment for the three months ended March 31, 2018.

	Total	Net Lease	Retail	Multi-Tenant Office	Multi-family	Other
Rental income	\$ 10,466	\$ 3,185	\$ 6,063	\$ 921	\$ 297	\$ —
Other property income	179	—	9	87	83	—
Total income	10,645	3,185	6,072	1,008	380	—
Operating expenses	3,778	189	2,425	757	184	223
Net operating income (loss)	\$ 6,867	\$ 2,996	\$ 3,647	\$ 251	\$ 196	\$ (223)
Non-allocated expenses (a)	(7,310)					
Other income and expenses (b)	(418)					
Gain on sale of investment properties (c)	25					
Net loss	\$ (836)					
Balance Sheet Data						
Real estate assets, net (d)	\$ 264,030	\$ 42,024	\$ 146,652	\$ 46,461	\$ 19,239	\$ 9,654
Non-segmented assets (e)	63,327					
Total assets	\$ 327,357					
Capital expenditures	\$ 634	—	466	135	—	33

- (a) Non-allocated expenses consist of general and administrative expenses and depreciation and amortization.
- (b) Other income and expenses consist of other income, interest income, interest expense and income tax expense.
- (c) Gain on the sale of investment properties is related to a parcel of one retail asset
- (d) Real estate assets include intangible assets, net of amortization.
- (e) Non-segmented assets include cash and cash equivalents, restricted cash and escrows, accounts and rents receivable and deferred costs and other assets

HIGHLANDS REIT, INC.**Notes to Condensed Consolidated Financial Statements (unaudited)**

(Amounts in thousands, except share and per share amounts)

March 31, 2019**10. Earnings Per Share**

Basic earnings per common share is calculated by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share is calculated by dividing net income (loss) by the weighted-average number of common shares outstanding during the period, plus any additional common shares that would have been outstanding if the dilutive potential common shares had been issued.

The following table reconciles net loss attributable to the Company to basic and diluted EPS (in thousands, except share and per share data):

	Three Months Ended March 31,	
	2019	2018
Numerator:		
Net loss	\$ (455)	\$ (836)
Denominator:		
Weighted average shares outstanding - Basic and Diluted	873,379,003	870,102,100
Basic and diluted earnings per share:		
Loss per share	<u>\$ 0.00</u>	<u>\$ 0.00</u>

11. Share Based Compensation*Incentive Award Plan*

On April 28, 2016, the board of directors adopted, ratified and approved the Highlands REIT, Inc. 2016 Incentive Award Plan (the "Incentive Award Plan"), under which the Company may grant cash and equity-based incentive awards to eligible employees, directors, and consultants. Prior to the Company's spin-off from InvenTrust, the board of directors of the Company (then a wholly-owned subsidiary of InvenTrust) adopted, and InvenTrust, as the sole stockholder of Highlands, approved, the Incentive Awards Plan.

For the three months ended March 31, 2019, the Company granted 5,814,286 shares of common stock with an aggregate value of \$2,035 based on an estimated net asset value per share of \$0.35. Additionally, for accounting purposes, the Company granted shares with an aggregate value of \$250 that will vest in equal installments in August, 2019 and 2020, respectively, subject to the applicable executive's continued employment with the Company through the vest dates. During the three months ended March 31, 2018, the Company granted 5,621,212 of fully vested shares of common stock with an aggregate value of \$1,855 based on an estimated net asset value per share of \$0.33.

Under the Incentive Award Plan, the Company is authorized to grant up to 43,000,000 shares of the Company's common stock pursuant to awards under the plan. As of March 31, 2019, 17,751,153 shares were available for future issuance under the Incentive Award Plan. A summary of the Company's stock awards activity as of March 31, 2019 is as follows:

HIGHLANDS REIT, INC.**Notes to Condensed Consolidated Financial Statements (unaudited)**

(Amounts in thousands, except share and per share amounts)

March 31, 2019

Non-Vested stock awards	Stock Awards	Weighted Average Grant Date Fair Value
Balance at January 1, 2019	2,121,212	\$ 0.33
Granted	5,814,286	0.35
Vested	(7,100,000)	0.35
Other ⁽¹⁾	(121,212)	—
Balance at March 31, 2019	<u>714,286</u>	<u>\$ 0.35</u>

(1) Represents the change in the number of shares granted in 2018 based on an estimated net asset value per share of \$0.33 and the actual shares vested in 2019 based on an estimated net asset value per share of \$0.35.

For the three months ended March 31, 2019 and 2018, the Company recognized stock-based compensation expense of \$1,994 and \$1,855, respectively, related to the Incentive Award Plan. At March 31, 2019, there was approximately \$199 of estimated unrecognized compensation expense related to these awards, which is expected to be recognized through August 1, 2020. For the three months ended March 31, 2019 and 2018, the Company paid \$1,181 and \$876, respectively, related to tax withholding for share-based compensation.

The Company repurchased and retired 116,334 of fully vested shares previously awarded to an employee pursuant to a separation agreement during the three months ended March 31, 2018. The shares were repurchased for \$0.33 per share, which was based on the Company's announced estimated share value as of December 31, 2017.

12. Commitments and Contingencies

The Company is subject, from time to time, to various legal proceedings and claims that arise in the ordinary course of business. While the resolution of these matters cannot be predicted with certainty, management believes, based on currently available information, that the final outcome of such matters will not have a material adverse effect on the financial statements of the Company.

Highlands has also agreed to indemnify InvenTrust against all taxes related to the Company, its subsidiaries and its assets, including taxes attributable to periods prior to the separation and distribution. InvenTrust has agreed to indemnify the Company for any taxes attributable to a failure by InvenTrust or MB REIT (Florida), Inc., a subsidiary of the Company, to qualify as a REIT for any taxable year ending on or before December 31, 2016.

13. Subsequent Events*Acquisition of The View*

On April 5, 2019, the Company acquired The View, a 34-unit multi-family asset located in San Diego, California, for a purchase price of \$16,350.

Agreement of Purchase and Sale for Lincoln Mall

As previously reported, on February 13, 2019 the Company entered into an Agreement of Purchase and Sale (the "Lincoln PSA") with an affiliate of Acadia Strategic Opportunity Fund V LLC ("Lincoln Seller") pursuant to which the Company agreed to purchase certain property located in Lincoln, Rhode Island commonly known as the "Lincoln Center" for a gross sale price of \$57.0 million, subject to certain adjustments and prorations described in the Lincoln PSA. The Company and Lincoln Seller have subsequently entered into a number of amendments to the Lincoln PSA which have, among other things, lowered the gross purchase price payable by the Company under the Lincoln PSA to \$55.75 million.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with "Part I-Financial Information," and the historical consolidated financial statements, and related notes included elsewhere in our Annual Report on Form 10-K. The following discussion and analysis contains forward-looking statements based upon our current expectations, estimates and assumptions that involve risks and uncertainties. Our actual

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results could differ materially from those discussed in these forward-looking statements due to a variety of risks, uncertainties and other factors, including but not limited to, factors discussed in “Part I-Item 1A. Risk Factors” and “Disclosure Regarding Forward-Looking Statements in our Annual Report on Form 10-K.” The following discussion and analysis should be read in conjunction with the Company's Consolidated Financial Statements and accompanying notes, which appear in our Annual Report on Form 10-K.

Certain statements in this Quarterly Report on Form 10-Q, other than purely historical information, are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These statements include statements about Highlands’ plans, objectives, strategies, financial performance and outlook, trends, the amount and timing of future cash distributions, prospects or future events and involve known and unknown risks that are difficult to predict. As a result, our actual financial results, performance, achievements or prospects may differ materially from those expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements by the use of words such as “may,” “could,” “expect,” “intend,” “plan,” “seek,” “anticipate,” “believe,” “estimate,” “guidance,” “predict,” “potential,” “continue,” “likely,” “will,” “would,” “illustrative” and variations of these terms and similar expressions, or the negative of these terms or similar expressions. Such forward-looking statements are necessarily based upon estimates and assumptions that, while considered reasonable by Highlands and its management based on their knowledge and understanding of the business and industry, are inherently uncertain. These statements are not guarantees of future performance, and stockholders should not place undue reliance on forward-looking statements. There are a number of risks, uncertainties and other important factors, many of which are beyond our control, that could cause our actual results to differ materially from the forward-looking statements contained in this Quarterly Report on Form 10-Q. Such risks, uncertainties and other important factors include, among others: the risks, uncertainties and factors set forth in our filings with the U.S. Securities and Exchange Commission, including our Annual Report on Form 10-K; business, financial and operating risks inherent to real estate investments and the industry; our ability to renew leases, lease vacant space, or re-let space as leases expire; our ability to repay or refinance our debt as it comes due; difficulty selling or re-leasing our properties due to their specific characteristics as described elsewhere in this report; the business, financial and operating risks inherent to real estate investments; contraction in the global economy or low levels of economic growth; our ability to sell our assets at a price and on a timeline consistent with our investment objectives, or at all; our ability to service our debt; changes in interest rates and operating costs; compliance with regulatory regimes and local laws; uninsured or underinsured losses, including those relating to natural disasters or terrorism; our status as an emerging growth company; the amount of debt that we currently have or may incur in the future; provisions in our debt agreements that may restrict the operation of our business; our separation from InvenTrust and our ability to operate as a stand-alone public reporting company; our organizational and governance structure; our status as a REIT; the cost of compliance with and liabilities under environmental, health and safety laws; adverse litigation judgments or settlements; changes in real estate and zoning laws and increase in real property tax rates; changes in federal, state or local tax law, including legislative, administrative, regulatory or other actions affecting REITs; changes in governmental regulations or interpretations thereof; and estimates relating to our ability to make distributions to our stockholders in the future.

These factors are not necessarily all of the important factors that could cause our actual financial results, performance, achievements or prospects to differ materially from those expressed in or implied by any of our forward-looking statements. Other unknown or unpredictable factors also could harm our results. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements set forth above. Forward-looking statements speak only as of the date they are made, and we do not undertake or assume any obligation to update publicly any of these forward-looking statements to reflect actual results, new information or future events, changes in assumptions or changes in other factors affecting forward-looking statements, except to the extent required by applicable laws. If we update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

The following discussion and analysis should be read in conjunction with the Company's Condensed Consolidated Financial Statements and accompanying notes, which appear elsewhere in this Quarterly Report on Form 10-Q.

Overview

We are a self-advised and self-administered real estate investment trust (“REIT”) created to own and manage substantially all of the “non-core” assets previously owned and managed by our former parent, InvenTrust Properties Corp., a Maryland corporation (“InvenTrust”). On April 28, 2016, we were spun-off from InvenTrust through a pro rata distribution (the “Distribution”) by InvenTrust of 100% of the outstanding shares of our common stock to holders of InvenTrust’s common stock. Prior to or concurrent with the separation, we and InvenTrust engaged in certain reorganization transactions that were designed to consolidate substantially all of InvenTrust’s remaining “non-core” assets in Highlands.

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This portfolio of “non-core” assets, which were acquired by InvenTrust between 2005 and 2008, included assets that are special use, single tenant or build to suit; face unresolved legal issues; are in undesirable locations or in weak markets or submarkets; are aging or functionally obsolete; and/or have sub-optimal leasing metrics. A number of our assets are retail properties located in tertiary markets, which are particularly susceptible to the negative trends affecting retail real estate. As a result of these characteristics, such assets are difficult to lease, finance and refinance and are relatively illiquid compared to other types of real estate assets. These factors also significantly limit our asset disposition options, impact the timing of such dispositions and restrict the viable options available to the Company for a future potential liquidity event.

Our strategy is focused on preserving, protecting and maximizing the total value of our portfolio with the long-term objective of providing stockholders with a return of their investment. We engage in rigorous asset management, and seek to sustain and enhance our portfolio, and improve the quality and income-producing ability of our portfolio, by engaging in selective dispositions, acquisitions, capital expenditures, financing, refinancing and enhanced leasing. We are also focused on cost containment efforts across our portfolio, and improving our overall capital structure and making select investments in our existing “non-core” assets to maximize their value. To the extent we are able to generate cash flows from operations or dispositions of assets, in addition to the cash uses outlined above, our board of directors has determined that it is in the best interests of the Company to seek to reinvest in assets that are more likely to generate more reliable and stable cash flows, such as multi-family assets, as part of the Company’s overall strategy to optimize the value of the portfolio, enhance our options for a future potential liquidity event and maximize shareholder value. Given the nature and quality of the “non-core” assets in our portfolio as well as current market conditions, we expect this strategy will take multiple years to develop and execute.

As of March 31, 2019, our portfolio of assets consisted of one office asset, two industrial assets, five retail assets, seven multi-family assets, one correctional facility, two parcels of unimproved land and one bank branch. References to “Highlands,” “the Company,” “we” or “us” are to Highlands REIT, Inc., as well as all of Highlands’ wholly-owned subsidiaries. We currently have four business segments, consisting of (i) net lease, (ii) retail, (iii) multi-tenant office and (iv) multi-family. Our unimproved land assets are presented in “other.” We may have additional or fewer segments in the future to the extent we enter into additional real property sectors, dispose of property sectors, or change the character of our assets. For the complete presentation of our reportable segments, see Note 9 to our Condensed Consolidated Financial Statements for the quarters ended March 31, 2019, and 2018.

Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of Highlands REIT, Inc., as well as all of Highlands’ wholly-owned subsidiaries (collectively, the “Company”). Wholly-owned subsidiaries generally consist of limited liability companies (LLCs). The effects of all significant intercompany transactions have been eliminated.

Our Revenues and Expenses

Revenues

Our revenues are primarily derived from rental income and expense recoveries we receive from our tenants under leases with us, including monthly rent and other property income pursuant to tenant leases. Tenant recovery income primarily consists of reimbursements for real estate taxes, common area maintenance costs, management fees and insurance costs.

Expenses

Our expenses consist of property operating expenses, real estate taxes, depreciation and amortization expense, general and administrative expenses and provision for asset impairment. Property operating expenses primarily consist of repair and maintenance, management fees, utilities and insurance (in each case, some of which are recoverable from the tenant).

Key Indicators of Operating Performance

In evaluating our financial condition and operating performance, management focuses on the following financial and non-financial indicators, discussed in further detail herein:

- Cash flow from operations as determined in accordance with GAAP;
- Economic and physical occupancy and rental rates;
- Leasing activity and lease rollover;
- Management of operating expenses;
- Management of general and administrative expenses;
- Debt maturities and leverage ratios;
- Liquidity levels;
- Funds from operations (“FFO”), a supplemental non-GAAP measure; and
- Adjusted funds from operations (“AFFO”), a supplemental non-GAAP measure.

See “Selected Financial Data” for further discussion of the Company’s use, definitions and limitations of FFO and AFFO.

Acquisition Activity

On January 8, 2019, the Company acquired The Detroit Apartments and Detroit Terraces, two adjacent apartment buildings, located in Denver, Colorado, for a purchase price of \$19,070.0 million. See Note 3 to the condensed consolidated financial statements for additional information regarding acquired properties.

Results of Operations

Comparison of the three months ended March 31, 2019 and 2018

Key performance indicators are as follows:

	As of March 31,	
	2019	2018
Economic occupancy (a)	91.3%	82.6%
Rent per square foot (b)	\$ 16.26	\$ 15.41

(a) Economic occupancy is defined as the percentage of total gross leasable area for which a tenant is obligated to pay rent under the terms of its lease agreement, regardless of the actual use or occupation by the tenant of the area being leased. Actual use may be less than economic square footage.

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- (b) Rent per square foot is computed as annualized rent divided by the total occupied square footage at the end of the period. Annualized rent is computed as revenue for the last month of the period multiplied by twelve months. Annualized rent includes the effect of rent abatements, lease inducements and straight-line rent GAAP adjustments.

Condensed Consolidated Results of Operations

	(in thousands)			
	Three Months Ended March 31,			
	2019	2018	Increase (Decrease)	
Net loss	\$ (455)	\$ (836)	\$ (381)	45.6%

Net loss decreased by \$0.4 million to \$0.5 million for the three months ended March 31, 2019 from \$0.8 million for the three months ended March 31, 2018, primarily as a result of reductions in real estate taxes, depreciation and amortization and an increase in interest income, partially offset by an increase in general and administrative expense and a reduction in the income tax benefit.

Operating Income and Expenses

	(in thousands)			
	For the Three months ended March 31,			
	2019	2018	Increase (Decrease)	
Income:				
Rental income	\$ 10,141	\$ 10,466	\$ (325)	(3.1)%
Other property income	116	179	(63)	(35.2)%
Total revenues	10,257	10,645	(388)	(3.6)%
Operating Expenses:				
Property operating expenses	1,904	2,304	(400)	(17.4)%
Real estate taxes	1,306	1,474	(168)	(11.4)%
Depreciation and amortization	2,730	3,131	(401)	(12.8)%
General and administrative expenses	4,383	4,179	204	4.9 %

Property Income and Operating Expenses

Rental income consists of monthly rent, straight-line rent adjustments, and amortization of acquired above and below market leases, pursuant to tenant leases. Tenant recovery income consists of reimbursements for real estate taxes, common area maintenance costs, management fees, and insurance costs. Other property income consists of lease termination fees and other miscellaneous property income. Property operating expenses consist of regular repair and maintenance, management fees, utilities, and insurance (in each case, some of which are recoverable from the tenant).

Total revenues decreased by \$0.4 million in the three months ended March 31, 2019 compared to the same period in 2018 as a result of the disposition of the Triangle retail asset and the Bridgeside multi-tenant office asset during the fourth quarter of 2018. Partially offsetting these reductions is rental revenue related to three multi-family assets acquired during 2018 and an increase in occupancy at one of the office assets.

Property operating expenses decreased by \$0.4 million in the three months ended March 31, 2019 compared to the same period in 2018 primarily as a result of the factors discussed above.

Real Estate Taxes

Real estate taxes decreased by \$0.2 million during the three months ended March 31, 2019 compared to the same period in 2018 primarily as a result of the dispositions partially offset by the acquisitions mentioned above.

Depreciation and Amortization

Depreciation and amortization decreased by \$0.4 million for the three months ended March 31, 2019 compared to the same period in 2018 primarily as a result of the two asset dispositions discussed above partially offset by increases related to the multi-family asset acquisitions.

General Administrative Expenses

General and administrative expenses were primarily consistent in the three months ended March 31, 2019 compared to the same period in 2018.

Non-Operating Income and Expenses

	(in thousands)			
	For the Three months ended March 31,			
	2019	2018	Increase (Decrease)	
Non-operating income and expenses:				
Interest income	\$ 369	\$ 133	\$ 236	177.4 %
Gain on sale of investment properties, net	—	25	(25)	(100.0)%
Interest expense	(758)	(706)	52	(7.4)%
Income tax benefit	—	155	(155)	(100.0)%

Interest Income

Interest income increased by \$0.2 million during the three months ended March 31, 2019 as compared to the same period in 2018 as a result of an increase in cash balances during the first quarter of 2019 compared to 2018.

Gain on Sale of Investment Properties

During the quarter ended March 31, 2018, the gain on sale of investment properties was attributed to Highlands' sale of a vacant land parcel related to one of our retail assets. No such gains were recorded during the quarter ended March 31, 2019.

Interest Expense

Interest expense was primarily consistent in the three months ended March 31, 2019 compared to the same period in 2018.

Income Taxes

The Company accrues excise tax, if any, on estimated excess taxable income as taxable income is earned. For the three months ended March 31, 2018, an income tax benefit of \$155 was related to a change in estimates of a U.S. federal excise tax accrual based on changes in the estimated taxable income for the year ended December 31, 2017. During the three months ended March 31, 2019, an income tax benefit of \$0 was included on the condensed consolidated statements of operations.

Leasing Activity

Our primary source of funding for our property-level operating activities and debt payments is rent collected pursuant to our tenant leases. The following table represents lease expirations as of March 31, 2019:

Lease Expiration Year	Number of Expiring Leases	Gross Leasable Area (GLA) of Expiring Leases (Sq. Ft.)	Annualized Rent of Expiring Leases (in thousands)	Percent of Total GLA	Percent of Total Annualized Rent	Expiring Rent/Square Foot
2019	15	91,723	\$ 1,386,484	4.4%	4.1%	\$ 15.12
2020	37	531,851	13,731,988	25.4%	41.0%	25.82
2021	19	232,760	3,200,978	11.1%	9.6%	13.75
2022	11	220,410	3,033,395	10.5%	9.1%	13.76
2023	10	54,906	726,976	2.6%	2.2%	13.24
2024	9	170,064	1,903,043	8.1%	5.7%	11.19
2025	7	40,109	552,632	1.9%	1.6%	13.78
2026	9	36,655	821,449	1.8%	2.5%	22.41
2027	5	595,816	5,685,929	28.5%	17.0%	9.54
2028	7	38,459	883,988	1.8%	2.6%	22.99
MTM	3	12,125	178,625	0.6%	0.5%	14.73
Thereafter	8	68,953	1,400	3.3%	4.2%	20.31
Grand Total	140	2,093,831	\$ 33,506	100.0%	100.0%	\$ 16.00

The following table represents new and renewed leases that commenced in the three months ended March 31, 2019.

	# of Leases	Gross Leasable Area	Rent per square foot	Weighted Average Lease Term
New	2	7,967	\$ 18.72	5.96
Renewals	2	43,000	\$ 10.62	5.00
Total	4	50,967	\$ 11.89	5.15

During the three months ended March 31, 2019, four new leases and renewals commenced with gross leasable area totaling 50,967 square feet. The weighted average lease term for new and renewal leases was 5.96 and 5.00 years, respectively.

Liquidity and Capital Resources

As of March 31, 2019, we had \$100.0 million of cash and cash equivalents, and \$3.7 million of restricted cash and escrows.

Our principal demands for funds have been or may be:

- to pay the operating expenses of our assets;
- to pay our general and administrative expenses;
- to pay for acquisitions;
- to pay for capital commitments;
- to fund distributions;
- to service or pay-down our debt; and
- to fund capital expenditures and leasing related costs.

Generally, our cash needs have been and will be funded from:

- cash flows from our investment assets;

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- proceeds from sales of assets; and
- proceeds from debt.

Our assets have lease maturities within the next two years that are likely to reduce our cash flows from operations. In particular, 24.3% of our revenue for the three months ended March 31, 2019 is derived from a net lease with The GEO Group, Inc. on our Hudson correctional facility asset, which lease expires in January of 2020. There is no assurance that we will be able to re-lease this asset at comparable rates or on comparable terms, or at all.

We may, from time to time, repurchase our outstanding equity and/or debt securities, if any, through cash purchases or via other transactions. Such repurchases or transactions, if any, will depend on our liquidity requirements, contractual restrictions, and other factors. The amounts involved may be material.

Borrowings

The table below presents, on a condensed consolidated basis, the principal amount, weighted average interest rates and maturity date (by year) on our mortgage debt and debt from our credit facility, as of March 31, 2019 (dollar amounts are stated in thousands).

Debt maturing during the year ended December 31,	As of March 31, 2019	Weighted average interest rate, fixed
2019	\$ —	—%
2020	—	—%
2021	—	—%
2022	9,314	5.24%
Thereafter	67,026	4.39%
Total	<u>\$ 76,340</u>	<u>4.49%</u>

Our ability to pay off our mortgages when they become due is, in part, dependent upon our ability either to refinance the related mortgage debt or to sell the related asset. With respect to each mortgage loan, if the applicable wholly-owned property-owning subsidiary is unable to refinance or sell the related asset, or in the event that the estimated asset value is less than the mortgage balance, the applicable wholly-owned property-owning subsidiary may, if appropriate, satisfy a mortgage obligation by transferring title of the asset to the lender or permitting a lender to foreclose.

Volatility in the capital markets could expose us to the risk of not being able to borrow on terms and conditions acceptable to us for refinancing.

The Company assumed an allocated principal mortgage loan amount of \$11.4 million in connection with the acquisition of The Detroit and Detroit Terraces on January 8, 2019. According to the terms of the note agreement, the contractual fixed interest rate is 3.99% and payments are interest only through September 30, 2022. The maturity date of the mortgage loan is on August 31, 2027.

On February 15, 2019, we entered into the Credit Agreement with Huntington National Bank. The Credit Agreement provides for (i) a secured revolving credit facility (the “Revolving Credit Facility”) with revolving commitments in an aggregate principal amount of \$50.0 million, including a letter of credit subfacility for 10% of the then available revolving commitments, and (ii) a secured term loan credit facility (the “Term Loan Facility”) and together with the Revolving Credit Facility, the “Credit Facility”) with term loan commitments in an aggregate principal amount of \$50.0 million. The Revolving Credit Facility has a maturity date of February 15, 2022, but can be extended at the Company’s option for two additional one-year periods conditioned on, among other things, payment of a 15-basis points extension fee upon each such extension. The Term Loan Facility has a maturity date of February 15, 2024. The Company currently expects to use borrowings under the Credit Facility for working capital purposes, which may include repayment of indebtedness, capital expenditures, lease up costs, redevelopment costs, property acquisitions and other general corporate purposes. In connection with entering into the Credit Facility, the Company borrowed \$30.0 million under the Term Loan Facility.

Total debt outstanding as of March 31, 2019 and December 31, 2018 was \$76.3 million million and \$35.4 million, respectively, and had a weighted average interest rate of 4.49% and 4.74%, respectively, per annum.

Summary of Cash Flows

Comparison of the three months ended March 31, 2019 and 2018

	(in thousands)	
	Three Months Ended March 31,	
	2019	2018
Net cash flows (used in) provided by operating activities	\$ (4)	\$ 1,128
Net cash flows used in investing activities	(7,756)	(793)
Net cash flows provided by (used in) financing activities	27,704	(1,149)
Net increase (decrease) in cash and cash equivalents	19,944	(814)
Cash, cash equivalents and restricted cash, at beginning of period	83,741	56,007
Cash, cash equivalents and restricted cash, at end of period	\$ 103,685	\$ 55,193

Cash used in operating activities was \$0.0 million for the three months ended March 31, 2019 and provided by operating activities was \$1.1 million for the three months ended March 31, 2018. Cash provided by operating activities decreased \$1.1 million when comparing to the same period in 2018 primarily as a result of the disposition of assets during 2018.

Cash used in investing activities was \$7.8 million and \$0.8 million for the three months ended March 31, 2019 and 2018, respectively. Cash used in investing activities increased \$7.0 million when comparing to the same period in 2018, primarily as a result of the acquisition of the two multi-family assets during the first quarter of 2019.

Cash provided by financing activities was \$27.7 million for the three months ended March 31, 2019 compared to cash used financing activities of \$1.1 million for the three months ended March 31, 2018. Cash provided by financing activities for the three months ended March 31, 2019 was primarily related to borrowings in the amount of \$30.0 million related to the Credit Facility with HNB. See also Note 6 to the condensed consolidated financial statements for a summary of the Credit Agreement. Cash used in financing activities for the three months ended March 31, 2018 was primarily related to principal payments on mortgage debt of \$0.3 million and the payment for tax withholding on share-based compensation of \$0.9 million.

We consider all demand deposits, money market accounts and investments in certificates of deposit and repurchase agreements with a maturity of three months or less, at the date of purchase, to be cash equivalents. We maintain our cash and cash equivalents at financial institutions. The condensed account balances at one or more institutions exceed the Federal Depository Insurance Corporation ("FDIC") insurance coverage and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage.

Distributions

For the three months ended March 31, 2019 and 2018, no cash distributions were paid by Highlands.

Off-Balance Sheet Arrangements

As of March 31, 2019 and December 31, 2018, we had no off-balance sheet arrangements.

Selected Financial Data

The following table shows our condensed consolidated selected financial data relating to our condensed consolidated historical financial condition and results of operations. Such selected data should be read in conjunction with the condensed consolidated financial statements and related notes appearing elsewhere in this report (dollar amounts are stated in thousands, except per share amounts).

	As of	
	March 31, 2019	December 31, 2018
Balance Sheet Data:		
Total assets	\$ 372,674	\$ 335,980
Debt, net	\$ 74,871	\$ 34,953
	Three Months Ended March 31,	
	2019	2018
Operating Data:		

Total revenues	\$	10,257	\$	10,645
Net loss	\$	(455)	\$	(836)
Net loss per common share, basic and diluted	\$	(0.00)	\$	(0.00)
Balance Sheet Data:				
Cash, cash equivalents and restricted cash	\$	103,685	\$	55,193
Long-term obligations (a)	\$	76,340	\$	55,612
Supplemental Measures (unaudited):				
Funds from operations and adjusted funds from operations	\$	2,275	\$	2,268
Cash Flow Data:				
Net cash flows (used in) provided by operating activities	\$	(4)	\$	1,128
Net cash flows used in investing activities	\$	(7,756)	\$	(793)
Net cash flows provided by (used in) financing activities	\$	27,704	\$	(1,149)

(a) Includes mortgages payable.

(b) The National Association of Real Estate Investment Trusts (“NAREIT”), an industry trade group, has promulgated a non-GAAP financial measure known as Funds From Operations, or FFO. As defined by NAREIT, FFO is net income (loss) in accordance with GAAP excluding gains (or losses) resulting from dispositions of properties, plus depreciation and amortization and impairment charges on depreciable property. We have adopted the NAREIT definition in our calculation of FFO as management considers FFO a widely accepted and appropriate measure of performance for REITs. FFO is not equivalent to our net income or loss as determined under GAAP.

Since the definition of FFO was promulgated by NAREIT, management and many investors and analysts have considered the presentation of FFO alone to be insufficient. Accordingly, in addition to FFO, we also use Adjusted Funds From Operations, or AFFO as a measure of our operating performance. We define AFFO, a non-GAAP financial measure, to exclude from FFO adjustments for gains or losses related to early extinguishment of debt instruments as these items are not related to our continuing operations. By excluding these items, management believes that AFFO provides supplemental information related to sustainable operations that will be more comparable between other reporting periods and to other public, non-traded REITs. AFFO is not equivalent to our net income or loss as determined under GAAP.

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In calculating FFO and AFFO, impairment charges of depreciable real estate assets are added back even though the impairment charge may represent a permanent decline in value due to decreased operating performance of the applicable property. Further, because gains and losses from sales of property are excluded from FFO and AFFO, it is consistent and appropriate that impairments, which are often early recognition of losses on prospective sales of property, also be excluded.

We believe that FFO and AFFO are useful measures of our properties' operating performance because they exclude noncash items from GAAP net income. Neither FFO nor AFFO is intended to be an alternative to "net income" nor to "cash flows from operating activities" as determined by GAAP as a measure of our capacity to pay distributions. Other REITs may use alternative methodologies for calculating similarly titled measures, which may not be comparable to our calculation of FFO and AFFO. The following section presents our calculation of FFO and AFFO to net income (in thousands):

	Three Months Ended March 31,	
	2019	2018
Net loss	\$ (455)	\$ (836)
Depreciation and amortization	2,730	3,131
Gain on sale of investment properties, net	—	(25)
Funds from operations and adjusted funds from operations	<u>\$ 2,275</u>	<u>\$ 2,268</u>

Use and Limitations of Non-GAAP Financial Measures

FFO and AFFO do not represent cash generated from operating activities under GAAP and should not be considered as an alternative to net income or loss, operating profit, cash flows from operations or any other operating performance measure prescribed by GAAP. Although we present and use FFO and AFFO because we believe they are useful to investors in evaluating and facilitating comparisons of our operating performance between periods and between REITs that report similar measures, the use of this non-GAAP measure has certain limitations as an analytical tool. This non-GAAP financial measure is not a measure of our liquidity, nor is it indicative of funds available to fund our cash needs, including our ability to fund capital expenditures, contractual commitments, working capital, service debt or make cash distributions. This measurement does not reflect cash expenditures for long-term assets and other items that we have incurred and will incur. This non-GAAP financial measure may include funds that may not be available for management's discretionary use due to functional requirements to conserve funds for capital expenditures, property acquisitions and other commitments and uncertainties. This non-GAAP financial measure, as presented, may not be comparable to non-GAAP financial measures as calculated by other real estate companies. Additionally, the Company believes the information included in the above table provides useful supplemental information that may facilitate comparisons of the Company's ongoing operating performance between periods, as well as between REITs that include similar disclosure.

We compensate for these limitations by separately considering the impact of these excluded items to the extent they are material to operating decisions or assessments of our operating performance. Our reconciliation to the most comparable GAAP financial measures, and our condensed consolidated statements of operations and cash flows, include interest expense, capital expenditures and other excluded items, all of which should be considered when evaluating our performance, as well as the usefulness of our non-GAAP financial measure. This non-GAAP financial measure reflects an additional way of viewing our operations that we believe, when viewed with our GAAP results and the reconciliation to the corresponding GAAP financial measure, provides a more complete understanding of factors and trends affecting our business than could be obtained absent this disclosure. We strongly encourage investors to review our financial information in its entirety and not to rely on a single financial measure.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As required by Rule 13a-15(b) and Rule 15d-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), our management, including our principal executive officer and our principal financial officer evaluated, as of March 31, 2019, the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and Rule 15d-15(e) of the Exchange Act. Based on that evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures, as of March 31, 2019, were effective at a reasonable assurance level for the purpose of ensuring that information required to be disclosed by us in this Quarterly Report is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the Exchange Act and is accumulated and communicated to management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting.

There has been no change in the Company's internal control over financial reporting during the quarter ended March 31, 2019 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II.

Item 1. Legal Proceedings

We are from time to time involved in legal actions arising in the ordinary course of business. We are not currently involved in any legal or administrative proceedings that we believe are likely to have a material adverse effect on our business, results of operations or financial condition.

Item 1A. Risk Factors

Not applicable.

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

The exhibits filed in response to Item 601 of Regulation S-K are listed on the Exhibit Index attached hereto and are incorporated herein by reference.

EXHIBIT NO.	DESCRIPTION
3.1	Articles of Amendment and Restatement of Highlands REIT, Inc. (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8, filed with the Securities and Exchange Commission on April 27, 2016)
3.2	Amended and Restated Bylaws of Highlands REIT, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on April 28, 2016)
10.1*	Agreement of Purchase and Sale, dated February 13, 2019, by and among MB Lincoln Mall, LLC, as seller, and Lincoln Mall Owner, LLC., as purchaser
10.2	Credit Agreement, dated February 15, 2019, by and among Highlands REIT, Inc., a Maryland corporation, as borrower, and certain of its subsidiaries, as guarantors, The Huntington National Bank, certain other lending institutions party thereto, as lenders, and The Huntington National Bank, as administrative agent and as issuing lender, lead arranger, book manager and syndication agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 21, 2019)
31.1*	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Link Document

* Filed as part of this Quarterly Report on Form 10-Q.

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 duly authorized.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Richard Vance</u> Richard Vance	President and Chief Executive Officer (Principal Executive Officer)	May 10, 2019
<u>/s/ Paul Melkus</u> Paul Melkus	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	May 10, 2019

Section 2: EX-10.1 (EXHIBIT 10.1)

AGREEMENT OF PURCHASE AND SALE

between

MB LINCOLN MALL, L.L.C.,
a Delaware limited liability company

and

LINCOLN MALL OWNER LLC,
a Delaware limited liability company

Dated as of February 13, 2019

LINCOLN MALL
Lincoln, Rhode Island

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- 13.21 Construction
- 13.22 No Third Party Benefits
- 13.23 Waiver
- 13.24 Waiver of Trial by Jury
- 13.25 Mortgage Recording Tax
- 13.26 Regulation S-X

EXHIBITS

- EXHIBIT A LEGAL DESCRIPTION OF LAND
- EXHIBIT B LEASE INFORMATION, RENT ROLL AND SECURITY DEPOSITS
- EXHIBIT C DEED
- EXHIBIT D SERVICE CONTRACTS
- EXHIBIT E CLAIMS
- EXHIBIT F INTENTIONALLY OMITTED
- EXHIBIT G FORM OF ESTOPPEL CERTIFICATE
- EXHIBIT H BILL OF SALE
- EXHIBIT I SELLER'S CLOSING CERTIFICATE
- EXHIBIT J NOTICE TO TENANTS
- EXHIBIT K ASSIGNMENT AND ASSUMPTION OF LEASES AND SECURITY DEPOSITS
- EXHIBIT L ASSIGNMENT AND ASSUMPTION OF SERVICE CONTRACTS AND EQUIPMENT LEASES
- EXHIBIT M FIRPTA CERTIFICATE
- EXHIBIT N NOTICE TO CONTRACTORS
- EXHIBIT O NOTICE TO UTILITY COMPANIES

AGREEMENT OF PURCHASE AND SALE

THIS AGREEMENT OF PURCHASE AND SALE (this “**Agreement**”) is made and entered into this 13th day of February, 2019 (the “**Effective Date**”), by and between MB LINCOLN MALL, L.L.C., a Delaware limited liability company, having an office at 332 S. Michigan Avenue, Ninth Floor, Chicago, Illinois 60604 (“**Seller**”), and LINCOLN MALL OWNER LLC, a Delaware limited liability company, having an office at c/o Acadia Realty Trust, 411 Theodore Fremd Avenue, Suite 300, Rye, New York 10580 (“**Purchaser**”).

RECITALS:

WHEREAS, Seller is the owner of the property commonly known as the Lincoln Mall, located at 622 George Washington Highway, in Lincoln, Rhode Island; and

WHEREAS, Seller desires to sell and convey to Purchaser, and Purchaser desires to purchase from Seller such property on the terms and conditions set forth herein;

NOW, THEREFORE, for and in consideration of the foregoing premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Seller and Purchaser do hereby agree as follows:

Article 1

INCORPORATION/INTEREST INCLUDED IN SALE

1. Incorporation/Interest Included In Sale

1.1 **Incorporation**. The preambles to this Agreement are fully incorporated herein by this reference thereto with the same force and effect as though restated herein.

1.2 **Sale of Property**. Seller agrees to sell and convey to Purchaser and Purchaser agrees to purchase from Seller for the Purchase Price (as defined in **Section 2** hereof) and upon the terms and conditions hereinafter set forth, the following:

(a) **Land**. That certain tract of land owned in fee simple by Seller, which is described in **Exhibit A** attached hereto (the “**Land**”), together with all rights, outlots, easements and interests appurtenant thereto, if any, including, but not limited to, any streets, sidewalks, alleys or other public ways adjacent to the Land and owned by Seller and any water or mineral rights owned by Seller.

(b) **Improvements**. All buildings, improvements, fixtures and structures now or hereafter located on the Land, other than those improvements and fixtures that are owned by Tenants (as hereinafter defined) (the “**Improvements**”).

(c) **Leases**. Seller’s interest as landlord under the leases and any lease amendments, modifications, guarantees, security deposits, letters of credit and other documents relating thereto described on **Exhibit B** (each a “**Lease**” and collectively, the “**Leases**”) with the Tenants (as hereinafter defined).

(d) **Personal Property**. All personal property and other tangible property, now or hereafter located on the Land or in the Improvements and owned by Seller and used in connection with the Property (the “**Personal Property**”).

(e) **Intangible Property**. All of the following, if any, in the possession or control of Seller: warranties (including, without limitation, roof warranties), guarantees, executory and service contracts (to the extent that such service contracts are assumed by Purchaser in writing as of Closing, collectively, the “**Executory Contracts**”), as-built plans and specifications for the Improvements, existing surveys, copies of any records and files pertaining to the ownership and operation of the Property (as defined below), and all licenses, copyrights, trademarks and permits, to which Seller is a party or as to which it has the benefit, relating to the Improvements or Personal Property, to the extent assignable (collectively, the “**Intangible Property**”). Seller hereby agrees to execute any documents additional to those provided for in this Agreement necessary to convey the Intangible Property to Purchaser, provided that such documents do not impose any additional liability or expense upon Seller in excess of that provided for in this Agreement.

(f) **Appurtenances.** All rights, title and interest of Seller, if any, and without any warranty by Seller whatsoever, in all privileges, easements and appurtenances relating to the Land and the Improvements, including, without limitation (1) mineral, mining and water rights, (2) development rights and air rights, (3) easements, rights-of-way and other appurtenances used or connected with the beneficial use or enjoyment of the Land and the Improvements, including, without limitation, (i) access to a public way, (ii) right, title and interest in and to any land lying in the bed of any street, road or avenue opened or proposed, appurtenant to, abutting or adjoining the Land, to the center line thereof, (iii) right, title and interest in and to any award made or to be made in lieu thereof, and in and to any unpaid award for damage to the Land by reason of change of any grade of any street and (iv) any certificates of occupancy, special exceptions, variances or site plan approvals or other authorizations issued or granted by any governmental authority (collectively, the “**Appurtenances**”).

The Land, Improvements, Leases, Personal Property, Executory Contracts, Intangible Property and Appurtenances are sometimes hereafter collectively referred to as the “**Property**”.

Article 2

PURCHASE PRICE

2. **Purchase Price.** The purchase price (the “**Purchase Price**”) for the Property is the sum of Fifty-Seven Million and 00/100 Dollars (\$57,000,000.00), payable by Purchaser to Seller as follows:

(a) **Deposit.** Within three (3) Business Days after the Effective Date, the sum of Two Million and 00/100 Dollars (\$2,000,000.00) (together with interest earned thereon, the “**Deposit**”) shall be paid by electronic wire transfer of immediately available federal funds to an account with Kensington Vanguard National Land Services (“**Escrow Agent**”). In the event that such funds are not received by Escrow Agent within three (3) Business Days after the Effective Date, then Seller, at its sole option, may cancel this Agreement. For purposes of this Agreement, “**Business Day**” shall mean any day of the week other than (i) Saturday and Sunday, or (ii) a day on which banking institutions in New York, New York are obligated or authorized by law or executive action to be closed to the transaction of normal banking business.

(b) **Balance of Purchase Price.** On the Closing Date (as defined in **Section 3.1**), the Purchase Price, less the Deposit, subject to adjustment and proration pursuant to **Article 8** below, to be paid by electronic wire transfer of immediately available federal funds pursuant to wiring instructions to be given by Escrow Agent or as Escrow Agent may direct to Purchaser prior to the Closing. Any interest earned on the Deposit shall be credited to Purchaser against the Purchase Price.

2.1 **Deposit Provisions.**

(a) Upon the Closing, Escrow Agent is authorized and directed to pay the Deposit to Seller (or as Seller may direct) by the method of payment instructed by Seller.

(b) Upon receipt by Escrow Agent prior to the end of the Inspection Period (as hereinafter defined) of notice from Purchaser to Seller stating that Purchaser has terminated this Agreement pursuant to its rights under the Inspection Period, Escrow Agent shall deliver the Deposit to Purchaser.

(c) Upon receipt of a written notice from Seller stating that Seller is entitled under this Agreement to the Deposit and demanding payment of the same, Escrow Agent shall deliver the Deposit to Seller, subject, however, to the conditions set forth in subparagraph (g) below.

(d) Upon receipt of a written notice from Purchaser, stating that Purchaser is entitled under this Agreement to the return of the Deposit (other than as set forth in subparagraph (b) above) and demanding payment of the same, Escrow Agent shall deliver the Deposit to Purchaser, subject, however, to the conditions set forth in subparagraph (g) below.

(e) Upon Purchaser’s request and the receipt of a Form W-9 from Purchaser, Escrow Agent shall invest and reinvest the proceeds of the Deposit, and any interest earned thereon, in an interest bearing account bearing interest at a rate determined by the applicable investing bank institution. The party entitled to receive the interest earned on the Deposit shall pay all income taxes owed in connection therewith. The employer identification numbers of Seller and Purchaser are respectively set forth on the signature page hereof.

(f) Escrow Agent, by signing this Agreement at the end hereof where indicated, signifies its agreement to hold the Deposit for the purposes as provided in this Agreement. In the event of any dispute, Escrow Agent shall have the right to deposit

the Deposit in court to await the resolution of such dispute. Escrow Agent shall give prompt notice of such deposit to Seller and Purchaser. Escrow Agent shall not incur any liability by reason of any action or non-action taken by it in good faith or pursuant to the judgment or order of a court of competent jurisdiction. Escrow Agent shall have the right to rely upon the genuineness of all certificates, notices and instruments delivered to it pursuant hereto, and all the signatures thereto or to any other writing received by Escrow Agent purporting to be signed by any party hereto, and upon the truth of the contents thereof.

(g) Except as otherwise provided for in **Section 2.1(b)**, Escrow Agent shall not pay or deliver the Deposit to any party unless written demand is made therefor and a copy of such written demand is delivered to the other party. If Escrow Agent does not receive a written objection from the other party to the proposed payment or delivery within five (5) Business Days after such demand is served in accordance with **Section 13.2** on such party, Escrow Agent is hereby authorized and directed to make such payment or delivery. If Escrow Agent does receive such written objection within such five (5) Business Day period or if for any other reason Escrow Agent in good faith shall elect not to make such payment or delivery, Escrow Agent shall forward a copy of the objections, if any, to the other party or parties, and continue to hold the Deposit unless otherwise directed by written instructions from the parties to this Agreement or by a judgment of a court of competent jurisdiction. In any event, Escrow Agent shall have the right to refrain from taking any further action with respect to the subject matter of the escrow until it is reasonably satisfied that such dispute is resolved or action by Escrow Agent is required by an order or judgment of a court of competent jurisdiction.

(h) In the event of a dispute between Seller and Purchaser regarding the disposition of the Deposit, Escrow Agent shall be entitled to consult with counsel in connection with its duties hereunder. Seller and Purchaser, jointly and severally, agree to reimburse Escrow Agent, upon demand, for the reasonable costs and expenses including attorneys' fees incurred by Escrow Agent in connection with its acting in its capacity as Escrow Agent. Each of Purchaser and Seller jointly and severally agree to and do hereby indemnify and hold harmless Escrow Agent from all suits, actions, loss, costs, claims, damages, liabilities, and expenses which are incurred by reason of its acting as Escrow Agent unless same was caused by the gross negligence or willful misconduct of the Escrow Agent. Escrow Agent may charge against the Deposit any amounts owed to it under the foregoing indemnity. In the event of litigation relating to the subject matter of the escrow, whichever of Seller or Purchaser is not the prevailing party shall reimburse the prevailing party for any costs and fees paid by the prevailing party or paid from the escrowed funds to Escrow Agent in accordance with the aforementioned sentence.

(i) Escrow Agent shall have no liability of any kind whatsoever arising out of or in connection with its activity as Escrow Agent including but not limited to: (i) any loss, cost or damage which Escrow Agent may incur as a result of serving as escrow agent hereunder, except for any loss, costs or damage arising out of its own willful misconduct or gross negligence; or (ii) any loss or impairment of the Deposit deposited with a federally insured financial institution, to the extent resulting from the failure, insolvency, or suspension of the depository (except, in all cases, to the extent arising from the willful misconduct or gross negligence of Escrow Agent). Purchaser and Seller acknowledge that they are aware that the Federal Deposit Insurance Corporation (FDIC) coverage applies only to a cumulative maximum amount for each individual depositor for all of depositor's accounts at the same or related institution. Purchaser and Seller are further aware that Escrow Agent is not responsible for levies by taxing authorities based upon the taxpayer identification number used to establish this interest bearing account.

Article 3

CLOSING

3. Closing.

Subject to the adjournments expressly allowed in this Agreement, the closing of title (the "**Closing**") shall take place, time being of the essence, ten (10) Business Days after the expiration of the Inspection Period (as hereinafter defined); provided, however, that Purchaser shall have the right to adjourn the Closing from time to time for up to ten (10) Business Days, in the aggregate, following the date originally scheduled for the Closing at no additional cost. The Closing shall take place by escrow deliveries of documents and funds to the Title Company (as hereinafter defined) (the actual date of closing is herein referred to as the "**Closing Date**") pursuant to reasonably acceptable escrow instructions that will provide, among other things, that the transfer documents will be released only upon the Title Company being unconditionally prepared to deliver to Purchaser (subject to the receipt of payment of the applicable premium and costs) a title insurance policy insuring that fee title to the Property is vested in Purchaser free and clear of liens and encumbrances other than the Permitted Exceptions.

Article 4

PURCHASER'S INSPECTION

4.1 **Deliveries by Seller**. Seller agrees to provide Purchaser with all documents and information reasonably requested to complete its due diligence, including, without limitation, access to the books and records of the Property and to permit access to the Property for Purchaser to perform environmental and engineering reviews and other investigations in accordance with this **Article 4**.

4.2 **Access to the Property**.

(a) Commencing on the date Purchaser has delivered to Seller the insurance certificate required pursuant to **Section 4.2(d)** and then for so long as this Agreement is in effect, Purchaser and Purchaser's agents designated in writing to Seller ("**Purchaser's Agents**") shall be entitled to enter upon the Property during regular business hours upon at least one (1) Business Day prior telephonic notice to conduct inspections of the Property. Seller shall have the right to have a representative accompany Purchaser on all such inspections. Purchaser shall conduct its inspections so as not to interfere unreasonably with the use of the Property by Seller, the Tenants or with the management of the Property by any property manager of the Property. Notwithstanding anything to the contrary contained herein, but subject at all times to the rights of Tenants under the Leases, Purchaser may interview any tenant at the Property provided Purchaser notifies Seller at least two (2) Business Days in advance of such interview. Seller has the right to have a representative present at any tenant interview conducted by Purchaser in accordance with the terms of this Agreement.

(b) Any such inspection shall be at the sole cost of Purchaser and Purchaser shall at its expense comply with all applicable federal, state and local laws, statutes, rules, regulations, ordinances or policies in conducting any inspection of the Property.

(c) Neither Purchaser nor Purchaser's Agents shall undertake any inspection which involves the removal or disturbance of any physical aspect of the Property (including, without limitation, environmental testing and sampling, other than a typical "Phase I" environmental inspection) or perform any other invasive activities at the Property ("**Due Diligence Activity**") without first obtaining Seller's prior written consent thereto, which consent may be subject to any terms and conditions imposed by Seller in its sole discretion, and which consent Seller may withhold in its sole discretion. If Purchaser wishes, or Purchaser's Agents wish, to perform any Due Diligence Activity, they shall first submit to Seller a written description of (i) the proposed Due Diligence Activity, (ii) the proposed dates for the Due Diligence Activity, (iii) a list of Purchaser's Agents or contractors who will conduct the Due Diligence Activity (it being acknowledged and agreed, for clarity, that the consummation of a Phase II (as hereinafter defined) by EBI Consulting during the Inspection Period shall be deemed pre-approved by Seller for purposes of this **Section 4.2(c)**), and (iv) such other information as may be reasonably requested by Seller regarding the nature and scope of same. Purchaser shall also provide to Seller evidence of insurance covering any Due Diligence Activity by Purchaser, Purchaser's Agents or contractors on the Property. Purchaser shall conduct any Due Diligence Activity only at the times and by the agents and contractors specified in Seller's consent.

(d) Purchaser hereby agrees to indemnify, defend and hold harmless Seller and its officers, directors, members, employees and agents (collectively, the "**Indemnitees**") from and against any and all actual (and not contingent) liability, damage, loss, cost or expense, including, without limitation, reasonable third-party attorneys' fees and expenses and court costs, incurred by Indemnitees arising from or in connection with Purchaser's inspection or physical testing on the Property (collectively, the "**Claims**"), except to the extent caused by the gross negligence or willful misconduct of the Indemnitees. Notwithstanding anything to the contrary provided herein, Purchaser shall not indemnify the Indemnitees for any Claims arising from pre-existing conditions of the Property except to the extent the same are aggravated by Purchaser or Purchaser's Agents. In order to further to protect Seller from any such claims, demands, or suits, Purchaser agrees that it will deliver to Seller (and will cause each of Purchaser's Agents to deliver to Seller) prior to their respective entry, a certificate of liability insurance, showing Seller and Highlands REIT, Inc. as an additional insured and complying with the coverage specified on the certificate of insurance attached hereto as **Schedule 4.2(d)** (an "**Approved COI**"); it being acknowledged and agreed that Purchaser delivered to Seller prior to the Effective Date a copy of an Approved COI and that same shall be deemed sufficient in satisfaction of the aforementioned obligations under this **Section 4.2(d)**. The provisions of this **Section 4.2(d)** shall survive the Closing or any termination of this Agreement.

(e) Purchaser shall, at its sole expense, clean up and repair any damage to the Property caused by Purchaser or Purchaser's Agents after Purchaser's or Purchaser's Agents' entry thereon so that the Property shall be returned substantially to the same condition that existed prior to Purchaser's or Purchaser's Agents' entry thereon. The provisions of this **Section 4.2(e)** shall survive any termination of this Agreement.

4.3 **Right of Inspection and Termination.** As used in this Agreement, the term “**Inspection Period**” means the period commencing upon the Effective Date and ending at 5:00 p.m., Eastern Standard Time, on the date that is thirty (30) days from the Effective Date (as may be extended in accordance with the express terms of this **Section 4.3**). In the event Purchaser is not satisfied with the results of its review of the Property for any reason or no reason, Purchaser shall deliver to Seller (with a copy to Escrow Agent), on or prior to the expiration of the Inspection Period, written notice of Purchaser’s election to terminate this Agreement (a “**Termination Notice**”). In the event that Purchaser is satisfied with the results of its review of the Property, Purchaser shall deliver to Seller (with a copy to Escrow Agent), on or prior to the expiration of the Inspection Period, written notice of Purchaser’s election to proceed with the transaction contemplated by this Agreement (a “**Notice to Proceed**”) and the Inspection Period shall expire on such delivery. Notwithstanding anything to the contrary contained herein, in the event that Purchaser shall have commenced (or caused to be commenced) during the Inspection Period a Phase II environmental site assessment (a “**Phase II**”) but such Phase II shall not have been completed prior to the expiration of the Inspection Period, then Purchaser shall have a one-time right to extend the Inspection Period upon written notice to Seller prior to the expiration thereof (a “**DD Extension Notice**”) for up to thirty (30) additional days as may be reasonably necessary in order to complete and review the Phase II. On or prior to the expiration of such extended Inspection Period, Purchaser shall deliver to Seller (with a copy to Escrow Agent) either (x) a Notice to Proceed or (y) in the event that Purchaser is not satisfied with the results of the Phase II, a Termination Notice. In the event Purchaser fails to deliver to Seller either a Termination Notice, a Notice to Proceed or, to the extent applicable, a DD Extension Notice, on or prior to the expiration of the Inspection Period, then Purchaser shall be deemed to have elected to terminate this Agreement, and, upon request of Seller, Purchaser shall promptly execute and deliver to Seller a written acknowledgement of termination. Upon timely receipt of a Termination Notice by Seller, or upon Purchaser’s being deemed to have elected to terminate the Agreement for failure to timely deliver a Notice to Proceed (or a DD Extension Notice, to the extent applicable), the Deposit will be refunded in full to Purchaser and thereupon this Agreement will be null and void and of no further force and effect whatsoever, except for the provisions that expressly survive termination.

4.4 **Service Contracts.** Notwithstanding anything contained herein to the contrary, Purchaser shall notify Seller in writing at least five (5) Business Days prior to Closing which, if any, of the Service Contracts Purchaser does not wish to assume at Closing and Seller shall terminate, at its sole cost and expense and prior to the Closing Date, those Service Contracts specified in Purchaser’s notice. Notwithstanding the foregoing, without any notice from Purchaser, Seller shall be obligated to terminate prior to the Closing any management agreement or listing agreement affecting the Property.

Article 5

TITLE

5.1 **Title Commitment.** Within five (5) days from the date hereof, Purchaser shall order a commitment for title insurance (the “**Title Commitment**”) from a title company licensed to do business in the State of Rhode Island (the “**Title Company**”) and Purchaser shall instruct the Title Company to deliver a copy to Seller.

5.2 **Status of Title.** Seller shall deliver and Purchaser shall accept title to the Property and consummate the transaction contemplated by this Agreement subject only to (i) real estate taxes not yet due and payable (subject to apportionment as provided in **Article 8** below), (ii) title exceptions created by Purchaser and (iii) any matters, defects, encumbrances, encroachments or other objections to title that are not timely objected to by Purchaser in accordance with **Section 5.3** below (the title exceptions described in (i), (ii) and (iii) herein sometimes referred to collectively as “**Permitted Exceptions**”).

5.3 **Objections to Title**

(a) Within five (5) business days prior to the expiration of the Inspection Period, Purchaser shall have the right to object in writing to the following: (i) any title matters that appear on the Title Commitment and any supplemental title reports or updates to the Title Commitment, and (ii) any matters that appear on the survey or any survey update obtained by Purchaser, if any (any objections that Purchaser is permitted to and timely makes in accordance with the foregoing terms of this sentence shall be referred to herein as the “**Title Objections**”).

(b) Seller may elect (but, except as set forth in **Section 5.3(d)**, shall not be obligated) to remove or cause to be removed any Title Objection and Seller shall notify Purchaser in writing within two (2) Business Days after receipt of Purchaser’s notice of Title Objections (but, in any event, prior to the expiration of the Inspection Period) whether Seller elects to remove all or any of such Title Objections. The failure of Seller to respond in writing within such period shall be deemed an election by Seller not to remove such Title Objections. If Seller elects (or is deemed to have elected) not to remove one or more Title Objections, then on or prior to the expiration of the Inspection Period, Purchaser may elect in writing to either (i) terminate this Agreement, in which event the Deposit shall be delivered to Purchaser and, thereafter, the parties shall have no further rights or obligations hereunder except for those obligations which by their terms specifically survive the termination of this Agreement, or (ii) waive such Title Objections and proceed to Closing. Failure of Purchaser to terminate this Agreement in accordance with

clause (i) in the immediately preceding sentence shall be deemed an election to proceed in accordance with clause (ii) in the immediately preceding sentence. Any such Title Objection so waived (or deemed waived) by Purchaser shall be deemed to constitute a Permitted Exception and the Closing shall occur as herein provided without any reduction of or credit against the Purchase Price.

(c) In addition, after the expiration of the Inspection Period, Purchaser shall have the right to object in writing to any title matter which (i) is not a Permitted Exception, (ii) would adversely affect Purchaser's title to the Property, and (iii) first appears on any supplemental title reports or updates to the Title Commitment or survey issued after the expiration of the Inspection Period, so long as such title objection is made by Purchaser within five (5) Business Days after Purchaser becomes aware of such title matter (but, in any event, prior to the Closing Date) (any such title objection that Purchaser is permitted to and timely makes in accordance with the foregoing terms of this sentence shall be referred to herein as a "**Gap Title Objection**"). Seller may elect (but, except as set forth in **Section 5.3(d)**, shall not be obligated) to remove or cause to be removed any Gap Title Objection and Seller shall notify Purchaser in writing within five (5) Business Days after receipt of Purchaser's notice of Gap Title Objections (but, in any event, prior to the Closing Date) whether Seller elects to remove all or any of such Gap Title Objections. The failure of Seller to respond in writing within such period shall be deemed an election by Seller not to remove such Gap Title Objections. If Seller elects (or is deemed to have elected) not to remove one or more Gap Title Objections, then, within five (5) Business Days after Seller's election (or deemed election), but, in any event, prior to the Closing Date, Purchaser may elect in writing to either (i) terminate this Agreement, in which event the Deposit shall be delivered to Purchaser and, thereafter, the parties shall have no further rights or obligations hereunder except for those obligations which by their terms specifically survive the termination of this Agreement, or (ii) waive such Gap Title Objections and proceed to Closing. Failure of Purchaser to respond in writing within such five (5) Business Day period shall be deemed an election by Purchaser to terminate this Agreement in accordance with clause (i) in the immediately preceding sentence. Any such Gap Title Objection so waived (or deemed waived) by Purchaser shall be deemed to constitute a Permitted Exception and the Closing shall occur as herein provided without any reduction of or credit against the Purchase Price.

(d) Notwithstanding anything in **Article 5** to the contrary, to the extent that any Title Objections and Gap Title Objections have not been caused by Purchaser or any of Purchaser's agents:

(i) Seller shall be obligated to remove at or prior to Closing each of the following (collectively, the "**Obligatory Title Cure Matters**"): (x) all liens evidencing monetary encumbrances, whether or not liquidated (including any tax liens for taxes that are delinquent or mechanic's liens) or judgments of a liquidated amount evidencing monetary encumbrances, (y) all mortgage liens encumbering the Property and judgment liens filed against Seller (in each case regardless of amount) and (z) any other involuntary lien so long as such involuntary liens described in this clause (z) do not exceed, in the aggregate, One Hundred Thousand and 00/100 Dollars (\$100,000.00); and

(ii) To the extent Seller fails to remove the foregoing items in this **Section 5.3(d)** at or prior to the time of Closing (which Purchaser may elect to extend in its sole discretion to allow Seller the opportunity to cure or remove such Obligatory Title Cure Matters), Purchaser may elect to close the purchase of the Property, cure or remove the non-approved matters which have not been removed and, if they are matters required to be removed by Seller, credit the reasonable costs of such cure or removal against the Purchase Price payable by Purchaser at Closing.

Article 6

REPRESENTATIONS AND WARRANTIES

6.1 **Representations and Warranties of Seller.** Seller hereby represents, warrants and covenants to Purchaser that the following are true and correct as of the Effective Date and shall be true and correct as of the Closing Date:

(a) (i) Seller is a limited liability company, duly organized and validly existing under the laws of the State of Delaware, and authorized to conduct business in the State in which the Property is located. Seller has the right, power and authority to execute, deliver and perform this Agreement, has taken all actions and received all necessary consents and authorizations required for the consummation of the transaction contemplated herein and to perform its obligations under this Agreement. The execution, delivery and performance of this Agreement by Seller and the Closing deliveries contemplated hereby shall not require the consent of any third-party and does not violate (i) the organizational documents of Seller or (ii) any contract, agreement, commitment, order, judgment or decree to which Seller is a party or by which it is bound. This Agreement and all

other documents required by this Agreement to be executed by Seller shall constitute, when executed, the valid and binding obligation of Seller, enforceable against Seller in accordance with their respective terms.

(ii) Seller is not a “foreign person” within the meaning of Section 1445 of the Internal Revenue Code of 1986, as amended.

(b) (i) True, correct and complete copies of all Leases, including all agreements, amendments, guarantees, side letters and other documents relating thereto are set forth on Exhibit B hereto, and except as otherwise expressly noted on Exhibit B, have been delivered to Purchaser. The Leases have not been modified or amended except as described on Exhibit B hereto and they are in full force and effect. The Leases constitute the only leases, licenses, guaranties or other agreements for the use or occupancy of the Land or the Improvements.

(ii) The information on the rent roll attached hereto as Exhibit B is true, correct and complete in all material respects.

(iii) Except as set forth on Exhibit B: (1) no tenant, licensee or franchisee under a Lease (each, a “Tenant”) has paid any rent, fees, or other charges for more than one month in advance which would result in any Tenant’s ability to credit such advance payment against any payment due by Tenant after the Closing Date, (2) no Tenant has contested in writing any tax, operating cost or other escalation payments or occupancy charges, or any other amounts payable under its Lease, (3) all work required to be performed by Seller in connection with the Leases has been completed and fully paid for and unconditionally accepted by the Tenants, (4) no Tenant is entitled to any free rent, abatement of rent, inducement or incentive payment or other similar concession, and no brokerage commission, tenant improvement allowance or similar concession or compensation is payable (or will, with the passage of time or occurrence of any event, or both, be payable) with respect to any Lease (including in connection with the exercise of any option to extend or renew, whether previously or hereafter exercised), and (5) Seller has not sent out any notices of default to any Tenants nor has Seller received any notices of default from any Tenant which, in either case, remain uncured.

(iv) Exhibit B sets forth all security deposits held by Seller, none of which are in the form of letters of credit or any other type of collateral other than cash.

(e) Except for this Agreement and as expressly contained in the Leases, there are no outstanding agreements, options, rights of first refusal, rights of first offer, conditional sales agreements or other agreements regarding the purchase and sale of the Property or the lease or occupancy of any part of the Property.

(f) True, correct and complete copies of all service or maintenance contracts to which Seller or its affiliates are a party relating to or affecting the Property (including any amendments with respect thereto) are set forth in Exhibit D (collectively, the “Service Contracts”), copies of which have been delivered to Purchaser. No notice of default has been issued, nor received, by Seller under any Service Contract which has not since been cured or otherwise resolved.

(g) Seller has not received written notice from any governmental authority alleging that the Property is in violation of any applicable laws, ordinances or regulations.

(h) To the best of Seller’s knowledge, there are no pending or threatened notices, claims, actions or proceedings (condemnation, eminent domain, zoning or otherwise) including, without limitation, governmental investigations, pending, or relating to, the Property or against Seller or any of its affiliates or agents, or the transactions contemplated by this Agreement, except as set forth on Exhibit E annexed hereto and made a part hereof (the items set forth on Exhibit E being referred to herein, collectively, as the “Identified Claims”). Each of the Identified Claims are covered by Seller’s insurance, and Seller shall indemnify and hold harmless Purchaser and each of Purchaser’s affiliates, parents, subsidiaries, members, successors, assigns, shareholders, trustees, officers and directors (collectively, the “Purchaser Indemnified Parties”), from and against any and all loss, damage, claim, cost and expense (including, without limitation, reasonable attorneys’ fees) arising out any third party tort claim or any other claim regarding bodily injury or property damage relating to the Property for the period prior to Closing. The foregoing indemnification obligation of Seller shall survive the Closing.

(i) To the best of Seller’s knowledge, (1) there are no special or other governmental, quasi-governmental, public or private assessments for public improvements or otherwise now affecting the Property (other than those special assessments or typical municipal maintenance and operation of such items as sewer, water, drainage and the like which appear annually as a part of the real estate tax bill affecting the Property) and (2) there are no contemplated improvements affecting the Property that may result in special assessments affecting the Property other than as set forth on Schedule 6.1(g); without limiting the generality of the foregoing, the Property is not subject to any lien of any homeowners, landowners or other association having a common purpose other than as set forth on Schedule 6.1(g).

(j) To Seller’s knowledge, except as disclosed in the environmental report(s) listed on Schedule 6.1(h) attached hereto, the Property is in compliance in all material respects with all hazardous substance laws and environmental laws.

(i) There are no employment or collective bargaining agreements to which Seller is a party which will be binding on Purchaser after the Closing and no employees which Purchaser will be obligated to retain.

(j) Seller has provided to Purchaser operating statements for the Property for the last three (3) years used by Seller in the ordinary course of business.

(k) Except as set forth on **Schedule 6.1(k)**, there are no tax certiorari proceedings filed or pending with respect to the Property for the current tax year or subsequent tax years.

(l) Seller is not an “employee benefit plan” as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended (“**ERISA**”), that is subject to Title I of ERISA or a “plan” as defined in and subject to Section 4975 of the Internal Revenue Code of 1986, as amended (the “**Code**”), and the assets of Seller are not deemed “plan assets” of one or more such plans for purposes of Section 406 of ERISA or Section 4975 of the Code. In addition, Seller is not a “governmental plan” within the meaning of Section 3(32) of ERISA, and no transaction by or with Seller contemplated by this Agreement will violate any state statute applicable to any governmental plan that is similar to Section 406 of ERISA or Section 4975 of the Code.

(m) Except as set forth on **Schedule 6.1(m)**, there are no other unrecorded agreements, letters or other documents binding upon Seller or which shall be binding upon the Property after Closing regarding the Declaration of Condominium for Lincoln Mall Condominiums recorded with the applicable local recorder’s office in Book 1190, Page 104 (the “**Condominium Declaration**”) (or the condominium regime described herein) or that certain Operation and Easement Agreement dated as of October 22, 2004 by and between Target Corporation and LB Lincoln Mall Holdings LLC (the “**OEA**”). For purposes of this Agreement, the term “**Condominium Documents**” shall mean, collectively, the Condominium Declaration and any and all other documents identified on **Schedule 6.1(m)** attached hereto.

1. **Liability for Misrepresentations.**

- (a) Subject to the provisions of **Section 6.2(b)** below, if Purchaser obtains actual knowledge, at or prior to Closing, that any representation of Seller shall fail to be true in any material respect as of the Effective Date or as of the Closing Date, as the case may be, Purchaser’s remedies shall be either (i) to terminate this Agreement and receive the return of the Deposit together with an amount necessary to reimburse Purchaser for any and all third party costs and expenses actually incurred by Purchaser in connection with the proposed purchase of the Property, including, without limitation, attorneys’ fees, title and survey charges, loan commitment fees and due diligence costs in an amount not to exceed One Hundred Thousand and 00/100 Dollars (\$100,000.00) (the “**Termination Payment**”), and upon the receipt of same, this Agreement shall be null and void and of no further force or effect and, except for those provisions expressly stated to survive the termination of this Agreement, neither party shall have any rights or obligations against or to the other or (ii) waive such misrepresentation and proceed to Closing. If the Closing shall take place without Purchaser making an objection to an untrue representation of which Purchaser shall have actual knowledge, Purchaser shall be deemed to have waived all liability of Seller by reason of such untrue representation. Notwithstanding anything in this Agreement to the contrary, in no event shall Seller be liable to Purchaser for the Termination Payment, or be deemed to be in default hereunder by reason of, any breach of representation or warranty which results from any change that occurs between the Effective Date and the Closing Date if such results from a fact or circumstances that is either (x) expressly permitted under the terms of this Agreement or approved by Purchaser after the Effective Date in accordance with this Agreement; (y) was not caused by Seller, or (z) is beyond the reasonable control of Seller to prevent, and such shall constitute the non-fulfillment of a condition precedent to Purchaser obligations at the Closing, and Purchaser shall have the right to terminate this Agreement, in which event the Deposit shall be returned to Purchaser, and neither party shall have further obligations to the other party except to the extent such obligations expressly survive termination pursuant to the terms hereof.
- (b) The provisions of this **Section 6.2** shall survive the Closing or termination of this Agreement.

2. **Representations of Purchaser.** Purchaser hereby represents and warrants to Seller that the following are true and correct as of the Effective Date and shall be true and correct as of the Closing Date:

- (c) Purchaser is a limited liability company, duly organized and validly existing under the laws of the State of Delaware. Purchaser has the right, power and authority to execute, deliver and perform this Agreement, has taken all actions and received all necessary consents and authorizations required for the consummation of the transaction contemplated herein and to perform its obligations under this Agreement. The execution, delivery and performance of this Agreement by Purchaser and the Closing deliveries contemplated hereby shall not require the consent of any third-party and does not violate (i) the organizational documents of Purchaser or (ii) any contract, agreement, commitment,

order, judgment or decree to which Purchaser is a party or by which it is bound. This Agreement and all other documents required by this Agreement to be executed by Purchaser shall constitute, when executed, the valid and binding obligation of Purchaser, enforceable against Purchaser in accordance with their respective terms.

(d) ERISA. Purchaser is not acquiring the Property with the assets of an employee benefit plan as defined in Section 3(3) of ERISA.

(e) Pending Actions. There is no action, suit, arbitration, unsatisfied order, decree or judgment, government investigation or proceeding pending or, to Purchaser's knowledge, threatened, against Purchaser or relating to which, if adversely determined, could individually or in the aggregate materially interfere with the consummation of the transactions contemplated by this Agreement.

Article 7

COVENANTS

7.1 Obligations and Covenants of Seller.

(a) Prior to the Closing Date, Seller shall (or shall cause its affiliates to), at Seller's sole cost and expense:

(i) Maintain and operate the Property in substantially the same condition and manner as the Property is now maintained and operated and in accordance with the terms and conditions of the Leases, the Condominium Documents and the OEA and make or cause to be made any and all repairs and replacements reasonably required to deliver the Property to Purchaser at Closing in its present condition, normal wear and tear and loss by casualty excepted;

(ii) Promptly deliver to Purchaser (a) a copy of any notices issued or received by Seller (including, without limitation, a notice of default) received under any mortgage, Lease or Service Contract, (b) a copy of any notices issued or received in connection with any pending or threatened litigation, actions, suits, claims and other proceedings affecting the Property or in connection with the use, possession or occupancy thereof (including, with respect to any hazardous substances or any labor troubles at the Property) and (c) notice of any Damage or proposed Taking or of any violations of any hazardous substances laws or other environmental laws;

(iii) Maintain all Permits in full force and effect and promptly deliver notice to Purchaser of any intention of Seller or its affiliates to seek any new Permit as well as copies of any notices of violations; and

(iv) Maintain, in full force and effect, the current insurance policies on the Property.

(b) Prior to the Closing Date, Seller shall not and shall cause its affiliates not to:

(i) Modify, amend, renew, extend, terminate or otherwise alter any Service Contracts or any other contracts of Seller or its affiliates affecting the Property which will remain in effect more than thirty (30) days after Closing or enter into any new Service Contract or other contract which will remain in effect after Closing, in each case without the prior written consent of Purchaser in its sole discretion (Purchaser shall notify Seller of its consent or refusal within five (5) Business Days after Seller's written request for consent). Purchaser's failure to timely respond in writing to Seller's request shall be deemed disapproval of such request;

(ii) Remove from the Property any article of Personal Property except in the ordinary course or as may be necessary for repairs, or the discarding of worn-out or useless items, provided, however, that any article of Personal Property removed for repairs shall be returned to the Property promptly upon its repair and shall remain a part of the Personal Property whether or not such article shall be located on the Property at the time of the Closing Date and any article so discarded shall be replaced prior to the Closing Date with a new article of similar quality and utility;

(iii) Commence, prosecute, settle and/or withdraw proceedings to review any real estate tax assessment for the Property without the prior written consent of Purchaser in its sole discretion (Purchaser shall notify Seller of its consent or refusal within five (5) Business Days after Seller's written request for consent). Purchaser's failure to timely respond in writing to Seller's request shall be deemed disapproval of such request;

(iv) Undertake or commence any renovations or alterations at the Property, except those necessary to comply with any of the provisions of this Agreement, without the prior written consent of Purchaser in its sole discretion (Purchaser shall

notify Seller of its consent or refusal within five (5) Business Days after Seller's written request for consent). Purchaser's failure to timely respond in writing to Seller's request shall be deemed disapproval of such request; and

(v) Sell, lease, transfer or otherwise encumber any right, title or direct or indirect interest whatsoever in or to the Property, including any development rights appurtenant to the Property.

(c) From and after the date hereof, Seller shall not enter into any new leases or modify, amend, renew, terminate or extend any existing Lease (except where required pursuant to the express terms and conditions of the applicable Lease) (collectively, "**New Leases**") without the prior written approval of Purchaser, which shall be in Purchaser's sole discretion. Purchaser agrees to grant or deny consent in writing (and provide, in reasonable detail, the reasons for any denial) within five (5) Business Days after Purchaser's receipt of Seller's request, which request shall contain copies of all material information related to such request and a summary of the material terms of the proposed New Lease. Purchaser's failure to timely respond in writing to Seller's request shall be deemed disapproval to the proposed New Lease. Seller shall, from time to time, inform (orally or in writing) Purchaser of any New Lease negotiations and promptly give notice to Purchaser of any New Lease and a copy of any instruments executed and any material information delivered in connection with the New Lease.

(d) Seller shall not enforce its rights against the Tenants by summary proceeding, drawing down or application of security deposits or in any other manner without the prior written consent of Purchaser in its sole discretion (Purchaser shall notify Seller of its consent or refusal within five (5) Business Days after Seller's written request for consent). Purchaser's failure to timely respond in writing to Seller's request shall be deemed disapproval of such request.

Article 8

APPORTIONMENTS

8.1 Apportionments.

(a) The following items shall be apportioned as of 11:59 p.m. of the day immediately preceding the Closing Date:

(i) Fixed rents, additional rents, percentage rents, prepaid rents and all other sums and credits due or payable under the Leases (including, without limitation, operating expense escalation payments and real estate tax escalation payments, if any, payable under the Leases), as and when collected, subject to part (b) of this **Article**;

(ii) Real estate taxes and personal property taxes (if any), on the basis of the calendar year for which the same are levied, imposed or assessed, subject to part (e) of this **Article**;

(iii) Charges for water, sewer rents, electricity, steam, gas and telephone, which are not metered or otherwise charged directly to tenants under the Leases; provided that if the consumption of any of such utilities is measured by meters, Seller on the Closing Date shall furnish a current reading of each meter; and provided, further, that if there is not a meter or if the current bill for any of such utilities has not been issued prior to the Closing Date, the charges therefor shall be adjusted on the basis of the charges for the prior period for which bills were issued and shall be further adjusted when the bills for the current period are issued;

(iv) Fuel, if any, at Seller's cost therefor (as determined by its fuel supplier);

(v) Amounts paid or payable pursuant to Executory Contracts that will be assumed by Purchaser pursuant to **Section 4.4** above, provided same are not otherwise charged directly to the Tenants;

(vi) If on the Effective Date, the Property or any part thereof shall be affected by an assessment or assessments which are or may become payable in installments or a lump sum, Seller shall be responsible for any installments which are then a charge or lien or which are otherwise certified as of the Closing Date and Purchaser shall be responsible for all other installments of any such assessment;

(vii) Any amounts payable by parties under agreements affecting or encumbering the Property including, without limitation, the Condominium Documents and the OEA; and

(viii) Such other items as are customarily apportioned in accordance with real estate closings of commercial properties in the jurisdiction in which the Property is located.

(b) If, on the Closing Date, any items of additional rent (including real estate tax and operating expense escalations) or percentage rent under the Leases (collectively, "**Lease Obligations**") shall not have been ascertained and cannot be finalized prior to the Closing Date, then as soon as such information is available or ascertainable, but not later than one hundred and twenty (120) days after the end of the calendar year in which Closing occurs, Seller shall provide to Purchaser Seller's proposed reconciliation of Lease Obligations incurred and collections received for the period of Seller's ownership of the Property, including, without limitation, a final statement of (i) all operating expenses for the Properties which are actually paid by Seller and permitted to be passed through to Tenants, as applicable, with respect to the portion of the calendar year occurring before the Closing, together with copies of all documentation evidencing the foregoing, including copies of third-party invoices and copies of Seller's books and records applicable thereto, and (ii) all estimated payments of operating expenses and/or common area maintenance costs under the Leases passed through to Tenants and received by Seller with respect to the reconciliation year (collectively, "**Seller's Proposed Reconciliation**"). Purchaser shall review Seller's Proposed Reconciliation and shall be responsible for preparing Purchasers' reconciliation of Lease Obligations incurred and collections received for the period of Purchaser's ownership of the Property ("**Purchasers' Proposed Reconciliation**"), and reconciling same with Seller's Proposed Reconciliation. To the extent, there is a discrepancy between Seller's Proposed Reconciliation and Purchaser's Proposed Reconciliation, Purchaser and Seller shall cooperate to reconcile same within one hundred and eighty (180) days after the end of the calendar year in which Closing occurs. In the event that there are no discrepancies between Seller's Proposed Reconciliation and Purchaser's Proposed Reconciliation or in the event of any discrepancies, after reasonable agreement or a reasonable determination thereof, Seller and Purchaser shall be entitled to their pro rata share of any Lease Obligations based on the pro rata shares of Lease Obligations actually incurred by such party. If the amount of Lease Obligations collected by Seller for such year is less than Seller's pro rata share of the actual aggregate Lease Obligations collected for such year, then Purchaser shall promptly remit the difference to Seller only to the extent actually collected from the Tenants, but not otherwise. If the amount of Lease Obligations collected by Seller for the calendar year in which the Closing occurs exceeds the pro rata share of the actual aggregate Lease Obligations collected for such year, then Seller shall remit such excess amounts to Purchaser within thirty (30) days after such determination. Upon receipt of such excess amounts, Purchaser shall promptly remit the applicable portion to the particular Tenants entitled thereto.

(c) Seller or its affiliates and Purchaser shall maintain and make available to each other any books or records reasonably necessary for the adjustment of any item pursuant this **Article**.

(d) Any rents collected by Seller or Purchaser after the Closing Date shall be held in trust for the other party and applied as follows: (i) first, to rentals due and payable for the calendar month (or other applicable collection period) in which the Closing occurs, if unpaid, (ii) to any months (or periods) subsequent to the month (or period) in which the Closing Date occurs, until all such outstanding amounts are paid in full, and (iii) to any rents past due for periods preceding the calendar month (or period) in which the Closing Date occurs (the "**Arrears**"). Seller agrees to remit to Purchaser within ten (10) Business Days of receipt thereof any and all rents collected by Seller from and after the Closing Date, and Purchaser shall thereafter promptly remit to Seller any such rents as to which Seller is entitled as hereinbefore provided in this clause (d). With respect to any such rents collected by Purchaser for the account of Seller, Purchaser may deduct therefrom all reasonable third party expenses incurred in connection with the collection thereof. Purchaser shall have no obligation to commence any actions or proceedings to collect any such Arrears, declare a default under any Lease or against any tenant or incur any material cost in connection with the collection of Arrears. From and after the date hereof, Seller shall not be permitted to commence a lawsuit against existing Tenant for Arrears.

(e) If the Closing Date shall occur before the real estate tax rate is fixed, the apportionment of real estate taxes shall be based upon the tax rate for the preceding year applied to the latest assessed valuation. Final adjustment will be made upon the actual tax amount when determined. If Seller receives a refund of real estate taxes relating to the Property it shall promptly remit to Purchaser such refund (net of the reasonable expenses incurred by Seller) for distribution by Purchaser to Tenants, as applicable, and any remaining balance applicable to Seller's period of ownership shall be distributed by Purchaser to Seller. The parties agree to cooperate with each other to effectuate any such refunds.

(f) In the event that (i) any leasing commissions, tenant improvement allowances or inducement or incentive payments payable with respect to the Leases (whether such payment obligation accrues before or after Closing) have not been paid by Seller prior to Closing, or (ii) a Tenant has made a payment to Seller in advance for more than one (1) month in advance or is entitled to any free rent or abatement of rent for the period from and after Closing, Purchaser shall be entitled to a credit against the Purchase Price equal to such amounts.

(g) For clarity, if any tenant is entitled to a credit against its rent payment in connection with prepaid rent or such tenant's overpayment of rent or other sums owing to Seller under its Lease, to the extent such credit is not applied prior to Closing, Purchaser shall receive a credit at Closing for such amounts.

8.2 **Closing Costs.** Any transfer taxes required to be paid in connection with recording the Deed shall be paid by Seller. All recording charges shall be paid by Purchaser, except that the cost of any preparation and recordation of any releases

and termination statements required in order for Seller to deliver clean title to the Property to Purchaser at Closing shall be paid by Seller. Each party shall pay fifty percent (50%) of all escrow fees incurred in connection with the Closing. Purchaser shall be responsible for the cost of an owner's title insurance policy, any endorsements thereto and any updates to the existing survey of the Property. Each party shall be responsible for (a) its own attorneys' fees, except as expressly set forth in **Section 13.19** and (b) its own expenses in connection with the transactions contemplated hereby, except as expressly provided herein.

8.3 **Schedule of Prorations.** The parties shall endeavor to jointly prepare a schedule of prorations for the Property not less than three (3) Business Days prior to Closing. The parties shall correct any errors in prorations as soon after the Closing as amounts are finally determined.

8.4 **Survival.** This **Article 8** shall survive the Closing for one year and shall not merge with the Deed.

Article 9

CONDITIONS PRECEDENT

9.1 **Purchaser's Conditions to Closing.** The obligation of Purchaser to cause the transaction contemplated herein to be consummated is subject to the satisfaction of the following conditions (collectively, the "**Purchaser Conditions Precedent**") on or prior to the Closing Date:

(a) All of the representations and warranties of Seller contained in this Agreement shall be true, correct and complete in all material respects when made as if made on the Effective Date and on the Closing Date.

(b) Seller shall perform, observe and comply in all material respects with all covenants, agreements and conditions required by this Agreement to be performed, observed and complied with on its part prior to or as of Closing hereunder, including, without limitation, the delivery of all documents and other items to be delivered under this Agreement.

(c) (x) Seller shall use commercially reasonable efforts to deliver to Purchaser estoppel certificates from each Tenant, substantially in the form annexed hereto as **Exhibit G** and made a part hereof (unless a Tenant's lease permits such Tenant to use its own form of estoppel, in which event such form may be used), in each case, (x) showing no adverse matters or other matters otherwise inconsistent with Seller's representations in this Agreement and (y) dated not more than thirty (30) days prior to the Closing Date (each, a **Tenant Estoppel**). At a minimum, Seller shall be obligated to deliver to Purchaser an executed Tenant Estoppel from (A) each of Cinema World, CW Lanes & Games, Fresenius Kidney Care, Home Goods, Lincoln Tech, Marshalls, Maxx Fitness Club, Ocean State Job Lot, Party City and Stop & Shop (collectively, the "**Major Tenants**") and (B) at least sixty-five percent (65%) of the remaining Tenants at the Property, based upon leased gross leasable area (together with the Major Tenants, collectively, the "**Required Tenants**"). Seller will deliver to Purchaser, for Purchaser's review and approval, completed forms of the tenant estoppel certificates containing the information contemplated thereby prior to delivery thereof to the respective Tenants. Within five (5) days following Purchaser's receipt thereof, Purchaser will either (x) approve any such completed tenant estoppel form for delivery to the applicable Tenant or (ii) set forth in reasonable detail all changes which Purchaser believes to be appropriate to make the completed estoppel certificate accurate and complete under the applicable lease. For purposes of this **Section 9.1(c)**, without limiting the foregoing in this section, any tenant estoppel certificate shall be deemed to show an adverse matter if it (i) includes any document not listed on **Exhibit B** attached hereto for such Tenant, or omits a document set forth on such **Exhibit B**, and such document is deemed material by Purchaser, in its reasonable discretion, or (ii) identifies any uncured defaults of Seller or Tenant under the applicable Lease, any material claim by such Tenant or any material economic deviation or other material deviation from the information contained on the form submitted to the Tenant for execution or as set forth in the applicable Lease.

(y) Seller shall deliver to Purchaser an estoppel certificate from each of (1) the Lincoln Mall Condominium Association, Inc. (the "**Association**") under the Condominium Documents (the "**Association Estoppel**") and (2) Target Corporation ("**Target**") under the OEA (the "**OAE Estoppel**"), in accordance with the following: (i) Seller shall request estoppel certificates from the Association and Target, each on a form reasonable acceptable to Purchaser; it being agreed that if the Association and/or Target is required or permitted under the terms of the Condominium Documents or the OEA, as applicable, to provide less information or to otherwise make different statements in a certification of such nature, then Purchaser shall accept any other form of estoppel certificate (or modifications to the original estoppel form) to the extent consistent with the minimum requirements set forth in the Condominium Documents or the OAE, as applicable. However, under no circumstances shall Purchaser be required to accept any Association Estoppel or OAE Estoppel delivered in connection with this Section to the extent that either the Association or Target, as applicable, discloses therein any material default by Seller or any other material adverse matters or other matters otherwise inconsistent with Seller's representations in this Agreement in any material respect.

(d) The Title Company shall be unconditionally willing and irrevocably committed to issue to Purchaser an ALTA extended coverage Owner's Policy of title insurance as of the Closing Date with coverage in the amount of the Purchase Price insuring that fee simple title to the Property is vested in Purchaser, subject only to the Permitted Exceptions.

(e) Seller shall provide fully executed amendments to each of the Homegoods Lease and Marshalls Lease (as each such term is defined on **Exhibit B** hereto) (collectively, the "**Co-Tenancy Leases**"), in form and content satisfactory to Purchaser, setting forth the following revisions:

(1) with respect to Section 4.7 of each Co-Tenancy Lease:

(i) changing all references therein to "K-Mart" and its approximate location to: "Target" and its current location; and

(ii) removing the requirement for any replacement co-tenant to comply with Section 4(A) and Section 4(B) of Schedule B of the Co-Tenancy Leases; and

(2) with respect to Section 4(A) of Schedule B of each Co-Tenancy Lease, clarify that the such restriction does not apply to the premises currently occupied by Target; and

(3) with respect to Section 4(B) of Schedule B of each Co-Tenancy Lease, changing any reference to the K-Mart premises (or similar term) as depicted on the Lease Plan to: the Target premises in its current location.

(f) Seller shall comply with (or, with respect to clause (i) of this Section 9.1(f) only, provide evidence of exemption from): (i) R.I.G.L. Section 44-30-71.3 pertaining to the non-resident seller withholding and deliver to Purchaser and the Title Company prior to the Closing Date evidence of same in the form of a completed and executed RI Form 71.3 Election and RI Form Certificate of Withholding Due approved and stamped by the Rhode Island Division of Taxation or, as applicable, delivery of a Seller's Residency Affidavit (the foregoing documents in this Section 9.1(f) (i) are hereinafter collectively referred to as the "**Seller RI Withholding Documents**") and (ii) R.I.G.L. Section 44-11-29, Section 44-19-22, Section 28-40-15 and Section 28-43-2 relating to the sale of a major part in value of the seller's Rhode Island assets as evidenced by copies of the statutory notices referred to in said statutes, together with a Certificate of Good Standing of Seller from the Rhode Island Division of Taxation (the foregoing documents in this Section 9.1(f)(ii) are hereinafter collectively referred to as the "**Seller RI Tax Clearance Documents**").

(g) The obligation of Purchaser to close the transaction contemplated herein is subject to the express conditions precedent set forth in this Agreement, each of which is for the sole benefit of Purchaser and may be waived at any time by written notice thereof from Purchaser to Seller. The waiver of any particular Purchaser Condition Precedent shall not constitute the waiver of any other. In the event of the failure of a Purchaser Condition Precedent at Closing (subject to any extension rights expressly set forth in this Agreement), Purchaser may elect, in its sole discretion, to terminate this Agreement and receive the Deposit.

9.2 **Seller's Conditions to Closing.** The obligation of Seller to cause the transaction contemplated herein to be consummated is subject to satisfaction of the following conditions (collectively, the "**Seller Conditions Precedent**") on or prior to the Closing Date:

(a) Purchaser shall deliver the funds required under this Agreement for the balance of the Purchase Price to Seller.

(b) All of the representations and warranties of Purchaser contained in this Agreement shall have been true, correct and complete in all material respects when made on the Effective Date and on the Closing Date, as if made originally on the Closing Date.

The obligation of Seller to close the transaction contemplated herein is subject to the express conditions precedent set forth in this **Section 9.2**, each of which is for the sole benefit of Seller and may be waived at any time by written notice thereof from Seller to Purchaser. The waiver of any particular Seller Condition Precedent shall not constitute the waiver of any other. In the event of the failure of a Seller Condition Precedent at Closing (subject to any extension rights expressly set forth in this Agreement), Seller may elect, in its sole discretion, to terminate this Agreement.

Article 10

DELIVERIES

10.1 **Documents to be Delivered by Seller.** At or before the Closing, Seller shall deliver the following, each executed and acknowledged by Seller or such other party as indicated below to the extent appropriate (except with respect to item (a), which shall be delivered at least two (2) Business Days prior to the Closing):

- (k) Tenant Estoppels from all of the Required Tenants;
- (b) Any “as-built” plans and specifications for the buildings, to the extent in the possession of Seller;
- (c) Copies (and originals, if available) of the Leases and any other leases entered into by Seller from and after the date hereof in accordance with the terms of this Agreement;
- (d) A quitclaim deed (the “**Deed**”) substantially in the form of **Exhibit C**;
- (e) Bill of sale for the Personal Property substantially in the form of **Exhibit H**;
- (a) The security deposits and any interest accrued thereon (by way of a credit against the Purchase Price);
- (g) An updated rent roll dated as of the Closing Date and represented and certified by Seller to be true, correct and complete in all material respects;
- (h) An updated schedule of Arrears dated as of the Closing Date and represented and certified by Seller to be true, correct and complete in all respects;
- (i) All certificates of occupancy, permits, maintenance records, operating manuals, guarantees and warranties pertaining to the Property, and all keys, combinations and security codes for all locks and security devices for the Property, in each case, to the extent in the possession of Seller;
- (j) A certificate of Seller repeating its representations and warranties, except as noted thereon substantially in the form of **Exhibit I**;
- (k) A letter to each of the Tenants advising them of the change in ownership and management of the Property and the transfer of the security deposits and directing that rentals or other payments thereafter be paid to a payee designated by Purchaser, and otherwise complying with applicable law substantially in the forms of **Exhibit J**;
- (l) Seller’s counterpart to the assignment and assumption of leases and security deposits substantially in the form of **Exhibit K** (the “**Assignment of Lease**”);
- (m) Seller’s counterpart to the assignment and assumption of service contracts substantially in the form of **Exhibit L** (the “**Assignment of Service Contracts**”);
- (n) FIRPTA Certificate substantially in the form of **Exhibit M**;
- (o) Notices to those vendors providing services to the Property that Purchaser desires to retain substantially in the form of **Exhibit N**;
- (p) Notices to those utility companies providing services to the Property substantially in the form of **Exhibit O**;
- (q) A standard owner’s/seller’s title affidavit, together with a Mechanic’s Lien affidavit and a Parties in Possession affidavit, to the Title Company, and such additional customary documents as shall be required by the Title Company to issue the Owner’s Policy and to provide gap coverage;
- (r) Such evidence or documents as may reasonably be required by Purchaser or the Title Company evidencing the authority of Seller (and the person(s) who are executing the various documents on behalf of Seller) to consummate the transactions contemplated by this Agreement, including, without limitation, a Good Standing Certificate of Seller issued by the Rhode Island Secretary of State;

(s) Seller's counterpart to a closing statement prepared in accordance with **Section 8.3** hereof (the "**Closing Statement**");

(t) All transfer and other tax declarations for the Property as may be required by applicable law in connection with the transactions contemplated by this Agreement (the "**Transfer Tax Forms**"), duly executed and sworn to by Seller and, to the extent required, by the Title Company;

(u) Written resignations of any directors, officers and/or other representatives appointed by Seller under the Condominium Documents and the OEA, and an assignment of Seller's right, title and interest in and under the Condominium Documents and OEA, in each case to the extent required pursuant to the terms and conditions of the Condominium Documents and the OEA; and

(v) The Seller RI Withholding Documents and the Seller RI Tax Clearance Documents.

10.2 **Documents to be Delivered by Purchaser.** At or before the Closing, Purchaser shall deliver the following, each executed and acknowledged by Purchaser or such other party as indicated below to the extent appropriate:

(a) Purchaser's counterparts to the Assignment of Leases;

(b) Purchaser's counterparts to the Assignment of Service Contracts;

(l) Purchaser's counterpart to the Closing Statement; and

(m) a Form 71.3 Remittance.

Article 11

DEFAULTS

11.1 **Seller's Default.** If Seller shall default in performance of its obligations under this Agreement, then, Purchaser shall be entitled to either (i) terminate this Agreement and require that Seller cause the return of the Deposit and pay the Termination Payment to Purchaser, or (ii) the right to specific performance of Seller's obligations hereunder, or (iii) to seek damages in the event and only in the event that (a) Seller commits a fraud under this Agreement as determined by a court of competent jurisdiction, and/or (b) specific performance shall not be available as a remedy to Purchaser due to the conveyance of the Property to a third party in violation of this Agreement .

11.2 **Purchaser's Default.** If Purchaser shall default in performance of its obligations hereunder by failing to close as set forth in this Agreement, the sole right of Seller shall be to recover and the sole liability of Purchaser at law or in equity shall be to pay liquidated damages in the amount of the Deposit, such amount being fixed as such by reason of the fact that the actual damages to be suffered by Seller in such event are in their nature uncertain and unascertainable with exactness and because Purchaser would not have entered into this Agreement unless Purchaser were exculpated from personal liability as herein provided. Seller shall not seek or obtain any money or other judgment against Purchaser or any disclosed or undisclosed partner, principal, officer or employee of Purchaser or against the assets or estate of Purchaser or any of the foregoing persons, and Seller's sole recourse for payment of said amounts shall be to the Deposit.

Article 12

DESTRUCTION, LOSS OR DIMINUTION OF PROPERTY

12. **Destruction, Loss or Diminution of Property.** If, between the date of Purchaser's Notice to Proceed and the Closing Date, all or any portion of the Property is damaged by fire or natural elements, or other causes (the "**Damage**"), or the Property is taken or made subject to condemnation, eminent domain or other governmental acquisition proceedings (collectively, a "**Taking**") then the following procedures shall apply:

(a) If the cost of required repair or replacement related to or arising out of the Damage, or if the diminution of the value of the Property as a result of the Taking, is Two Million and 00/100 Dollars (\$2,000,000.00) or less, Purchaser shall proceed to close and take the Property as diminished by such events, subject (in the event of Damage) to a reduction in the Purchase Price equal to the full amount of the cost to repair or replace the Damage to the Property and Seller shall be entitled to retain all insurance proceeds relating to such Damage. In the event of a Taking, there shall be no such reduction in the Purchase Price, but the full

amount of any award payable with respect to the Taking shall belong to Purchaser (and all awards from a Taking shall be paid over to Purchaser and all claims for any such award shall be assigned to Purchaser at Closing).

(b) If the cost of required repair or replacement related to or arising out of the Damage, or if the diminution of the value of the Property as a result of the Taking, is greater than Two Million and 00/100 Dollars (\$2,000,000.00), then Purchaser, at its sole option, may elect either to: (i) terminate this Agreement by written notice to Seller given at or prior to the Closing and receive the return of the Deposit; or (ii) proceed to close under this Agreement and accept the Property as diminished by such event, in which event (x) all insurance proceeds paid and all claims for insurance proceeds on account of the Damage shall be assigned to Purchaser by instruments of assignment and proofs of claim acceptable to Purchaser and its adjuster, (y) in the event of Damage, Purchaser shall be entitled to a reduction in the Purchase Price equal to the full amount of any applicable insurance deductible, and (z) all awards from a Taking shall be paid over to Purchaser and all claims for any such award shall be assigned to Purchaser.

(c) Notwithstanding the provisions of this **Article 12** to the contrary, in the event the Taking or Damage is of such a nature that either: (A) any Tenant could terminate its lease due solely to the Taking or Damage; or (B) access to or visibility of the Property is materially and adversely affected; or (C) the available parking at the Property after the Taking or Damage is materially and adversely affected as to no longer comply with applicable zoning laws, then in lieu of any of Purchaser's other remedies under this Agreement, Purchaser may elect, within ten (10) days after receipt of such notice of the Taking or Damage, to terminate this Agreement prior to the Closing Date and receive the return of the Deposit.

(d) The cost of repair or replacement related to or arising out of the Damage shall be determined by Seller and Purchaser, in their reasonable determination, or, if they are unable to agree, by an independent engineer selected by two other engineers, one of whom shall be selected by Purchaser and the other to be selected by Seller. The diminution of the value of the Property as a result of any Taking shall be determined by Seller and Purchaser, in their reasonable determination, or, if they are unable to agree, by an appraiser selected by two other appraisers, one of whom shall be selected by Purchaser and the other to be selected by Seller.

Article 13

MISCELLANEOUS

13.1 **Office of Foreign Asset Control and Anti-Money Laundering.**

(a) Seller and Purchaser each represents and warrants to the other that: (i) it is not acting, directly or, to its knowledge, indirectly, for or on behalf of any person, group, entity or nation listed by the United States Treasury Department as a Specially Designated National and Blocked Person ("**SDN List**"), or for or on behalf of any person, group, entity or nation designated in Presidential Executive Order 13224 as a person who commits, threatens to commit, or supports terrorism; and (ii) it is not engaged in this transaction directly or, to its knowledge, indirectly on behalf of, or facilitating this transaction directly or, to its knowledge, indirectly on behalf of, any such person, group, entity or nation.

(b) Seller and Purchaser each represents and warrants to the other that it is not a person and/or entity with whom United States Persons are restricted from doing business under the International Emergency Economic Powers Act, 50 U.S.C. §1701 et seq.; the Trading with the Enemy Act, 50 U.S.C. App. §5; any executive orders promulgated thereunder; any implementing regulations promulgated thereunder by the U.S. Department of Treasury Office of Foreign Assets Control ("**OFAC**") (including those persons and/or entities named on the SDN List); or any other applicable law of the United States.

(c) Seller and Purchaser each represents and warrants to the other that no person and/or entity who is named on the SDN List has any direct interest in Seller or Purchaser, as applicable, with the result that the direct investment in Seller or Purchaser, as applicable, is prohibited by any applicable law of the United States.

(d) Seller and Purchaser each represents and warrants to the other that none of the funds of Seller and Purchaser have been derived from any unlawful activity with the result that the direct investment in Seller or Purchaser is prohibited by applicable law of the United States.

(e) Seller and Purchaser each represents and warrants to the other that it is not in violation of the U.S. Federal Bank Secrecy Act, as amended by Title III (the "**International Money Laundering Abatement and Financial Anti-Terrorism Act**") of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "**Patriot Act**"), Public Law 107-56; its implementing regulations promulgated by the U.S. Department of Treasury Financial Crimes Enforcement Network (31 CFR Part 103); or any other anti-money laundering law of the United States.

13.2 **Notices.** All notices or other communications required or provided to be sent by either party shall be in writing and shall be sent: (i) by United States Postal Service, certified mail, return receipt requested, (ii) by any nationally known overnight delivery service for next day delivery, (iii) by delivery in person, or (iv) by electronic mail in PDF format or its equivalent (with an additional copy to be sent using one of the methods described in clause (i) through (iii) above). Notices shall be deemed served (x) in the case of certified mail, overnight courier or hand delivery, on the date actually delivered to or rejected by the intended recipient, and (y) in the case of email, when transmitted by sender (provided a copy of such email is deposited with an overnight courier for next day delivery properly addressed and paid for), if such electronic transmission occurs at or before 5:00pm local time on a Business Day; otherwise such notice shall be deemed to have been given on the next succeeding Business Day. Notwithstanding the foregoing, notice(s) which advise the other party of a change of address of the party sending such notice or of such party's attorney shall not be deemed served until actually received by the party to whom such notice is addressed or delivery is refused by such party. All notices shall be addressed to the parties at the addresses below:

To Seller: Highlands REIT, Inc.
332 S. Michigan Avenue, Ninth Floor
Chicago, Illinois 60604
Attn: Robert J. Lange
Email: robert.lange@highlandsreit

With a copy to: _____
Levenfeld Pearlstein, LLC
Two North LaSalle Street, Suite 1300
Chicago, Illinois 60602
Attention: Elizabeth C. O'Brien, Esq.
E-mail: cobrien@lplegal.com

To Purchaser: Lincoln Mall Owner LLC
c/o Acadia Realty Trust
411 Theodore Fremd Avenue, Suite 300
Rye, New York 10580
Telephone: 914.288.8138
Attention: General Counsel
Email: legalnotices@acadiarealty.com

To Escrow Agent: Kensington Vanguard National Land Services, LLC
39 West 37th Street, 3rd Floor
New York, NY 10018
Telephone: 212-532-8686 Ext. 3702
Attention: Kashima A. Loney, Esq.

The attorneys for the parties are hereby specifically authorized to give and to receive notice on behalf of their respective client.

13.3 **Broker.** Seller represents, warrants and covenants to Purchaser that Seller has not dealt with any broker in connection with this Agreement except Jones Lang LaSalle (the "**Broker**"), and Seller shall be responsible for the payment of all brokerage commissions to the Broker pursuant to a separate agreement. Purchaser represents, warrants and covenants to Seller that Purchaser has not dealt with any broker in connection with this Agreement other than the Broker. Seller and Purchaser shall indemnify and defend each other against any costs, claims and expenses, including reasonable attorneys' fees, arising out of their breach of their respective parts of any representation or agreement contained in this section. The provisions of this section shall survive Closing or, if Closing does not occur, the termination of this Agreement.

13.4 **Assignment.** This Agreement may be assigned by Purchaser without the consent of Seller to an affiliate of Purchaser (which shall be deemed to include Acadia Realty Trust or any subsidiary thereof) upon three (3) days' prior written notice to Seller.

13.5 **Time.** Time is of the essence of this Agreement.

13.6 **Time Periods.** In the event the time for performance of any obligation hereunder expires on a day that is not a Business Day, the time for performance shall be extended to the next succeeding Business Day.

13.7 **Counterparts; Signature by PDF.** This Agreement may be executed in counterparts, each of which shall constitute an original, but all together shall constitute one and the same Agreement. For purposes of this Agreement, signatures transmitted by electronic mail in PDF format shall be deemed to be an original.

13.8 **Governing Law.** This Agreement and all questions of interpretation, construction and enforcement hereof, and all controversies hereunder, shall be governed by the applicable statutory and common law of the State of Rhode Island without giving effect to conflict of laws principles thereof.

13.9 **Captions.** The captions at the beginning of the several paragraphs, respectively, are for convenience in locating the context, but are not part of the context.

13.10 **Severability.** In the event any term or provision of this Agreement shall be held illegal, invalid, unenforceable or inoperative as a matter of law, the remaining terms and provisions of this Agreement shall not be affected thereby, but each such term and provision shall be valid and shall remain in full force and effect.

13.11 **Prior Understandings.** This Agreement, the Exhibits and the Schedules attached hereto embody the entire contract between the parties hereto with respect to the Property and supersede any and all prior agreements and understandings, written or oral, formal or informal by and between Seller and Purchaser. No extension, changes, modifications or amendment to or of this Agreement, of any kind whatsoever, shall be made or claimed by Seller or Purchaser, and no notices of any extensions, changes, modifications, or amendments made or claimed by Seller or Purchaser shall have any force or effect whatsoever unless the same shall be in writing and fully executed by Seller and Purchaser.

13.12 **As Is.**

(a) Purchaser expressly acknowledges that the Property is being sold and accepted “**AS-IS, WHERE-IS, WITH ALL FAULTS**” except as may otherwise be specifically provided in this Agreement.

(b) This Agreement, as written, contains all of the terms of the agreement entered into between the parties as of the date hereof, and Purchaser acknowledges that neither Seller nor any of Seller’s affiliates, nor any of their agents or representatives, has made any representations or held out any inducements to Purchaser except as set forth in this Agreement, or in any document or instrument delivered by Seller to Purchaser in connection with this Agreement or the transactions contemplated hereby, and Seller hereby specifically disclaims any representation, oral or written, past, present or future, other than those specifically set forth in this Agreement or in any document or instrument delivered by Seller to Purchaser in connection with this Agreement or the transactions contemplated hereby. Without limiting the generality of the foregoing, Purchaser has not relied on any representations or warranties, and neither Seller nor any of Seller’s affiliates, nor any of their agents or representatives has or is willing to make any representations or warranties, express or implied, other than as may be expressly set forth in this Agreement or in any document or instrument delivered by Seller to Purchaser in connection with this Agreement or the transactions contemplated hereby.

(c) In the event this Agreement is not terminated then, it shall be deemed an acknowledgment by Purchaser that Purchaser has inspected the Property, is thoroughly acquainted with and accepts its condition, and has reviewed, to the extent necessary in its discretion, all the Property Information (as hereinafter defined). Except as set forth in this Agreement or in any document or instrument delivered by Seller to Purchaser in connection with this Agreement or the transactions contemplated hereby, Seller shall not be liable or bound in any manner by any oral or written “setups” (marketing packages containing information about the Property) or information pertaining to the Property or the rents furnished by Seller, Seller’s affiliates, their agents or representatives, any real estate broker, or other person.

(d) Except as set forth in this Agreement (including without limitation all documents executed in connection with the Closing and any other documents or instruments delivered by Seller to Purchaser in connection with Closing), Purchaser hereby waives, releases and forever discharges Seller, its affiliates, subsidiaries, officers, directors, shareholders, employees, independent contractors, partners, representatives, agents, successors and assigns (collectively, the “**Released Parties**”), and each of them, from any and all causes of action, claims, assessments, losses, damages (compensatory, punitive or other), liabilities, obligations, reimbursements, costs and expenses of any kind or nature, actual, contingent, present, future, known or unknown, suspected or unsuspected, including, without limitation, interest, penalties, fines, and attorneys’ and experts’ fees and expenses, whether caused by, arising from, or premised, in whole or in part, upon Seller’s acts or omissions, and notwithstanding that such acts or omissions are negligent or intentional, or premised in whole or in part on any theory of strict or absolute liability, which Purchaser, its

successors or assigns, may have or incur in any manner or way connected with, arising from, or related to the Property, including without limitation (i) the environmental condition of the Property, or (ii) actual or alleged violations of environmental laws or regulations in connection with the Property and/or any property conditions. Purchaser agrees, represents and warrants that the matters released herein are not limited to matters which are known, disclosed, suspected or foreseeable, and Purchaser hereby waives any and all rights and benefits which it now has, or in the future may have, conferred upon Purchaser by virtue of the provisions of any law which would limit or detract from the foregoing general release of known and unknown claims. Notwithstanding anything contained herein to the contrary, Purchaser shall have the right to implead Seller into any third party tort claim or action relating to matters arising prior to the Closing.

(e) The provisions of this **Section 13.12** shall survive the termination of this Agreement and the Closing.

13.13 **Property Information and Confidentiality.**

(a) Purchaser agrees that, prior to the Closing, all Property Information (as hereinafter defined) shall be kept strictly confidential and shall not, without the prior consent of Seller, be disclosed by Purchaser or Purchaser's Representatives (as hereinafter defined), in any manner whatsoever, in whole or in part, and will not be used by Purchaser or Purchaser's Representatives, directly or indirectly, for any purpose other than evaluating the Property or otherwise in connection with the transactions contemplated hereby. Moreover, Purchaser agrees, that prior to the Closing, the Property Information will be transmitted only to Purchaser's Representatives who need to know the Property Information for the purpose of evaluating, operating, financing or investing in the Property, and who are informed by Purchaser of the confidential nature of the Property Information. The provisions of this **Section 13.13** (A) shall in no event apply to Property Information that (i) is a matter of public record or becomes available to the public, (ii) was in Purchaser's possession prior to disclosure by Seller on a non-confidential basis, (iii) Purchaser acquires from another person who is not bound by a confidentiality agreement with Seller, and (B) shall not prevent Purchaser from complying with laws, including, without limitation, governmental regulatory, disclosure, tax and reporting requirements.

(b) Each of Purchaser and Seller hereby agree that between the date hereof and the Closing Date, it shall not release or cause or permit to be released any press notices, publicity (oral or written) or advertising promotion relating to, or otherwise announce or disclose or cause or permit to be announced or disclosed, in any manner whatsoever, the terms, conditions or substance of this Agreement or the transaction contemplated herein, without first obtaining the written consent of the other party hereto, which consent shall not be unreasonably withheld, conditioned or delayed. It is understood that the foregoing shall not preclude either party from discussing the substance or any relevant details of the transaction contemplated in this Agreement, with any of its attorneys, accountants, professional consultants or potential lenders, as the case may be, or prevent either party hereto from complying with laws, including, without limitation, governmental regulatory, disclosure, tax and reporting requirements. Notwithstanding anything to the contrary provided for herein, the parties expressly agree that, prior to Closing, Purchaser is permitted to release, without the consent of Seller, any press release or public disclosure (oral or written) relating to this transaction, provided that such press release or public disclosure (i) does not include the identity of Seller or its affiliates or the specific address or name of the property and (ii) notwithstanding the foregoing may contain the general location of the Property and/or the Purchase Price. Notwithstanding anything contained herein to the contrary, from and after the date of Closing and subject to the requirements of law, including the requirements of any governmental agency having jurisdiction over Seller or Purchaser or any legal process, the parties hereby agree that Purchaser may disclose to the public, and may issue one or more press releases related to the transaction without Seller's consent, provided such disclosures or press releases do not specifically identify Seller or its affiliates.

(c) Purchaser and Seller shall indemnify and hold each other harmless from and against any and all claims, demands, causes of action, losses, damages, liabilities, costs and expenses (including, without limitation, attorney's fees and disbursements) suffered or incurred by either party and arising out of or in connection with a breach by the other of the provisions of this **Section 13.13**.

(d) In the event this Agreement is terminated, Purchaser and Purchaser's Representatives shall, as requested, promptly deliver to Seller, or destroy, and provide written notice to Seller confirming such destruction, all originals and copies of the Property Information previously provided by Seller to Purchaser in the possession of Purchaser and Purchaser's Representatives; provided, however, that the return or destruction of such information shall not be a condition precedent to the return of the Deposit, and the Deposit shall be returned to Purchaser notwithstanding any claim by Seller that Purchaser has failed or refused to comply with its obligations under this **Section 13.13(d)**.

(e) As used in this Agreement, the term "**Property Information**" shall mean all information and documents in any way relating to the Property provided by Seller, the operation thereof or the sale thereof furnished to, or otherwise made available for review by, Purchaser or its directors, officers, employees, affiliates, partners, brokers, agents, or other representatives, including, without limitations, attorneys, accountants, contractors, consultants, engineers, potential lenders and investors and financial

advisors (collectively, “**Purchaser’s Representatives**”), by Seller or any of Seller’s affiliates, or their agents or representatives, including, without limitation, their contractors, engineers, attorneys, consultants, brokers or advisors.

(f) In addition to any other remedies available to Seller and Purchaser, Seller and Purchaser shall have the right to seek equitable relief against the other, including, without limitation, injunctive relief or specific performance, against the other party in order to enforce the provisions of this **Article 13.13**; provided that, for the avoidance of doubt, no breach of this **Article 13.13** shall excuse either party from performing its obligation to close the transactions contemplated hereby.

(g) The provisions of this **Article 13.13** shall survive the termination of this Agreement and the Closing.

13.14 **Like-Kind Exchange.** Purchaser and Seller agree and acknowledge that each of them shall have the right to seek to qualify the transaction contemplated herein as a like-kind exchange under Section 1031 of the Code. In the event that either party (as applicable, the “**Requesting Party**”) exercises its right under this Agreement to seek to qualify any such transaction contemplated herein as a like-kind transaction under Section 1031, the other party (the “**Non-Requesting Party**”) agrees to cooperate reasonably in the exchange, at the Requesting Party’s sole cost, expense and liability (whether before, at or after Closing), and execute any additional agreements which such requesting party reasonably determines to be necessary, and the non-requesting party reasonably approves, for the transaction or transactions represented by this Agreement to qualify as part of a like-kind exchange under Code Section 1031 either prior to or after Closing provided that (i) the non-requesting party incurs no additional liability, cost or expense; and (ii) the non-requesting party shall not be required to take title to any property other than the property which is the subject of this Agreement. Furthermore, except as provided in **Section 13.4** hereof each party expressly acknowledges and agrees that both party’s rights under this Agreement are assignable only to the extent necessary to permit such assigning party to seek to qualify the transaction as part of a like-kind exchange under the Code provided, however, that any such assignment shall not release the assigning party from its obligations hereunder. The requesting party further agrees to indemnify and hold non-requesting free and harmless from any cost, expense or liability, including reasonable attorney fees, resulting from non-requesting party’s participation in any such exchange for the benefit of requesting party. Notwithstanding the foregoing, (i) any exchange or proposed exchange (including any tax consequences to either party) shall be at the sole risk of the requesting party, (ii) no such exchange or proposed exchange shall delay or postpone Closing, and (iii) should requesting party fail for any reason to effect a tax deferred exchange as contemplated in this **Section 13.14**, then and in any such event, the purchase by requesting party of the Property shall be consummated in accordance with the terms and conditions of this Agreement as though the provisions of this **Section 13.14** had been omitted herefrom, except that non-requesting shall be reimbursed and indemnified from resulting costs and expenses as provided in this Section. Nothing contained in this **Section 13.14** shall release requesting party of any of its obligations or liabilities under this Agreement, whether arising before, at or after Closing.

13.15 **No Additional Undertakings.** Upon the Closing, Purchaser shall neither assume nor undertake to pay, satisfy or discharge any liabilities, obligations or commitments of Seller other than those specifically agreed to between the parties and set forth in this Agreement. Except with respect to the foregoing obligations, Purchaser shall not assume or discharge any debts, obligations, liabilities or commitments of Seller, whether accrued now or hereafter, fixed or contingent, known or unknown.

13.16 **Undertakings by Seller and Purchaser.** Seller and Purchaser each agree to perform such other acts, and to execute, acknowledge and deliver, prior to, at or subsequent to Closing, such other instruments, documents and other materials as the other may reasonably request and as shall be necessary in order to effect the consummation of the transaction contemplated hereby and to vest title to the Property in Purchaser. Seller will, whenever and as often as it shall be reasonably requested so to do by Purchaser, and Purchaser will, whenever and as often as it shall be reasonably requested so to do by Seller, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, any and all conveyances, assignments, correction instruments and all other instruments and documents as may be reasonably necessary in order to complete the transaction provided for in this Agreement and to carry out the intent and purpose of this Agreement. This **Section 13.16** shall survive the Closing and the delivery of the Deed.

13.17 **Survival of Representations and Warranties.**

(a) Except as otherwise explicitly provided, the representations and warranties set forth herein shall survive the Closing and delivery of the Deed for a period of nine (9) months (as such period may be extended if a claim is timely made as hereinafter provided, the "**Survival Period**"); it being acknowledged and agreed that if Purchaser delivers to Seller a Breach Notice (as hereinafter defined) prior to the expiration of the Survival Period (a "**Surviving Period Claim**"), then the "Survival Period" shall be deemed to continue *but only with respect to the Surviving Period Claim(s)* until the full and final disposition of any such Survival Period Claim(s).

(b) If, after the Closing, Purchaser obtains actual knowledge that any representation or warranties made by Seller in this Agreement, in any closing documents delivered by Seller at the Closing were untrue, inaccurate or incorrect in any material respect when made, Purchaser shall notify Seller of any claim for damages, reimbursement or other relief arising out of such untruth, inaccuracy or incorrectness of a representation or warranty (the "**Post-Closing Damages**") in writing (a "**Breach Notice**") on or before the expiration of the Survival Period, and, if Seller disputes Purchaser's entitlement to such alleged Post-Closing Damages, Purchaser shall commence an action, suit or proceeding with respect to such claim or claims for Post-Closing Damages within thirty (30) days after receiving written notice from Seller that Seller so disputes Purchaser's entitlement to Post-Closing Damages. Notwithstanding the foregoing, (i) there shall be no liability for Post-Closing Damages unless, and only to the extent that, such Post-Closing Damages exceed Fifty Thousand and 00/100 Dollars (\$50,000.00) in the aggregate, and (ii) there shall be no liability for any Post-Closing Damages in excess of the sum of One Million Four Hundred Twenty-Five Thousand and 00/100 Dollars (\$1,425,000.00) in the aggregate ("**Liability Cap**"). Seller hereby covenants and agrees at all times during the Survival Period (as the same may be extended in accordance with Section 13.17(a) above), in order to satisfy any potential liability of Seller hereunder or after Closing for breach of any representations and warranties, covenants and indemnities contained herein or in any conveyance documents, to (a) maintain the Seller entity in good standing in its state of organization and the state where the Real Property is located, and (b) remain solvent and maintain a minimum net worth and liquid assets (in the form of cash or other readily available federal funds from the net proceeds of the sale of the Property) in an amount equal to or greater than the Liability Cap. The terms and provisions of this **Section 13.17** shall survive the Closing for the duration of the Survival Period (as the same may be extended in accordance with Section 13.17(a) above).

13.18 Intentionally omitted.

13.19 **Attorneys' Fees.** If either party institutes a legal proceeding against the other party in connection with this Agreement, the losing party in such proceeding shall reimburse the prevailing party for all reasonable attorneys' fees paid by the prevailing party in connection with such proceeding. The provisions of this Section shall survive the Closing or termination of this Agreement.

13.20 **Successors and Assigns.** This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors and permitted assigns, if any.

13.21 **Construction.** The terms "hereof," "herein," and "hereunder," and words of similar import, shall be construed to refer to this Agreement as a whole, and not to any particular article or provision, unless expressly so stated. All words or terms used in this Agreement, regardless of the number or gender in which they are used, shall be deemed to include any other number and any other gender as the context may require.

13.22 **No Third Party Benefits.** This Agreement is made for the sole benefit of Seller and Purchaser and their respective successors and assigns and no other person shall have any right, remedy or legal interest of any kind by reason of this Agreement.

13.23 **Waiver.** No waiver by either party of any failure or refusal by the other party to comply with its obligations shall be deemed a waiver of any other or subsequent failure or refusal to so comply. The provisions of this **Section 13.23** shall survive the Closing or the termination hereof.

13.24 **Waiver of Trial by Jury.** Seller and Purchaser hereby irrevocably and unconditionally waive any and all right to trial by jury in any action, suit or counterclaim arising in connection with, out of or otherwise relating to this agreement. The provisions of this **Section 13.24** shall survive the closing or the termination hereof.

13.25 Intentionally Omitted.

13.26 **Regulation S-X.** Seller shall use its reasonable efforts to cooperate with Purchaser and its auditors to provide, from and after the date hereof, access at all reasonable times to all financial and other information relating to the Property necessary

for Purchaser and its auditors to prepare audited financial statements in conformity with Regulation S-X of the Securities and Exchange Commission (“**SEC**”) or other materials required for any registration statement, report or other disclosure to be filed with the SEC or necessary to comply with any SEC rule or regulation, in each case to the extent in Seller’s possession; provided, however, that Purchaser shall pay for any reasonable, actual out-of-pocket costs incurred by Seller in connection with its obligations under this **Section 13.26** and Purchaser hereby waives any and all claims, liabilities and damages that may be raised by Purchaser against Seller, its agents or affiliates and releases Seller and its agents and affiliates from any such claims, liabilities and damages, in each case arising with respect to Seller’s actions or omissions pursuant to this **Section 13.26**; provided that this waiver and release shall in no way constitute a waiver, release or otherwise compromise Purchaser’s rights and/or Seller’s liabilities with respect to Seller’s obligations elsewhere in this Agreement (excluding this **Section 13.26**). The obligation of Seller to use reasonable efforts to cooperate with Purchaser and its auditors shall survive the Closing for a period of one hundred eighty (180) days.

[Signatures Appear On Following Pages]

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

SELLER:

MB LINCOLN MALL, L.L.C.,
a Delaware limited liability company

By: HIGHLANDS REIT, INC., a Maryland corporation

By: /s/Richard Vance

Name: Richard Vance, President and CEO

PURCHASER:

LINCOLN MALL OWNER LLC,
a Delaware limited liability company

By: /s/ Jason Blacksberg

Name: Jason Blacksberg

Title: Senior Vice President

[Signatures Continue on Following Page]

The Escrow Agent joins in the execution of this Agreement solely for the purpose of its agreement to hold the Deposit in escrow in accordance with the terms hereof.

ESCROW AGENT:

KENSINGTON VANGUARD NATIONAL LAND SERVICES

By: /s/ Kashima A. Loney
Name: Kashima A. Loney
Title: Vice President and Underwriting Counsel

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Section 3: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Richard Vance, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Highlands REIT, 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(s) 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(s) 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: May 10, 2019

/s/ Richard Vance

Name: Richard Vance

Title: President and Chief Executive Officer (Principal Executive Officer)

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Section 4: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Paul Melkus, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Highlands REIT, 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(s) 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(s) 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

Date: May 10, 2019

/s/ Paul Melkus

Name: Paul Melkus

Title: Executive Vice President and Chief Financial Officer (Principal Financial Officer)

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Section 5: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

**Certification of Principal Executive Officer
Pursuant To 18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of The Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Highlands REIT, Inc. (the "Company") for the period ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to such officer's knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 2019

/s/ Richard Vance

Name: Richard Vance

Title: President and Chief Executive Officer (Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as a part of the Report or on a separate disclosure document.

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Section 6: EX-32.2 (EXHIBIT 32.2)

Exhibit 32.2

**Certification of Principal Financial Officer
Pursuant To 18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of The Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Highlands REIT, Inc. (the "Company") for the period ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to such officer's knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Date: May 10, 2019

/s/ Paul Melkus

Name: Paul Melkus

Title: Executive Vice President and Chief Financial Officer (Principal Financial Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as a part of the Report or on a separate disclosure document.

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