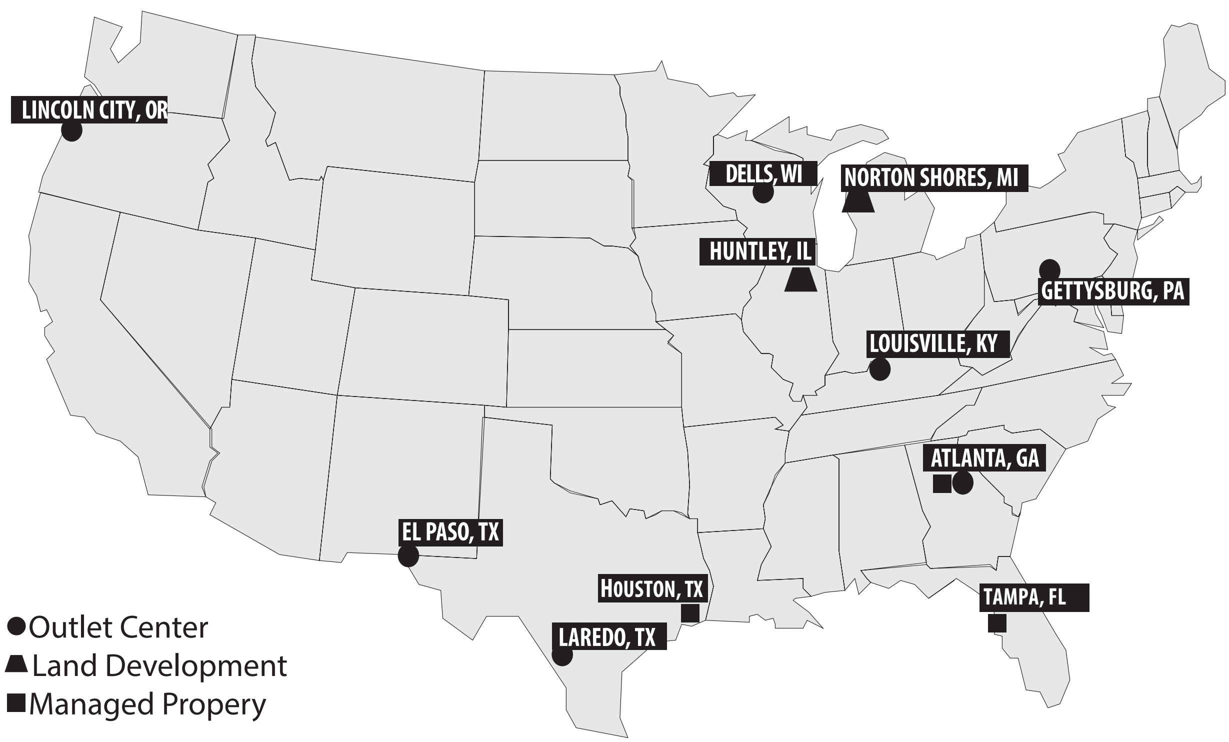
Horizon Group Properties

2024 Annual Report

HGP
Horizon Group Properties

horizongroup.com

Portfolio



Horizon Group Properties, Inc.
Horizon Group Properties, Inc. is a developer, owner and manager of outlet shopping centers and developer of a master planned community in Suburban Chicago.

Cover Photo: Outlets at The Dells, Lincoln City Oultets

Dear Stockholder,

The resiliency of the consumer has continued to surprise those of us in the retail business. Concern regarding the cessation of the COVID-19 era government payments to individuals, fear of a hard landing based on the Federal Reserve's high interest rate policy, and the impact of inflation on consumers' pocketbooks have not materialized as retail sales remain surprisingly robust. While we have observed a slight softening in sales and traffic at our centers, overall performance is encouraging.

This past year through early this year has been the closest to "business as usual" since 2019. Sales are at or above 2019 levels at all but one of our centers. Notably, The Outlet Shoppes at El Paso ("El Paso") and The Outlet Shoppes at Laredo ("Laredo) have seen impressive same-store sales growth of 30% and 33% respectively compared to 2019. Leasing activity for national tenants has rebounded to pre-pandemic levels after being all but nonexistent. We continue to replace local tenants that we secured to fill pandemic-induced vacancies (and who pay significantly lower rents) with better national brands paying higher rents.

The resilience of the outlet sector, the appeal of open-air shopping, and limited new shopping center construction are attracting a wave of new tenants. Established outlet brands like Victoria's Secret, Pandora, Pyscho Bunny and Box Lunch are expanding their presence, while non-traditional outlet retailers like Ulta Beauty, TJ Maxx and Five Below are seeking locations in outlet centers.

In last year's letter, I bemoaned the fact that retailers were inconsistent in their hours of operation and had periodic closures due to COVID-19 or staffing shortages. While not completely resolved, this situation has dramatically improved. Occupancy rates at most centers have improved as well as net operating incomes ("NOIs") which, in most instances, exceed pre-pandemic levels.

This past year marked a significant milestone for the Company with the acquisition of the Lincoln City Outlets in Lincoln City, Oregon and Outlets at The Dells in Lake Delton, Wisconsin our first shopping center acquisitions since 2007. We are very excited about these additions to our portfolio and the opportunity to increase the value of these centers through improved, management, marketing and leasing strategies.

DEVELOPMENT AND ACQUISITIONS

Developing new outlet centers is more challenging than ever because fewer brands are in the outlet business and uncertainty has slowed expansion by those in the business or are expanding into it, construction costs remain high and construction financing options are limited and expensive. 2023 saw the opening of the only new outlet center developed over the past five years. It is smaller than centers opened over the past fifteen years and has a lower concentration of true outlet tenants. There is only one new outlet center currently under construction nationally, with an opening scheduled for the late summer.

The Company's last development was The Outlet Shoppes at Laredo which opened in 2017. Since then, we began development of a new outlet in Cleveland but dropped this effort with the onset of the pandemic. We continue to explore opportunities for new development since well-executed projects are very profitable for the Company, generating fees that support our overhead. While we are actively exploring new opportunities, we are not currently working on any new projects.

Between 2021 and 2023, the Company made offers to purchase three properties and evaluated a number of others for which we declined to make offers. In each instance, the actual sales prices for the centers on which we bid were significantly above the prices we had offered. In our view, the amounts we offered were not "lowball" offers. Given this experience, I am pleased to report that the Company successfully bid for two outlet centers in 2023, finalizing the purchases in the first quarter of 2024.

This February, we strategically expanded our portfolio with the acquisition of Lincoln City Outlets ("Lincoln City"), a thriving 255,000-square-foot open-air shopping center. Ideally located in the heart of Lincoln City, an Oregon coastal gem situated on Highway 101's second-busiest stretch, the center capitalizes on the city's booming tourism industry. Lincoln City's population explodes during peak travel seasons, nearly quadrupling in size, and the surrounding county attracts over two million visitors annually

The Company holds a 12% interest in the joint venture that acquired the center and is its managing member with the responsibility of property management, leasing and overseeing its marketing efforts. The fee income from this role generates additional revenue without requiring the need of additional overhead. The center is 93% occupied giving the Company the opportunity to further boost net operating income through strategic leasing initiatives.

Lincoln City Outlets boasts a strong core of national outlet tenants including Nike, The North Face, Old Navy, Under Armour, American Eagle and Eddie Bauer. It also has some terrific local tenants that contribute to the center's unique mix. We are committed to further enhancing this blend by identifying both established national brands and exciting local businesses that complement our existing offerings. Additionally, we are taking steps to improve the marketing at the center by, among other things, implementing social media strategies to boost the center's online presence and attract even more visitors.

This March, we strategically expanded our portfolio with the acquisition of Outlets at The Dells ("the Dells"), a sprawling 269,315-square-foot open-air shopping destination. Ideally located in Lake Delton, Wisconsin Dells' heart. The Dells is a major tourist destination in the State of Wisconsin with five major resorts, exhilarating water and theme parks, a staggering 8,000 hotel rooms, and over five million visitors annually.

The Company acquired a 10.75% interest the center through a tenant-in-common ("TIC") structure. This is the first time the Company has owned real estate using a TIC structure. The Company has the responsibility for managing, leasing and marketing the center and, as in Lincoln City, will receive significant fee income for these services without the need to increase corporate overhead.

The Dells has successfully evolved from a pure outlet center into a value-oriented shopping center with the recent acquisition of non-outlet retailers including TJ Maxx, Five Below and Ulta Beauty with relatively new 10-year leases. This complements the existing lineup of national outlet brands like Nike, Under Armour, and Adidas, GAP, Michael Kors and Coach. We are further enhancing the mix by adding Hey Dude and Aerie to the center. When they take occupancy, the center will be 98% occupied. We believe there remains the opportunity to optimize the tenant mix by strategically replacing some lower rent-paying local tenants with well-established national tenants.

Details regarding the acquisition financing for both properties are discussed below.

CENTERS

Over the past year (through May 2024), we have seen mixed performance at our centers. Three locations experienced same-store sales increases of 1% to 10%, while the other four centers saw declines between 2% and 5%. Interestingly, the change in traffic does not directly correlate with the change in sales but, in general, it seems that sales per visitor is increasing. It is not clear what is causing the small sales declines but we do believe that Easter being so early - in late March - likely affected overall sales for that holiday season.

It has been several years since we experienced tenant bankruptcies. Recently, Express and Rue 21 filed for Chapter 11. In the case of Express, we have five stores in our portfolio. The plan for reorganization will result in the store at the Dells closing while the other stores will remain open converting from fixed net rent to gross percentage rent deals. We have five Rue 21 stores in our portfolio. Three of those stores will close and two will remain open at reduced rents. We estimate that the overall loss in annual rent because of these bankruptcies will be approximately $140,000.

We prioritize creating engaging atmospheres at each center, aiming to extend shopper dwell time and ultimately boost sales. These on-site experiences differentiate us from competitors and online retailers. Our marketing strategy heavily relies on traffic-building community events. Many of these, like our signature Christmas tree lighting ceremony, have transformed into cherished traditions, generating an impressive estimated value of $120,000 in unpaid media coverage. Furthermore, we collaborate with local organizations and schools, encouraging them to participate in events and offer entertainment, providing value to both shoppers and the participating groups.

Our marketing efforts have included leveraging local celebrities through social media to promote special events, discounts, and exclusive offers to their followers, effectively increasing engagement and driving traffic to our centers.

While traditional advertising channels like billboards and electronic media are still part of our strategy, we have witnessed a surge in the amount of mobile digital ads and social media advertising. We have embraced a data-driven approach, to advertising by utilizing advanced technology to analyze visitor behaviors and preferences. Leveraging tools such as Placer.ai has allowed us to align our digital, OTT, traditional media advertising, billboards, and social media advertising efforts by making more informed decisions.

As leisure travel rebounds from the pandemic, we are actively re-establishing our centers as must-visit destinations for tourists, replicating our past success. We have forged strategic partnerships with Convention and Visitor Bureaus (“CVBs”) at local and state levels. By partnering with bus groups, conventions, hotels, travel sports teams and other important stakeholders, we have effectively reinforced the shopping center's status as a top choice for visitors. We provide promotional materials, giveaways, and various support to aid CVBs' sales teams to highlight the centers at travel shows.

The Outlet Shoppes at Atlanta ("Atlanta") continues to shine as a regional powerhouse, boasting exceptional sales figures and a terrific tenant mix. Our leasing team has further strengthened the center's appeal by securing leases with some great new tenants for the center, including Greg Norman, The Outlet Bar, Perry Ellis and Buckle. The first two stores are currently open. Perry Ellis is slated for a fall opening, and Buckle will join the lineup in early 2025.

The Outlet Bar in the food court offers a unique "Sip and Shop" experience, a concept that has proven highly popular with our customers and helps increase shopper dwell times at the center. The North Face, Athleta and Lacoste each opened in the center during the second half of 2023

During the pandemic, Atlanta lost several tenants due to bankruptcy, and occupancy dipped below 90%. We struggled to maintain occupancy and leased space to several local tenants at substandard lease rates. We have weeded out the weakest of these tenants and the current occupancy is 95.4%. In addition, the quality of the tenants and merchandise mix has never been better. Likewise, the center's NOI (net operating income) has never been higher. Current annual NOI is 23% above that of calendar year 2019.

Atlanta's transformation extends beyond its tenant mix. It is a gorgeous shopping center. We continue to upgrade the landscaping at the center. We believe it has never looked better than today. We also have installed a gazebo at center court to provide a permanent structure at which to hold various entertainment events rather than utilizing temporary staging. This reduces labor costs for set up and provides a much more appealing look. When not in use for entertainment, the gazebo provides shaded seating for our customers.

Since the center opened, we have never been able to attract significant interest in common area kiosks or carts for merchant sales. The weather does present a challenge during several months of the year but we believe a more substantial RMU (retail merchandising unit) program with protection from the elements would be attractive for merchants that are unable to utilize a typical small retail space. We have purchased two of these units. The units will arrive in the next several weeks and we expect the revenue from those units to pay back our investment over the following 18 to 24 months.

Another new revenue source is priority parking. We have teamed with a company that operates the parking and they pay us rent based on the revenue. This not only generates additional income for the center but also provides a stress free experience for shoppers during peak seasons. They can minimize their walk into the center and avoid the hassle of searching for parking, allowing them to focus on enjoying their shopping trip.

I am pleased to report that The Outlet Shoppes at El Paso ("El Paso") continues to make great strides since I wrote to you last year. The re-opening of the border, the strong Mexican peso, and the increased development in the area have all contributed to the improvement. As mentioned above, sales are substantially above pre-pandemic sales. The NOI for the center over the past twelve-months is 32% above the NOI for 2019.

Same-store sales for the twelve months ended May 2024 have weakened slightly and traffic has been down primarily because of the work being done on I-10 in front of the center. At times, the highway has been completely shut down and, for long periods, only one lane has been open, understandably affecting accessibility. However, we are confident that this temporary inconvenience will result in long-term gain. The improved highway will significantly enhance access to the center easier and a new interchange is being construed just north of the center that will provide new convenient access to the center. We believe it will help alleviate the traffic backups that currently exist at the main entrance. Finally, all of this construction highlights the increased shift in population and development on the west side of the El Paso where our center is located.

This was yet another year of weeding out tenants that we brought to the center to fill the spaces vacated by pandemic-related tenant departures and we are filling those spaces with some great brands. In my last letter, I wrote that we had added Hey Dude, Cole Hahn, Kate Spade, Vineyard Vines, Psycho Bunny and Box Lunch.

Recently we signed a permanent lease with Psycho Bunny and we added Lacoste, Samsonite, Krispy Krunch Chicken and Frontera Coffee Co. to the center. The latter is important because it satisfies constant customer requests for high-quality coffee. Unfortunately, meeting this demand continues to be a struggle at some of our other centers because most national brands are only willing to open new stores in locations that include drive through availability. Finally, because of the exceptionally good sales at the center, the Coach Factory Outlet is about to expand from a 3,956 square-foot space to a 8,516 square-foot space.

El Paso has the most robust cart and kiosk program of any of our centers. Four beautiful new state of the art enclosed RMUs have recently arrived at the center and leasing is underway. The investment in the units should be recaptured in 18 to 24 months.

Finally, the center received a fresh coat of paint to brighten its faded colors. It is now back to its old vibrantly colorful self. This year we decided to change from in-house maintenance staff to third party contractual staff. This was a prudent economic decision, which has resulted in a marked improvement in cleanliness and better overall appearance. Both aspects further enhance the shopping experience.

The Outlet Shoppes of the Bluegrass ("Bluegrass") is another beautiful outlet shopping center with many terrific brands. The architecture and landscaping make it a wonderful spot to shop. When I wrote last year, the center was undergoing a complete repainting. That project is now complete and the center could not look better. In addition to the painting, a complete renovation of the food court was completed. The farmhouse restaurant design provides a vastly improved spot for shoppers to take a break and grab a bite from one of the four food court tenants.

Several new tenants have opened in the center over the last twelve months including Palmetto Moon, Kate Spade, Roman's Asian Kitchen and, most recently, Keen Outlet Garage, that company's first U.S. outlet store. Keen is a shoemaker with over 20 years' experience offering footwear for men, women and children. Each of these tenants is a great addition to the merchandise mix at the center.

We are excited about the dynamic growth unfolding in Shelby County, particularly around the center's location. This development boom encompasses both commercial and residential sectors. Directly across the street from our center, Simpsonville Commons Business Park a sprawling 140-acre "Class A" project, is taking shape. This development will house a diverse mix of retail, distribution, logistics and advanced manufacturing. The first tenant recently opened an 118,500 square foot warehouse. We foresee the new employees as additional shoppers and diners at our center.

We continue experimenting with our marketing efforts because we feel sales should be even stronger. These efforts focus on the unique brands found nowhere else in the market, the easy drive from upper-income areas to the center, and the center's value proposition. We added more than 40 engagement experiences in the last twelve months, including seasonal displays and an overhead pinwheel art installation.

The border closure caused by the pandemic as well as the very strict restrictions imposed by the City of Laredo severely affected The Outlet Shoppes at Laredo ("Laredo"). Trailing twelve-month sales from March 2019 to March 2020 declined by 48.1%! Since the border reopened, sales at the center have rebounded. Trailing twelve-month same-store sales as of the end of April were up 30% over 2019 and 9% over the preceding twelve-month period.

We have worked very diligently over the past several years to maintain occupancy levels at the center by leasing to local tenants and being flexible with existing tenants. The sales trajectory at the center has helped us lease to some great national tenants including Hugo Boss and Lacoste, which opened last fall, a Dallas Cowboy Store that opened in April, Psycho Bunny and Five Below, which will both open this summer.

We think that our marketing initiatives have significantly contributed to the rise in sales at the center. The robust Mexican economy has led us to intensify our marketing efforts there. Among all the markets in which we operate, this center boasts the strongest social media program and its metrics significantly exceed those of its competition. Our emphasis is on hosting events that encourage community participation. Examples of these include the monthly Pop Up / Farmers' Market, engagements with the Sister Cities program and citywide tourism partners to name just a few of the activities at the center.

The Outlet Shoppes at Gettysburg ("Gettysburg") was the hardest hit by bankruptcies resulting from the pandemic. It lost some key national brands and continued to do so over the past year. The Company has worked hard to backfill these brands with local and regional tenants that can help keep the center vibrant. The biggest additions are strong local tenants including a furniture store, jewelry repair shop, a frame shop and a couple of boutiques. At 89%, occupancy at the center is only slightly below the pre-pandemic level.

We continue our efforts to maintain the property with the resources at hand. We recently completed rebuilding half of the Main Street that runs through the center. Storm damage required us to repair and replace extensive areas of the center's roofs. Insurance paid for the majority of this work.

FINANCING

The Company has been very busy over the past year with property financings and will continue to be for the balance of this year. In April 2023, the bank loan secured by Phase II of Bluegrass matured. We sought an extension of the existing loan or a replacement loan but the terms and rates for either option were prohibitive. That, coupled with the fact that the Phase I loan matured in December 2024, the Company and our partner, CBL, felt that it made more sense to repay the loan. As a result, a repayment of $6,220,259 was made, of which the Company's share was $981,952.

We have engaged a broker to arrange financing for Phases I and II of Bluegrass. The loan on Phase I had a balance as of May 31, 2024 of $62.3 million and matures December 1, 2024 but it is pre-payable without penalty beginning September 1, 2024. Provided the capital markets remain stable, we are confident that we can secure a loan adequate to retire the existing loans secured by the center based on the strength of the center, including high sales and occupancy and stable NOI.

In November, the Company arranged for and closed on a loan secured by Phases I and II of Atlanta. The new loan paid down the maturing loans secured by Phase I of the center that had an outstanding principal balance of $65.2 million and the loan secured by Phase II that had a balance of $4.3 million The interest only CMBS loan has a term of ten years, an interest rate of 7.85% and a principal balance of $79.3 million. In addition to retiring the existing debt, the new loan provided extra proceeds of $6.1 million of which the Company received approximately $880,000. While we are pleased that we closed on the loan since there were no extension options for the maturing debt, it occurred during almost the worst rate environment in many years.

In February 2024, the Company arranged for and closed on a loan for the purchase of Lincoln City. This interest only CMBS loan has a term of ten years, an interest rate of 7.15%, a principal balance of $23.2 million and is secured by the center. Fortunately, the ten year treasury rate had declined from its high in November and resulted in a loan that has an interest rate 70 basis points lower than the loan secured by Atlanta.

In March 2024, the Company arranged for and closed on a loan for the purchase of the Dells. This interest only CMBS loan has an initial principal balance of $36.7 million, a term of ten years, an interest rate of 7.07% and is secured by the center.

THIRD PARTY MANAGEMENT

I believe we have reduced the Company's overhead to a level at which further reductions would prevent us from operating our properties in a first-class manner. Further, the team in place is one of the best in the outlet industry, with skills applicable to managing all classes of retail properties. Over the past several years, we have promoted our team to real estate owners as a third party manager as a means to close the gap between overhead costs and fee income. We currently manage two power centers and a strip center.

This year, we are ramping up our efforts to secure additional agreements to manage retail properties for other owners. We are using more of our staff to market our services and are attending trade shows where we might make connections required to succeed. The business is highly competitive.

It is my hope that demonstrating our core competency on these assignments will result in additional opportunities for the Company.

LAND SALES

The Company owns 326 acres of land in Huntley IL, of which approximately 150 is developable. The pace of real estate activity in Huntley and the surrounding communities is mixed with residential and industrial development continuing to be strong while retail, office and hotel much slower.

Our land portfolio in Huntley includes parcels zoned for retail, office, and industrial uses. We have identified several parcels of land for which residential development is the best and highest use even though these parcels currently have different zoning. We have been working with residential companies over the past year and think that there may be a viable option for a sale to a homebuilder. A sale for residential use would require Village approval. While there is no assurance that such zoning will be approved, I can report that working with the Village has been much easier over the last few years which is mutually beneficial to both parties.

We have signed an agreement to sell land for use as a truck company corporate headquarters, warehouse and repair facility coupled with a fuel station and convenience store. The sale requires the Company to provide infrastructure necessary for this development but also of benefit to adjacent land. Net of the required work and closing costs, the net proceeds from the sale are estimated to be $4.5 million with closing anticipated to occur in the third quarter of this year.

We continue to market and sell the land acquired in connection with the land we acquired in connection with the development of our outlet center in Atlanta. In April of this year, we sold 3.8 acres of land for the development of a self-storage facility. Net proceeds of the sale were $1.7M of which the Company received $ approximately $650,000.

We retain approximately ten acres of land for sale that we are aggressively marketing. The land has a very difficult topography, federally regulated wetlands and soil stockpiled from prior sales and subsequent development. Most of the property in proximity to ours has been developed since the exit from I-575 to the road abutting ours was opened. At some point, we should be able to sell the land for good prices because the area is so attractive for commercial uses. Having said that, there is no certainty about the timing or the amount of proceeds any sales would generate.

CONCLUSION

As we look to the future, we continue to market our third-party management services. We continue to believe that we would be a valuable asset to passive investors in need of high-quality shopping center management and leasing. We continue to maintain a keen focus on the operation, leasing and marketing of our centers. We are excited about the opportunity to improve the value of the two new acquisitions. We will continue to look at other opportunities to make strategic acquisitions.

We continue to believe our open-air centers have an advantage over enclosed shopping venues for the near future. We also think we have a competitive advantage during the current economic uncertainty and inflation-driven price increases as shoppers turn to the values they find at outlet

In closing, I would like to thank the staff at Horizon for their efforts during the past year. I would specifically like to recognize Dave Tinkham our CFO, Tom Rumptz, Executive Vice President, Jimmy Dixon, Chief Accounting Officer, and Ryan Penty, Financial Analyst, all of whom did yeomen's work on the two acquisitions and three major financings we completed over the past nine month. We cannot control the lingering impact of the pandemic, economic downturns, inflation, macro-economic changes to the retail sector or the disruption caused by the upcoming election. But we can control our efforts, focus, and creativity to do all in our power to improve the value your investment in Horizon.

Sincerely,

Gary J. Skoien
CEO and Chairman of the Board

Consolidated Financial Statements

Horizon Group Properties, Inc.

For the years ended December 31, 2023 and 2022

Horizon Group Properties, Inc.

Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

Contents

Independent Auditor's Report

Board of Directors
Horizon Group Properties, Inc. and Subsidiaries

Opinion

We have audited the accompanying consolidated financial statements of Horizon Group Properties, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Horizon Group Properties, Inc. and Subsidiaries as of December 31, 2023 and 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Horizon Group Properties, Inc. and Subsidiaries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Horizon Group Properties, Inc. and Subsidiaries' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Horizon Group Properties, Inc. and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Horizon Group Properties, Inc. and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Cohen & Company Ltd.

Akron, Ohio
March 12, 2024

HORIZON GROUP PROPERTIES, INC.

Consolidated Balance Sheets

	December 31, 2023	December 31, 2022
	(In thousands)	
ASSETS		
Real estate		
Land	$ 565	$ 565
Buildings and improvements	3,172	3,172
Less accumulated depreciation	(1,284)	(1,121)
	2,453	2,616
Construction in progress	3	3
Land held for investment	24,241	24,016
Total net real estate	26,697	26,635
Investment in and advances to joint ventures	18,293	19,014
Investment in and advances to joint ventures, at fair value	51,415	48,188
Cash and cash equivalents	6,776	6,219
Restricted cash	643	152
Tenant and other accounts receivable, net	383	667
Deferred costs, (net of accumulated amortization of $86 and $58, respectively)	91	92
Other assets	1,054	1,357
Total assets	$ 105,352	$ 102,324
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Mortgage and other debt (net of unamortized debt issuance costs of $26 and $85, respectively)	$ 1,966	$ 2,219
Accounts payable and other accrued expenses	10,050	10,284
Prepaid rents and other tenant liabilities	139	141
Total liabilities	12,155	12,644
Commitments and contingencies		
Stockholders' equity:		
Common stock ($.01 par value, 50,000 shares authorized, 9,799 and 8,742 shares issued and outstanding, respectively)	98	98
Preferred stock ($.01 par value, 50,000 shares authorized, 2 shares issued and outstanding, respectively)	-	-
Additional paid-in capital	114,100	113,043
Accumulated deficit	(38,626)	(40,555)
Total stockholders' equity attributable to the controlling interest	75,572	72,586
Noncontrolling interests in consolidated subsidiaries	17,625	17,094
Total stockholders' equity	93,197	89,680
Total liabilities and stockholders' equity	$ 105,352	$ 102,324

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

HORIZON GROUP PROPERTIES, INC.

Consolidated Statements of Operations

	Year Ended December 31, 2023	Year Ended December 31, 2022
	(In thousands)	
REVENUE		
Base rent	$ 524	$ 447
Expense recoveries	127	100
Management, development, and leasing fees	3,331	2,521
Other	310	10
Total revenue	4,292	3,078
EXPENSES		
Property operating	513	508
Real estate taxes	94	92
Other operating	4	10
Depreciation and amortization	190	197
General and administrative	6,489	3,571
Interest	133	259
Total expenses	7,423	4,637
OTHER INCOME AND EXPENSE		
Income from investment in joint ventures	10,446	4,936
Gain on sale of real estate	-	4,573
Total other income and expense	10,446	9,509
Consolidated net income	7,315	7,950
Less net income attributed to the noncontrolling interests	(656)	(1,131)
Net income attributable to the Company	$ 6,659	$ 6,819

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

HORIZON GROUP PROPERTIES, INC.

Consolidated Statements of Stockholders' Equity

(In thousands)

	Common and Preferred Stock	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity Attributable to the Controlling Interest	Noncontrolling Interests in Consolidated Subsidiaries	Total Stockholders' Equity
Balance, January 1, 2023	$ 98	$ 113,043	$ (40,555)	$ 72,586	$ 17,094	$ 89,680
Net income	-	-	6,659	6,659	656	7,315
Contribution	-	1,057	-	1,057	-	1,057
Dividends	-	-	(4,730)	(4,730)	-	(4,730)
Contributions from noncontrolling interests	-	-	-	-	136	136
Distributions to noncontrolling interests	-	-	-	-	(261)	(261)
Balance, December 31, 2023	$ 98	$ 114,100	$ (38,626)	$ 75,572	$ 17,625	$ 93,197

	Common and Preferred Stock	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity Attributable to the Controlling Interest	Noncontrolling Interests in Consolidated Subsidiaries	Total Stockholders' Equity
Balance, January 1, 2022	$ 98	$ 79,295	$ (46,377)	$ 33,016	$ 37,032	$ 70,048
Net income	-	-	6,819	6,819	1,131	7,950
Transfer of noncontrolling interests (See Note 9)	-	33,748	-	33,748	(20,026)	13,722
Dividends	-	-	(997)	(997)	-	(997)
Distributions to noncontrolling interests	-	-	-	-	(1,043)	(1,043)
Balance, December 31, 2022	$ 98	$ 113,043	$ (40,555)	$ 72,586	$ 17,094	$ 89,680

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

HORIZON GROUP PROPERTIES, INC.

Consolidated Statements of Cash Flows

	Year Ended December 31, 2023	Year Ended December 31, 2022
Cash flows provided by operating activities:	*(In thousands)*	
Net income	$ 7,315	$ 7,950
Adjustments to reconcile net income		
to net cash provided by (used in) operating activities:		
Operating distributions from joint ventures	6,818	2,945
Income from investment in joint ventures	(10,446)	(4,936)
Gain from sale of real estate	-	(4,573)
Depreciation	163	171
Amortization	28	11
Interest expense from deferred finance costs	59	96
Changes in assets and liabilities:		
Tenant and other accounts receivable, net	284	635
Deferred costs, net, and other assets	276	(233)
Accounts payable and other accrued expenses	728	(1,592)
Prepaid rents and other tenant liabilities	(2)	(7)
Net cash provided by operating activities	5,223	467
Cash flows provided by investing activities:		
Proceeeds from sale of marketable securities	2,978	-
Purchase of marketable securities	(2,978)	-
Net proceeds from sale of real estate	-	9,192
Distributions from joint ventures, return of capital	3,434	2,839
Contributions to joint ventures	(2,312)	(577)
Expenditures for real estate	(225)	(47)
Net cash provided by investing activities	897	11,407
Cash flows used in financing activities:		
Distributions to noncontrolling interests	(261)	(1,043)
Contributions from noncontrolling interests	136	-
Contribution	1,057	-
Dividends	(5,692)	-
Principal payments on mortgages and other debt	(312)	(6,185)
Net cash used in financing activities	(5,072)	(7,228)
Net increase in cash, cash equivalents, and restricted cash	1,048	4,646
Cash, cash equivalents, and restricted cash:		
Beginning of year	6,371	1,725
End of year	$ 7,419	$ 6,371

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

HORIZON GROUP PROPERTIES, INC.

Consolidated Statements of Cash Flows, continued

		Year Ended December 31, 2023		Year Ended December 31, 2022
		(In thousands)		
Reconciliation from consolidated statements of cash flows to consolidated balance sheets:				
Cash and cash equivalents	$	6,776	$	6,219
Restricted cash		643		152
Cash, cash equivalents, and restricted cash, End of year	$	7,419	$	6,371
Supplemental information:				
Noncash activity related to the stock issued for the exchange of noncontrolling interest in consolidated entities and joint ventures:				
Noncontrolling interest in consolidated subsidiaries	$	-	$	20,026
Investment in joint ventures		-		13,722
Preferred stock		-		-
Additional paid-in capital		-		(33,748)
	$	-	$	-
Noncash activity related to Right-of-use Assets obtained in exchange for lease liabilities:	$	38	$	661
Noncash activity related to accrued dividends payable to shareholder:	$	35	$	997

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

Note 1 - Organization and Principles of Consolidation

Horizon Group Properties, Inc. ("HGPI" or, together with its subsidiaries "HGP" or the "Company") is a Maryland corporation that was established on June 15, 1998. The Company conducts operations primarily through a subsidiary limited partnership, Horizon Group Properties, L.P. ("HGP LP") of which HGPI is the sole general partner. As of December 31, 2023 and 2022, HGPI owned approximately 87% of the partnership interests (the "Common Units") of HGP LP. In general, Common Units are exchangeable for shares of Common Stock (or for an equivalent cash amount at HGPI's election).

The Company's primary assets are its investments in subsidiary entities that own real estate. HGPI consolidates the results of operations and the balance sheets of those entities of which the Company owns the majority interest and of those variable interest entities of which the Company is the primary beneficiary. The Company accounts for its investments in entities that do not meet these criteria using the cost or equity methods. The entities referred to herein are consolidated subsidiaries of the Company excluding the entities discussed in Note 4; those entities are accounted for using the equity method of accounting.

Note 2 - Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of HGPI and all subsidiaries that HGPI controls, including HGP LP. The Company considers itself to control an entity if it is the majority owner of or has voting control over such entity. All significant intercompany balances and transactions are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and accompanying notes. Actual results could differ from those estimates that were used and such differences may be material.

Investment in Real Estate

The Company allocates the purchase price of properties to net tangible and intangible assets acquired based on their fair values in accordance with the provisions of GAAP. In making estimates of fair values for purposes of allocating purchase price, the Company utilizes a number of sources, including independent appraisals obtained in connection with the acquisition or financing of the respective property and other market data. The Company also considers information obtained about each property from its pre-acquisition due diligence, marketing, and leasing activities, in estimating the fair value of the tangible and intangible assets acquired.

The Company allocates a portion of the purchase price to above-market and below-market lease values for acquired properties based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between: (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over the remaining non-cancelable term of the lease. In the case of below market leases, the Company considers the remaining contractual lease period and renewal periods, taking into consideration the likelihood of the tenant exercising its renewal options. The capitalized above/below-market lease values (included in Deferred Costs or Prepaid Rents and Other Tenant Liabilities on the consolidated balance sheets) are amortized as either a reduction of, or addition to, rental income over the remaining noncancelable terms of the respective leases. Should a tenant terminate its lease prior to its scheduled expiration, the unamortized portion of the related lease intangibles would be added to income or charged to expense, as applicable.

The Company allocates a portion of the purchase price to the value of leases acquired based on the difference between: (i) the property valued with existing in-place leases adjusted to market rental rates and (ii) the property valued as if vacant. The Company utilizes independent appraisals or its internally developed estimates to determine the respective in-place lease values. The Company makes estimates of fair value using methods similar to those used by independent appraisers. Factors management considers in its analysis include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases including leasing commissions, legal and other related expenses.

The value of in-place leases (included in Buildings and Improvements on the consolidated balance sheets) is amortized over the remaining initial terms of the respective leases. Should a tenant terminate its lease prior to its scheduled expiration, the unamortized portion would be charged to expense.

Real Estate and Depreciation

Costs incurred for the acquisition, development, construction and improvement of properties, as well as significant renovations and betterments to the properties, are capitalized. Maintenance and repairs are charged to expense as incurred. Interest costs incurred with respect to qualified expenditures relating to the construction of assets are capitalized during the construction period.

Amounts included under Buildings and Improvements on the consolidated balance sheets include the following types of assets, which are depreciated on the straight-line method over estimated useful lives, which are:

Buildings and improvements	31.5 years
Tenant improvements / origination costs	10 years or lease term, if less
Furniture, fixtures, and equipment	3 – 7 years

In accordance with GAAP, the Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated over their expected holding periods are less than the carrying amounts of those assets. For assets held in the portfolio, impairment losses are measured as the difference between carrying value and fair value. For assets to be sold, impairment is measured as the difference between carrying value and fair value, less cost to dispose. Fair value is based upon estimated cash flows discounted at a risk-adjusted rate of interest, comparable or anticipated sales in the marketplace, or estimated replacement cost, as adjusted to consider the costs of retenanting and repositioning those properties which have significant vacancy issues, depending on the facts and circumstances of each property.

Pre-Development Costs

The pre-development stage of a project involves certain costs to ascertain the viability of a potential project and to secure the necessary land. Direct costs to acquire the assets are capitalized once the acquisition becomes probable. These costs are carried in Other Assets until conditions are met that indicate that development is forthcoming, at which point the costs are reclassified to Construction in Progress. In the event a development is no longer deemed probable and costs are deemed to be non-recoverable, the applicable costs previously capitalized are expensed when the project is abandoned or the costs are determined to be non-recoverable.

At December 31, 2023 and 2022, pre-development costs classified as Other Assets included projects totaling $126,000 and $20,000, respectively.

Cash Equivalents

The Company considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Company's cash is held in accounts with balances, which at times, exceed federally insured limits. The Company has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Restricted Cash

Restricted Cash consists of amounts deposited in accounts with the Company's primary lenders in connection with certain loans and funds escrowed to be used for the acquisition of the Lincoln City property in Lincoln City, OR (see Note 10). At December 31, 2023 and 2022, the escrow accounts related to the Company's primary lenders included approximately $73,000 and $76,000 in real estate tax and insurance escrows, respectively, and approximately $70,000 for cash collateral accounts. At December 31, 2023, the Lincoln City property escrow totaled $500,000. At December 31, 2022, the Ridgewalk development escrow totaled $6,000.

Adoption of New Accounting Standard – Allowance for Credit Losses

In June 2016, the Financial Accounting Standards Board (FASB) issued guidance (FASB Accounting Standards Codification [ASC] 326) which significantly changed how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Financial assets held by the Company that are subject to guidance in FASB ASC 326 are accounts receivable.

The Company adopted the standard effective January 1, 2023. The impact of the adoption was not considered material to the consolidated financial statements and primarily resulted in new/enhanced disclosures only.

Tenant Accounts Receivable and Allowance for Credit Losses

Tenant accounts receivable are uncollateralized tenant obligations due under normal trade terms requiring monthly payment. The Company does not charge interest on unpaid accounts receivable balances. Since the Company's accounts receivables are largely similar, the Company evaluates its allowance for credit losses as one portfolio segment. At each balance sheet date, the Company recognizes an expected allowance for credit losses. In addition, also at each reporting date, this estimate is updated to reflect any changes in credit risk since the receivable was initially recorded. This estimate is calculated on a pooled basis where similar risk characteristics exist.

The allowance estimate is derived from a review of the Company's historical losses based on the aging of receivables. This estimate is adjusted for management’s assessment of current conditions, reasonable and supportable forecasts regarding future events, and any other factors deemed relevant by the Company. The Company believes historical loss information is a reasonable starting point in which to calculate the expected allowance for credit losses.

The Company writes off receivables when there is information that indicates the debtor is facing significant financial difficulty and there is no possibility of recovery. If any recoveries are made from any accounts previously written off, they will be recognized in income or an offset to credit loss expense in the year of recovery, in accordance with the Company’s accounting policy election. There were no write-offs for the year ended December 31, 2023.

Prior to the adoption of FASB ASC 362, management regularly reviewed accounts receivable and estimated the necessary amounts to be recorded as an allowance for uncollectability. These reserves were established on a tenant-specific basis and were based upon, among other factors, the period of time an amount is past due and the financial condition of the obligor. Balances that were still outstanding after management had used reasonable collection efforts were written off against the allowance.

Deferred Costs

Deferred costs consist of fees and direct internal costs incurred to initiate and renew tenant operating leases and are amortized over the life of the lease.

Revenue Recognition

Revenue from Leasing Arrangements

The Company’s revenues primarily result from revenue from leasing arrangements. Leases with tenants are accounted for as operating leases. Lease revenues included minimum rent, percentage rent, other rents and reimbursements form tenants for real estate taxes, insurance, CAM and other operating expenses as provided in these lease agreements. Minimum annual rentals are recognized on a straight-line basis over the terms of the respective leases. As a result of recording rental revenue on a straight-line basis, tenant accounts receivable include $35,000 and $22,000 as of December 31, 2023 and 2022, respectively, which is expected to be collected over the remaining lives of the leases. Rents that represent basic occupancy costs, including fixed amounts and amounts computed as a function of sales, are classified as base rent. Amounts which may become payable in addition to base rent and which are computed as a function of sales in excess of certain thresholds are classified as percentage rents and are accrued after the reported tenant sales exceed the applicable thresholds. Expense recoveries based on common area maintenance expenses and certain other expenses are accrued in the period in which the related expense is incurred.

Management, Development and Leasing Fees

The Company earns revenue from contracts with third parties and unconsolidated affiliates for property management, leasing, development and other services. These contracts are accounted for on a month-to-month basis. Management fees are charged as a percentage of revenues and recognized as revenue over time as services are provided. Leasing fees are charged for newly executed leases and lease renewals and are recognized as revenue upon lease execution, when the performance obligation is completed. Development fees are set as a fixed rate in a separate agreement.

Development and leasing fees received from an unconsolidated affiliate are recognized as revenue only to the extent of the third-party partner's ownership interest. The Company's share of such fees are recorded as a reduction to the Company's investment in the unconsolidated affiliate. Fees received from consolidated joint ventures are eliminated in consolidation.

Income Taxes

Deferred income taxes are recorded based on enacted statutory rates to reflect the tax consequences in future years of the differences between the tax bases of assets and liabilities and their financial reporting amounts. Deferred tax assets, such as net operating loss carryforwards which will generate future tax benefits, are recognized to the extent that realization of such benefits through future taxable earnings or alternative tax strategies in the foreseeable future is more likely than not.

As of December 31, 2023 and 2022, and for the years then ended, the Company did not have a net liability for any unrecognized tax benefits. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits as interest or general and administrative expense in the consolidated statements of operations. During 2023 and 2022, the Company did not incur any interest or penalties.

Investments in Joint Ventures

The Company uses the equity method of accounting for its investments in Joint Ventures, as the Company can significantly influence the operations of the underlying investment, but does not have the ability to control the underlying investment. The investments are recorded at initial cost and adjusted for the Company's proportionate share of income or loss. Contributions and distributions are treated as additions or reductions of the investments' cost basis.

The Company elected the fair value option for its investments in Horizon Atlanta and Horizon Louisville (see Note 4). Due to the nature of these investments, the Company elected the fair value option to more accurately present the Company's portion of the value and changes thereof in the underlying investments. Changes in the fair value of the joint ventures are recorded as a component of income from investment in joint ventures on the consolidated statements of operations.

Distributions are reported in cash flows from operations unless the facts and circumstances of a specific distribution clearly indicate that it is a return of capital, which would then be presented as cash flows from investing activities.

The Company evaluates the recoverability of long-lived assets, including investments in joint ventures, whenever events or changes in circumstances may indicate that the carrying value of the assets are not recoverable or are less than fair value. No such impairment test was deemed necessary during 2023 and 2022.

Leases

The Company determines if an arrangement is, or contains, a lease at the inception date. In evaluating contracts to determine if they qualify as a lease, the Company considers factors such as if the Company has obtained substantially all of the rights to the underlying asset through exclusivity, if the Company can direct the use of the asset by making decisions about how and for what purpose the asset will be used, and if the lessor has substantive substitution rights. This evaluation may require significant judgment.

Right-of-use (ROU) assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and lease liabilities are recognized at the commencement date based primarily on the present value of lease payments over the lease term. In determining the discount rate used to measure the ROU assets and lease liabilities, the Company uses rates implicit in the lease, when available. If the rate implicit in the lease is not readily available, the Company has elected to use a risk-free rate for all classes of assets. The risk-free rate used is the "U.S. Treasury Bill Rate" in effect at the commencement of the lease for a similar term. The operating lease ROU assets also include any lease payments made at commencement and exclude lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense is recognized on a straight-line basis over the lease term.

The Company elected to apply the short-term lease exemption. Under this exemption, ROU assets and lease liabilities are not recognized for leases with an initial term of 12 months or less. There were no short-term leases during 2023 and 2022.

Subsequent Events

Management has evaluated subsequent events through March 12, 2024, the date the consolidated financial statements were available to be issued.

Note 3 - Investment in Real Estate

The following table contains information on the operating properties and land held for investment owned by the Company and for which the Company consolidates the results of operations and the assets and liabilities as of December 31, 2023.

Property Name	Location	Property Type	Gross Leasable Area (Sq. Ft.)	Net Carrying Value (in thousands)	Ownership Percentage
Village Green Center	Huntley, IL	Retail	22,204	$2,446	100.00%
Corporate Office	Chicago, IL	Various	N/A	7	100.00%
	Total		22,204	$2,453	
			Acres		
Laredo Phase II Land	Laredo, TX	Land	2	$ 900	60.80%
Land held for Investment	Fruitport, MI	Land	6	156	100.00%
Ridgewalk Land	Woodstock, GA	Land	81	6,248	100.00%
Land Held for Investment	Huntley, IL	Land	327	16,937	100.00%
	Total		416	$ 24,241	

The portion of the net income or loss of HGPI's subsidiaries owned by parties other than HGPI is reported as Net income or loss attributable to the noncontrolling interests on the Company's consolidated statements of operations and such parties' portion of the net equity in such subsidiaries is reported on the Company's consolidated balance sheets as Noncontrolling interests in consolidated subsidiaries.

Note 4 - Investment in Joint Ventures

The following table contains information and the effective ownership percentage attributable to the Company for the joint venture outlet centers in operation or development as of December 31, 2023. In addition, the joint ventures own outparcels and other land for development.

Property Name	Location	Property Type	Leasable Area (Sq. Ft.)	Ownership Percentage
The Outlet Shoppes at El Paso	El Paso, TX	Outlet Retail	433,045	49.41%
The Outlet Shoppes at Gettysburg	Gettysburg, PA	Outlet Retail	249,937	48.90%
The Outlet Shoppes at Atlanta	Woodstock, GA	Outlet Retail	405,146	48.52%
The Outlet Shoppes of the Bluegrass	Louisville, KY	Outlet Retail	428,060	47.79%
The Outlet Shoppes at Laredo	Laredo, TX	Outlet Retail	357,866	33.29%
Total			1,874,054	

El Paso Entities

During 2012, the Company sold a portion of its interest in El Paso Outlet Holdings, LLC ("El Paso Holding") to an affiliate of CBL & Associates Properties, Inc. ("CBL") for the outlet shopping mall in El Paso, Texas. El Paso Holding owns an entity that owns the outlet shopping center in El Paso, TX ("the El Paso Center"). During 2014, additional retail space owned by El Paso Outlet Center II Expansion, LLC, was developed at the El Paso Center. El Paso Outlet Center II Expansion is 100% owned by El Paso Outlet Center II, LLC ("El Paso II"). At December 31, 2023 and 2022, El Paso Holding was owned 50% by CBL, 25% by Horizon El Paso, LLC ("Horizon El Paso"), 25% by the Company.

On September 10, 2018, El Paso Holding and El Paso II refinanced Phase I and Phase II of the shopping center with the proceeds of a $75 million loan originated by Deutche Bank. In conjunction with the refinancing, each of El Paso Holding and El Paso II contributed its interest in Phase I and Phase II, respectively, to El Paso Outlet Center CMBS, LLC ("El Paso CMBS"). El Paso CMBS is owned by an entity that is owned by El Paso Holding. Phase I and Phase II of the shopping center secure the loan. The annual interest rate is 5.103%. Payments are $407,350 per month, based on a 30-year amortization. The loan matures on October 6, 2028. The principal balance at December 31, 2023 and 2022, was $68.7 million and $70.1 million, respectively. El Paso CMBS is a separate entity from the Company and its affiliates and its assets and credits are not available to satisfy the debts and obligations of affiliates of the Company or any other person. On November 2, 2020, an affiliate of CBL, the guarantor entity of certain aspects of the loan, filed Chapter 11 bankruptcy, which was a technical event of default under the loan agreement. CBL emerged from bankruptcy on November 1, 2021. CBL, the Company and the lender executed a limited default waiver agreement on December 23, 2021, pursuant to which the lender waived the default caused by CBL's bankruptcy.

El Paso Outlet Outparcels, LLC owns several outparcels (the "Outparcels"). At December 31, 2023 and 2022, Outparcels was owned 50% by Horizon El Paso, 33.3333% by CBL, 11.75% by Pleasant Lake Apts., LP ("PLA"), an entity owned by Howard Amster, majority shareholder and director of the Company, and 4.9167% by Pleasant Lake Skoien Investments, LLC ("PL Skoein"), an entity owner by Howard Amster and Gary Skoein, the Chairman of the Board, Chief Executive Officer ("CEO"), President, and a shareholder of the Company.

El Paso Outlet Outparcels II, LLC (the "Outparcels II"), formed in 2019, owns ancillary land adjacent to the shopping center. At December 31, 2023 and 2022, Outparcels II was owned 50% by CBL and 50% by Horizon El Paso. On December 15, 2022, Outparcels II sold approximately 26.34 acres of vacant land for approximately $3 million.

At December 31, 2023 and 2022, the Company owned 97.4% of the preferred interests and 92.8% of the common interest in Horizon El Paso.

As of December 31, 2023 and 2022, the Company's investment in the entities that own The Outlet Shoppes at El Paso, Outparcels, and Outparcels II exceeded its proportional share of the underlying equity as reflected in the entities financial statements by approximately $10.8 million and $11.2 million, respectively. Such difference is primarily related to the increased value in real estate and is being amortized over a period of 30 years.

The Company received management, leasing and similar fees from El Paso Center that totaled $1.3 million and $898,000 million during the years ended December 31, 2023 and 2022, respectively.

Summary financial information (stated at 100%) for the El Paso entities as of December 31, 2023 and 2022, and for the years ended December 31, 2023 and 2022, are as follows (in thousands):

	As of December 31, 2023	As of December 31, 2022
Assets		
Real estate - net	$ 71,746	$ 74,747
Cash and cash equivalents	1,201	826
Restricted cash	1,722	2,036
Other assets	1,917	2,256
Total assets	$ 76,586	$ 79,865
Liabilities and members' equity		
Mortgages and other debt	$ 68,743	$ 70,086
Other liabilities	1,518	1,325
Members' equity	6,325	8,454
Total liabilities and members' equity	$ 76,586	$ 79,865

	Year Ended December 31, 2023	Year Ended December 31, 2022
Statements of Operations		
Revenue	$ 17,200	$ 16,577
Operating expenses	4,559	5,822
General and administrative expenses	1,261	1,065
Depreciation and amortization expense	3,734	3,735
Interest expense	3,630	3,697
Total expenses	13,184	14,319
Gain (loss) on sale of assets	(32)	1,861
Net income	$ 3,984	$ 4,119

Gettysburg Entities

During 2012, an entity owned by an affiliate of CBL and an affiliate of Howard Amster and Gary Skoien converted a mezzanine loan into equity ownership in Gettysburg Outlet Center Holding, LLC and Gettysburg Outlet Center LLC (the “Gettysburg entities”) At December 31, 2023 and 2022, the Gettysburg entities are owned 50% by CBL, 48.9% by the Company, and 1.1% by other entities. Gettysburg Outlet Center Holding, LLC, owns Gettysburg Outlet Center, LP, which is 100% owned by Gettysburg Outlet Center CMBS, LLC (“Gettysburg CMBS”) which owns the shopping center. Gettysburg Outlet Center LLC owns vacant land around the shopping center. The members of the Gettysburg entities accrue a 10% preferred return on capital invested.

The mortgage loan for Gettysburg CMBS is secured by the shopping center, had an initial balance of $38.5 million, bears interest at 4.8% and matures in 2025. Gettysburg CMBS is a separate entity from the Company and its affiliates and its assets and credits are not available to satisfy the debts and obligations of affiliates of the Company or any other person. On August 17, 2020, in response to the COVID-19 outbreak, the lender consented to a deferred principal period commencing with the July 2020 payment date through the December 2020 payment date, with the deferred principal to be repaid during 2021. The mortgage balance was $20.6 and $21.0 million at December 31, 2023 and 2022, respectively. On November 2, 2020, an affiliate of CBL, one of the guarantors of the loan, filed Chapter 11 bankruptcy, which is a technical event of default under the loan agreement. The Company is also a guarantor of the loan. CBL emerged from bankruptcy on November 1, 2021. CBL, the Company, and the lender executed a settlement, consent, and loan modification agreement on October 12, 2022. The agreement gave the lender a $20.0 million proof of claim in CBL's bankruptcy case and reduced the outstanding principal balance of the loan to $21.0 million. The agreement also cured the event of default and restored the non-recourse status of the loan. Because of the event of default, default interest was accrued but not paid since the date of the bankruptcy filing but not required to be paid as a condition of the modification agreement. Accrued default interest of $2.1 million was reversed and an offset to interest expense in 2022.

Since 2020, the property failed to meet the Debt Service Coverage Ratio which triggers a Sweep Event Period and continues pursuant to the terms of the waiver agreement. During a Sweep Event Period, the borrower is required to establish a Clearing Account under the control of the Lender.

The Company received leasing and similar fees from the Gettysburg Entities that totaled $134,000 and $16,000 during the years ended December 31, 2023 and 2022, respectively. Since 2020, the Company evaluated the collectability of accrued management fees and determined these were not collectible and no longer accrues those fees going forward. The Company continues to earn leasing fees.

Summary financial information (stated at 100%) of the Gettysburg entities as of December 31, 2023 and 2022, and for the years ended December 31, 2023 and 2022, are as follows (in thousands):

	As of December 31, 2023	As of December 31, 2022
Assets		
Real estate - net	$ 10,586	$ 11,315
Cash and cash equivalents	32	33
Restricted cash	1,377	1,840
Other assets	2,254	3,537
Total assets	$ 14,249	$ 16,725
Liabilities and members' deficit		
Mortgages and other debt	$ 20,646	$ 20,974
Other liabilities	2,975	2,828
Members' deficit	(9,372)	(7,077)
Total liabilities and members' equity	$ 14,249	$ 16,725

	Year Ended December 31, 2023	Year Ended December 31, 2022
Statements of Operations		
Revenue	$ 3,271	$ 2,792
Operating expenses	2,469	2,781
General and administrative expenses	307	321
Depreciation and amortization expense	1,259	1,507
Interest expense	1,028	(518)
Total expenses	5,063	4,091
Net loss	$ (1,792)	$ (1,299)

Atlanta Entities

During 2012, the Company entered into a joint venture (the "Atlanta JV") with an affiliate of CBL to develop The Outlet Shoppes at Atlanta in Woodstock, Georgia. At December 31, 2023 and 2022, the Atlanta JV was owned 50% by CBL, 35% by Horizon Atlanta, and 15% by the Company. At December 31, 2023 and 2022, the Company owns 94.1% of the preferred interests and 90.1% of the common interests in Horizon Atlanta, but maintains voting control over Horizon Atlanta. The Company is responsible for the leasing and management of the center.

On October 3, 2023, the Atlanta JV obtained a $79.3 million loan from Barclays Capital and Goldman Sachs ("The Atlanta Refinance"). The Atlanta Refinance paid off both the Goldman Sachs and Cadence Bank loans. The Atlanta Refinance has a term of 10 years and bears interest at 7.85%. Payments are interest only. The loan balance was $79.3 million at December 31, 2023.

On May 13, 2015, the Atlanta JV closed on a $6,200,000 construction loan for Atlanta Outlet Shoppes Phase II. The loan carries an initial interest rate of LIBOR plus 2.5%, and matured on February 28, 2020, extended from December 19, 2019. On February 6, 2020, this loan was refinanced with the proceeds of a $4,680,000 loan from Cadence Bank, N.A. The loan carries an interest rate of LIBOR plus 2.5%, payments based on a 25-year amortization and matured on November 5, 2023. On April 6, 2020, the loan was amended in response to the COVID-19 outbreak to include a deferred payment period including principal and interest from April 10, 2020 through June 10, 2020, with deferred interest amounts added to the outstanding principal balance of the loan and due at maturity. The loan balance was $0 and $4.4 million at December 31, 2023 and 2022, respectively.

On October 11, 2013, Atlanta Outlet Shoppes CMBS, LLC ("Atlanta CMBS"), which is owned 100% by the Atlanta JV, obtained an $80.0 million loan from an affiliate of Goldman Sachs (the "Atlanta Loan"). The Atlanta Loan has a term of 10 years and bears interest at 4.9%. Payments are based on a 30-year amortization. The Atlanta Loan is secured by a mortgage on The Outlet Shoppes at Atlanta and had a balance of $0 and $66.6 million at December 31, 2023 and 2022, respectively. Atlanta CMBS is a separate entity from the Company and its affiliates and its assets and credits are not available to satisfy the debts and obligations of affiliates of the Company or any other person.

On November 2, 2020, an affiliate of CBL, the guarantor entity of the loans, filed Chapter 11 bankruptcy, which was a technical default under the loan agreements. CBL emerged from bankruptcy on November 1, 2021. CBL, the Company and the servicer for the Deutsche Bank loan executed a forbearance and loan modification agreement on February 15, 2022, pursuant to which the default was waived. Because of the event of default, default interest was accrued but not paid since the date of the bankruptcy filing but not required to be paid as a condition of the modification agreement. Accrued default interest of $2.4 million was reversed and an offset to interest expense in 2022.

The Company received development, management, leasing, and similar fees from Atlanta JV that totaled $813,000 and $553,000 for the years ended December 31, 2023 and 2022, respectively.

Summary financial information (stated at 100%) of the Atlanta entities as of December 31, 2023 and 2022, for the years ended December 31, 2023 and 2022, are as follows (in thousands):

	As of December 31, 2023	As of December 31, 2022
Assets		
Real estate - net	$ 39,960	$ 40,627
Cash and cash equivalents	1,290	1,796
Restricted cash	1,715	1,121
Other assets	3,123	2,322
Total assets	$ 46,088	$ 45,866
Liabilities and members' deficit		
Mortgages and other debt	$ 79,330	$ 70,974
Other liabilities	1,253	907
Members' deficit	(34,495)	(26,015)
Total liabilities and members' deficit	$ 46,088	$ 45,866

	Year Ended December 31, 2023	Year Ended December 31, 2022
Statements of Operations		
Revenue	$ 15,163	$ 14,245
Operating expenses	3,322	3,331
General and administrative expenses	714	623
Depreciation and amortization expense	3,109	3,358
Interest expense	4,425	1,207
Total expenses	11,570	8,519
Net income	$ 3,593	$ 5,726

Bluegrass Entities

During 2013, the Company entered into a joint venture (the “Louisville JV”) with an affiliate of CBL to develop The Outlet Shoppes of the Bluegrass in Louisville, Kentucky. At December 31, 2023 and 2022, the Louisville JV was owned 65% by CBL and 35% by Horizon Louisville Outlets, LLC (“Horizon Louisville”). At December 31, 2023 and 2022, the Company owns 93.69% of the preferred interests and 89.97% of the common interests in Horizon Louisville.

In May of 2013, and again in December of 2014, Horizon Louisville met certain return of investment and internal rate of return criteria stipulated in the joint venture agreement with CBL; therefore, the Company’s share of distributions from the Louisville JV increased from 35% to 50%. The Company is responsible for the leasing and management of the center.

On November 24, 2014, Bluegrass Outlet Shoppes CMBS, LLC (“Bluegrass CMBS”), which is owned 100% by the Louisville JV obtained a $77.5 million loan from JP Morgan (the “Louisville Loan”). The Louisville Loan has a term of 10 years and bears interest at 4.045%. Payments are based on a 30 year amortization. The Louisville Loan is secured by a mortgage on Phase I of The Outlet Shoppes of the Bluegrass. The loan balance was $63.0 million and $65.0 million at December 31, 2023 and 2022, respectively. Bluegrass CMBS is a separate entity from the Company and its affiliates and its assets and credits are not available to satisfy the debts and obligations of affiliates of the Company or any other person.

During 2015, the Louisville JV established the Bluegrass Outlet Shoppes II, LLC and closed on an $11.3 million construction loan to develop additional retail space at the Outlet Shoppes of the Bluegrass. The loan has a term of 60 months and an interest rate of LIBOR plus 2.35%. On April 20, 2020, the loan was amended in response to the COVID-19 outbreak to include an interest-only period from April 1, 2020 through June 1, 2020, with principal installments deferred until the maturity date. On July 15, 2020, the loan was amended to extend the maturity date to October 15, 2020. On October 8, 2020, the loan was amended again to extend the maturity date to October 15, 2021. On December 16, 2021, the loan was amended a fourth time to exctend the maturity to October 15, 2022 and an interest rate of SOFR plus 2.95% rom October 16, 2021 through March 31, 2022, SOFR plus 3.5% from April 1, 2022 through October 14, 2022, and SOFR plus 4% thereafter. The amendment included a Borrower's election to further extend to April 15, 2023, which Borrower elected. The loan balance was paid by the Borrower on April 24, 2023. The loan balance was $0 and $7.4 million, at December 31, 2023 and 2022, respectively.

On November 2, 2020, an affiliate of CBL, the guarantor entity of the loans, filed Chapter 11 bankruptcy, which is a technical default under the loan agreements. CBL emerged from bankruptcy on November 1, 2021. CBL, the Company and the servicer of the JP Morgan loan executed a forbearance and consent agreement on May 13, 2022, waiving the default. Because of the event of default, default interest was accrued but not paid since the date of CBL's bankruptcy filing but was waived pursuant to the terms of the forbearance and consent agreement. Accrued default interest of $3.2 million was reversed and offset to interest expense in 2022. The CBL and lender on Phase II executed a limited waiver agreement related to CBL's bankruptcy on October 8, 2020.

The Company received development, management, leasing, and similar fees from the Louisville JV that totaled $330,000 and $566,000 for the years ended December 31, 2023 and 2022, respectively.

Summary financial information (stated at 100%) of the Bluegrass entities as of December 31, 2023 and 2022, and for the years ended December 31, 2023 and 2022, is as follows (in thousands):

	As of December 31, 2023	As of December 31, 2022
Assets		
Real estate - net	$ 44,282	$ 46,847
Cash and cash equivalents	2,029	1,360
Restricted cash	1,620	1,633
Other assets	1,786	2,599
Total assets	$ 49,717	$ 52,439
Liabilities and members' deficit		
Mortgages and other debt	$ 63,098	$ 72,366
Other liabilities	812	867
Members' deficit	(14,193)	(20,794)
Total liabilities and members' deficit	$ 49,717	$ 52,439

	Year Ended December 31, 2023	Year Ended December 31, 2022
Statements of Operations		
Revenue	$ 13,246	$ 12,763
Operating expenses	3,390	3,395
General and administrative expenses	632	573
Depreciation and amortization expense	3,778	3,714
Interest expense	2,919	208
Total expenses	10,719	7,890
Net income	$ 2,527	$ 4,873

Laredo Outlet Shoppes

On May 10, 2016, the Company, CBL, and Lawrence Friedman formed a joint venture, Laredo Outlet JV, LLC ("Laredo JV") to develop an outlet shopping center in Laredo, Texas. At December 31, 2023 and 2022, Laredo JV is owned 65% by CBL and 35% by Horizon El Portal, LLC ("Horizon El Portal"). At December 31, 2023 and 2022, the Company owns 95.1%, of Horizon El Portal (see Note 9). Lawrence Friedman is a Class B member and is entitled to participate in distributions after certain internal rate of return hurdles are met.

On May 13, 2016, Laredo JV closed on a construction loan to finance the construction of the center. The loan has a maximum principal balance of $91.3 million, a 36-month term and one 24-month extension option, subject to certain conditions. Interest accrues on the loan at LIBOR and 2.5% until the development reaches 90% occupancy, at which time the interest rate will drop to LIBOR plus 2.25%. Monthly principal payments of $150,000 began on October 1, 2018. The loan contains certain provisions requiring principal pay-downs subject to certain conditions. In May of 2019, the loan was extended through May 2021. As a condition of the extension Horizon El Portal and its partner, CBL, made a $10.8 million principal payment through capital contribution on the construction loan. Horizon El Portal's share of the payment was $3.8 million. On April 20, 2020, the loan was amended in response to the COVID-19 outbreak to include an interest-only period from April 1, 2020 through June 1, 2020, with principal installments deferred until the maturity date. At December 31, 2023 and 2022, the loan balance was $33.8 million and $38.3 million, respectively.

On November 2, 2020, an affiliate of CBL, the guarantor of the loan filed Chapter 11 bankruptcy, which was a technical event of default under the loan agreement. In May 2021, the lender moved to appoint a receiver for the Laredo property and, thereafter, Laredo Outlet Shoppes, LLC filed Chapter 11 bankruptcy. At a hearing on June 2, 2021, the court suggested mediation to reach a consensual resolution. On July 26, 2021, a comprehensive settlement was reached including a two-year extension of the loan, with an option for a third year, an agreed-upon maximum unsecured $5 million deficiency claim, certain agreed-upon covenants and defaults and mutual releases. Interest accrues on the loan at LIBOR and 3.25%. Monthly principal payments of $100,000 began on July 1, 2021. The Laredo Chapter 11 case has been dismissed. On April 13, 2023, borrow executed a Consent Letter to change term to SOFR from LIBOR. On April 24, 2023, Borrower provided notice of extension for a third year, extending the loan to June 30, 2024. On October 31, 2023, the loan was amended satisfying the $5 million deficiency claim with a $3.1 million principal paydown, and extending the loan to June 30, 2025.

The Company received management, leasing development and similar fees from the Laredo JV that totaled $301,000 and $277,000 for the years ended December 31, 2023 and 2022, respectively.

Summary financial information (stated at 100%) of the Laredo JV as of December 31, 2023 and 2022, and for the years ended December 31, 2023 and 2022, is as follows (in thousands):

	As of December 31, 2023	As of December 31, 2022
Assets		
Real estate - net	$ 35,801	$ 37,399
Cash and cash equivalents	1,602	2,014
Restricted cash	401	416
Other assets	1,489	1,623
Total assets	$ 39,293	$ 41,452
Liabilities and members' equity (deficit)		
Mortgages and other debt	$ 33,780	$ 38,250
Other liabilities	3,901	3,318
Members' equity (deficit)	1,612	(116)
Total liabilities and members' equity	$ 39,293	$ 41,452

	Year Ended December 31, 2023	Year Ended December 31, 2022
Statements of Operations		
Revenue	$ 8,172	$ 8,563
Operating expenses	4,141	3,874
General and administrative expenses	447	419
Depreciation and amortization expense	1,946	2,542
Interest expense	3,181	2,135
Total expenses	9,715	8,970
Loss on sale of assets	-	(8)
Net loss	$ (1,543)	$ (415)

Note 5 - Income Taxes

HGPI is taxable as a corporation under the provisions of Subchapter C of the Internal Revenue Code. There were no net provision for income taxes after the change in the valuation reserve for the years ended December 31, 2023 and 2022.

For federal income tax purposes, HGPI had net operating loss carryforwards (“NOLs”) of approximately $63.5 million and $68.4 million at December 31, 2023 and 2022, respectively. Of the $63.5 million available at December 31, 2023, approximately $46.0 million are set to expire from 2025 to 2033 and the remainder are available indefinitely.

Deferred income tax liabilities and assets are determined based on the temporary differences between the financial statement and tax basis of assets and liabilities. The components of the Company’s gross deferred tax assets and liabilities are as follows of December 31, 2023 and 2022, (in thousands):

Deferred Tax Assets:	**2023**	**2022**
NOL carryforwards – federal and state	$14,343	$15,355
Tax basis of assets in excess of book basis:		
Fixed/intangible assets	-	27
Book basis of liabilities in excess of tax basis:		
Prepaid rental revenue	-	8
Gross deferred tax assets	14,343	15,390
Less: valuation allowance	(5,479)	(6,998)
Gross deferred tax assets	8,864	8,392
Deferred Tax Liabilities:		
Book basis of assets in excess of tax basis:		
Fixed/intangible assets	(157)	(2)
Investments in and advances to joint ventures	(8,707)	(8,390)
Gross deferred tax liabilities	(8,864)	(8,392)
Net deferred tax asset	$ -	$ -

The valuation allowance related to the net deferred tax assets decreased by approximately $1.5 million and $2.2 million in 2023 and 2022, respectively.

The Company's effective tax rate in 2023 and 2022 is lower than if the federal statutory rate was applied to net income before income tax primarily due to the change in valuation allowance.

Note 6 - Leases

Lessor

Space in the Company's centers is leased to various tenants under operating leases, which are generally for one to five year periods. Some leases contain renewal options and may also provide for the payment of a tenant's share of certain operating expenses. Leases may also obligate a tenant to pay rent based on a percentage of sales in excess of certain thresholds. Minimum future rentals to be received under non-cancelable leases are summarized as follows (in thousands):

2024	$ 325
2025	292
2026	240
2027	198
2028	63
Thereafter	-
	$ 1,118

The above scheduled rentals are subject to the usual business risks associated with collection.

Lessee Operating Leases

The Company maintains operating leases for office spaces. These leases have remaining lease terms expiring through 2026. During 2023 and 2022, the Company had approximately $203,000 of operating lease expense and $198,000 and $183,000, respectively, of lease cash payments. At December 31, 2023 and 2022, other information related to the Company's leases consisted of the following:

	2023	2022
Weighted average remaining lease term:	2.73 years	3.63 years
Weighted average discount rate:	1.61%	1.30%

At December 31, 2023, future minimum lease payments under non-cancellable leases are approximately as follows (in thousands):

2024	$ 204
2025	177
2026	149
Total undiscounted cash flows	530
Less: Present value discount	(11)
Total lease liabilities	$ 519

At December 31, 2023 and 2022, lease components included in the consolidated balance sheet consisted of the following (in thousands):

ROU Assets:	2023	2022
Operating ROU Assets (included in Other assets)	$ 504	$ 661
Lease Liabilities:		
Operating (included in Accounts payable and other accrued expenses)	$ 519	$ 672

Note 7 - Mortgages and Other Debt

	Principal Balance as of: (In thousands) December 31, 2023	December 31, 2022
Mortgage loan to Village Green Associates, LLC, from Peoples Bank SB, formerly First Personal Bank, (lender) with an interest rate of 6.5%, a maturity date of March 1, 2019, amended and extended to April 1, 2027, with an interest rate of 6.25%, secured by the shopping center in Huntley, Illinois and guaranteed by the Company. On April 1, 2020, the loan was amended in response to the COVID-19 outbreak to include a deferred payment period including principal and interest from April 1, 2020 through June 1, 2020, with deferred principal amounts added to the outstanding principal balance of the loan and due at maturity. The loan will be paid through 59 monthly payments of $23,633, and 93 monthly payments of $23,063, including interest, and one balloon payment of $22,944.	$ 927	$ 1,139
Promissory revolving draw note of $5 million to Horizon Group Properties, LP, from Pleasant Lake Apts., LP bearing interest at prime per annum and maturing on May 28, 2024. Beginning February 1, 2021, interest was amended to 1.0%. Payments consist of monthly interest payments beginning August 2019 with a balloon payment on May 28, 2024. The note is guaranteed by the Company and secured by its pledged membership interest in Horizon Louisville and in Horizon El Paso as it relates to the outparcels and ancillary land in El Paso.	1,000	1,000
Promissory note to Horizon Group Properties, LP, from Gary J. Skoien bearing interest at 1.00%, maturing on June 1, 2025, secured by the Promissory Note dated September 30, 2020 from Phillip Waters, an officer of the Company. Payments are due in the same aggregate amounts as due from Phillip Waters.	65	165
	1,992	2,304
Unamortized debt issuance costs	(26)	(85)
	$ 1,966	$ 2,219

Cash interest payments for the years ended December 31, 2023 and 2022, totaled $76,000 and $141,000, of which $11,000 and $18,000, respectively, was paid to a related party.

As part of the revolving draw note transaction with PLA (see Note 9), 41,667 and 541,667 warrants to purchase units or shares were issued to PLA during 2020 and 2019, respectively. The warrants have an exercise price of $3.00 per share and expire on May 29, 2024. The fair value of the warrants was estimated based on a Black-Scholes model. At December 31, 2023 and 2022, decrease in debt and $19,000 and $75,000, respectively, and amortization expense of $56,000 for each year then ended.

Debt Maturities

Debt maturities and principal payments due subsequent to December 31, 2023, are as follows (in thousands):

Due in:		
2024		$ 1,291
2025		241
2026		256
2027		204
Thereafter		-
	Total	$ 1,992

The Company's ability to secure new loans is limited by the fact that most of the Company's real estate assets are currently pledged as collateral for its current loans.

Huntley Net Profits Interests

Gary J. Skoien was formerly the Executive Vice President and Chief Operating Officer of The Prime Group, Inc. ("Prime Group"). In connection with his employment with Prime Group, Mr. Skoien was previously granted an interest (the "Skoien Net Profits Interest") in the net profits generated by HDLP, an entity which owns approximately 135 usable acres of land in in Huntley, Illinois (the "Huntley Project"). The Company assumed this obligation in connection with the purchase of the Huntley Project from Prime Group. The Skoien Net Profits Interest consists of a 9.675% participation in the Net Cash Flow (as defined in Mr. Skoien's Net Profits Agreement) distributed to the Company (excluding distributions of all amounts contributed or advanced by the Company to the Huntley Project plus interest per the terms of the agreement) from the Huntley Project. There was no liability at December 31, 2023 and 2022.

Note 8 - Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1 Inputs are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access
- Level 2 Other significant observable inputs including: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means
- Level 3 Inputs are significant and unobservable (including the Company's own assumptions used to determine value)

The assets' fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Investment In Joint Ventures:

The Company prepares detailed valuations based on their evaluations of financial and operating data, specific operating developments for the investment, market valuations of comparable properties and transactions, changes in key observable inputs, as well as changes in economic and other factors.

At December 31, 2023 and 2022, the Company used a discounted cash flow approach to estimate fair value of joint ventures and considers signification unobservable inputs such as discount rates. The methodologies utilized by the Company to estimate fair value may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the report date.

Assets measured at fair value by level, in thousands, within the fair value hierarchy, are comprised of the following at December 31, 2023:

Description	Level 1	Level 2	Level 3
Investments in Joint Ventures	$	$	$ 51,415

Assets measured at fair value by level, in thousands, within the fair value hierarchy, are comprised of the following at December 31, 2022:

Description	Level 1	Level 2	Level 3
Investments in Joint Ventures	$	$	$ 48,188

Following is a reconciliation of activity, in thousands, for the years ended December 31, 2023 and 2022, for the fair value of the Company's Level 3 assets:

	2023	2022
Balance, beginning of year	$ 48,188	$ 50,912
Unrealized gains (losses)	7,866	(7,208)
Contributions	2,179	7,429
Distributions	(6,818)	(2,945)
Balance, end of year	$ 51,415	$ 48,188

Quantitative information about the Company's Level 3 inputs for the years ended December 31, 2023 and 2022, are as follows:

Valuation Technique	Significant Unobservable Inputs
Discounted cash flow approach	Discount rate – 9.75% at 12/31/23 and 9.50% at 12/31/22
	Terminal capitalization rate – 7.50% at 12/31/23 and 12/31/22
	Market rent growth rate – 2.75% at 12/31/23 and 12/31/22

Note 9 - Related Party Transactions

At December 31, 2023 and 2022, PLA owned 11.75%, of El Paso Outparcels.

At December 31, 2023 and 2022, PL Skoien, owned 4.9167%, of El Paso Outparcels.

At December 31, 2023 and 2022, David Tinkham, an officer of the Company, owned 1.27% of Horizon Atlanta, and 3.24% of Horizon Louisville.

At December 31, 2023 and 2022, Andrew Pelmoter, an officer of the Company, owned 2.12% of Horizon Atlanta, and 4.31% of Horizon Louisville, in addition to the Net Profits Interests discussed below.

The Company has granted Common interests in Horizon El Paso, Horizon OKC, Horizon Atlanta, and Horizon Louisville (the "Net Profits Interests") to certain officers of the Company. Holders of the Net Profits Interests are not entitled to any distributions until the holders of the preferred interests have received their capital and a 12% return thereon.

Net Profits Interests are recorded as a component of accounts payable and other accrued expenses on the accompanying balance sheet. The Net Profits Interests associated with Horizon Atlanta and Horizon Louisville continue to be adjusted associated with the Company's fair value election on these investments discussed in Note 1. As of December 31, 2023 and 2022, the Net Profits Interest liability approximated $6.9 million and $6.4 million, respectively.

Net profits interests have been granted to officers of the Company as follows: (1) Horizon El Paso - 3.5%, to Andrew Pelmoter, (2) Horizon OKC - 2.5%, 2.5% and 3% to Gary Skoien, Tom Rumptz and Andrew Pelmoter, respectively; (3) Horizon Atlanta, - 1.25%, 1.25%, 1.25% and .0375% to Messrs. Skoien, Rumptz, Pelmoter and James Harris, respectively, (4) Horizon Louisville, - 1.25%, 1.25%, 1.25% and .0375% to Messrs. Skoien, Rumptz, Pelmoter and Harris, respectively, and (5) Horizon El Portal, - 1.52%, 1.52%, 1.22% and .61% to Messrs. Skoien, Pelmoter, Rumptz and Harris, respectively.

On October 1, 2022, the Company issued 1,000 shares of Series A Preferred Stock and 1,000 shares of Series B Preferred stock to PL Skoien in exchange for 100% ownership of PLS-Exchange, LLC, an entity owned by PL Skoien to which it had contributed ownership representing the economic interest of 15% of Atlanta JV, 19.1% of El Paso Holding, 19.6% of Horizon El Portal, 45.76% of Horizon Atlanta, and 48.59% of Horizon Louisville. The Series A Preferred Stock and Series B Preferred Stock can be described as "tracking preferred stock" in that the Series A Preferred Stock tracks the economics of the portion of contributed interests previously owned by PL-Skoien and the Series B Preferred Stock tracks the economics of the portion of contributed interests previously owned by PLA. Distributions received by the Company related to the membership interests will be distributed to PL-Skoien as dividends. The Series A and Series B Preferred Stock also have a preference over the Company's common shares in the case of liquidation of the Company equal to the appraised value of the Series A and Series B Preferred Stock at the time of such liquidation. The holders of the Series A and Series B Preferred Stock are obligated to make additional capital contributions to the Company in the event that additional capital is required with respect to the entities included in the assets owned by PLS-X. At December 31, 2023 and 2022, the accrued Preferred Stock Series A and Series B accrued dividends payable were $35,000 and $997,000, respectively. Dividends paid for the years ended December 31, 2023 and 2022, totaled $4.7 million and $0, respectively.

Note 10 – Subsequent Events

On February 13, 2024, the Company, Gary Skoien, and Betty Kimbrew formed a joint venture, LC Outlets, JV, LLC ("Lincoln City JV) to acquire an outlet shopping center in Lincoln City, Oregon ("Lincoln City Outlets") for $35.3 million. Lincoln City JV is owned 56% by Gary Skoien, 32% by Betty Kimbrew and 12% by the Company. Lincoln City JV owns 100% of LC Outlets CMBS, LLC ("LC CMBS") which owns the Retail shopping center with 255,608 leasable square feet. On February 13, 2024, the LC CMBS obtained a $23.1 million loan from an affiliate of Citi Bank (the "Lincoln City Loan"). The Lincoln City Loan has a term of 10 years and bears interest at 7.15%. Payments are interest only. The Lincoln City Loan is secured by a mortgage on the Lincoln City Outlets. Howard Amster and an affiliate of Howard Amster loaned the Company $11.8 million, which loaned $11.8 Gary Skoien and Betty Kimbrew for the required equity to acquire the property. The Company funded its share of equity.

An affiliate of the Company, Dells Acquisition Company, LLC, has executed an agreement to acquire a 71.75% membership interest in the entity that owns an outlet shopping center in Baraboo, WI ("The Dells"). The Company currently has $1.2 million escrowed for this transaction. After the acquisition, the ownership structure will be converted to tenants-in-common with the Company being a 10.75% tenant-in-common, an affiliate of Howard Amster being a 61% tenant-in-common and the entity that owns the other 28.25% of the entity that currently owns the center being a 28.25% tenant-in-common. The Company plans to fund its share of equity and obtain a mortgage from an affiliate of Citi Bank. The Company anticipates closing on the acquisition in March 2024.

BOARD OF DIRECTORS

Howard Amster
President, Pleasant Lake Apts. Corp.

Gary J. Skoien
Chairman, President and Chief Executive Officer
Horizon Group Properties, Inc.

David Zlatin
Chief Operating Officer, Ramat Securities Ltd.

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Gary J. Skoien
Chairman, President and Chief Executive Officer

David R. Tinkham
Chief Financial Officer and Secretary

Andrew F. Pelmoter
Executive Vice President, Leasing

Thomas A. Rumptz
Executive Vice President, Asset Management

Phillip E. Waters
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STOCK TRADING
The Company's common stock trades in the over the counter market under the symbol "HGPI.PK".

HGP
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www.Horizongroup.com