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

# FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1997

or

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

For the transition period _____ from to _____ .

COMMISSION FILE NO. 33-98136

CHELSEA GCA REALTY PARTNERSHIP, L.P.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

| | |
|---|---|
| DELAWARE | 22-3258100 |
| (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION) | (I.R.S. EMPLOYER IDENTIFICATION NO.) |

103 EISENHOWER PARKWAY, ROSELAND, NEW JERSEY 07068
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES - ZIP CODE)

(973) 228-6111
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

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

There are no outstanding shares of Common Stock or voting securities.

CHELSEA GCA REALTY PARTNERSHIP, L.P.

## INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CHELSEA GCA REALTY PARTNERSHIP, L.P.
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

| | SEPTEMBER 30, 1997 (Unaudited) | DECEMBER 31, 1996 |
|---|---|---|
| Assets: | | |
| Rental properties: | | |
| Land | $ 106,840 | $ 80,312 |
| Depreciable property | 559,568 | 432,042 |
| Total rental property | 666,408 | 512,354 |
| Accumulated depreciation | (74,166) | (58,054) |
| Rental properties, net | 592,242 | 454,300 |
| Cash and equivalents | 11,009 | 13,886 |
| Notes receivable-related parties | 4,781 | 8,023 |
| Deferred costs, net | 15,235 | 10,321 |
| Other assets | 11,435 | 15,682 |
| TOTAL ASSETS | $ 634,702 | $ 502,212 |
| LIABILITIES AND PARTNERS' CAPITAL | | |
| Liabilities: | | |
| Unsecured bank debt | $ 87,035 | $ - |
| 7.75% Unsecured Notes due 2001 | 99,722 | 99,668 |
| Remarketed Floating Rate Reset Notes due 2001 | 100,000 | 100,000 |
| Construction payables | 16,840 | 14,473 |
| Accounts payable and accrued expenses | 11,527 | 12,257 |
| Obligation under capital lease | 9,748 | 9,805 |
| Distribution payable to unitholders | 11,780 | 3,038 |
| Rent payable | 1,654 | 1,637 |
| TOTAL LIABILITIES | 338,306 | 240,878 |
| Commitments and contingencies | | |
| Minority interest | - | 5,698 |
| Partners' capital: | | |
| General partner units outstanding, 15,264 in 1997 and 12,402 in 1996 | 247,794 | 185,340 |
| Limited partners units outstanding, 3,433 in 1997 and 4,808 in 1996 | 48,602 | 70,296 |
| Total partners' capital | 296,396 | 255,636 |
| TOTAL LIABILITIES AND PARTNERS' CAPITAL | $ 634,702 | $ 502,212 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

CHELSEA GCA REALTY PARTNERSHIP, L.P.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 1997 AND 1996
(UNAUDITED)
(IN THOUSANDS, EXCEPT PER UNIT DATA)

| | THREE MONTHS ENDED SEPTEMBER 30, 1997 | 1996 | NINE MONTHS ENDED SEPTEMBER 30, 1997 | 1996 |
|---|---|---|---|---|
| REVENUES: | | | | |
| Base rent | $ 18,096 | $ 14,737 | $ 50,945 | $ 41,160 |
| Percentage rent | 2,694 | 2,028 | 5,776 | 3,707 |
| Expense reimbursements | 7,215 | 5,958 | 19,641 | 16,812 |
| Other income | 817 | 600 | 1,746 | 1,628 |
| Total revenues | 28,822 | 23,323 | 78,108 | 63,307 |
| EXPENSES: | | | | |
| Interest | 3,785 | 2,484 | 11,343 | 5,910 |
| Operating and maintenance | 7,876 | 6,718 | 21,403 | 18,314 |
| Depreciation and amortization | 6,143 | 4,597 | 18,111 | 11,765 |
| General and administrative | 1,019 | 829 | 2,489 | 2,270 |
| Other | 619 | 554 | 1,833 | 1,657 |
| Total expenses | 19,442 | 15,182 | 55,179 | 39,916 |
| Income before minority interest and extraordinary item | 9,380 | 8,141 | 22,929 | 23,391 |
| Minority interest | - | (56) | (127) | (195) |
| Net income before extraordinary item | 9,380 | 8,085 | 22,802 | 23,196 |
| Extraordinary item-loss on early extinguishment of debt | - | - | - | (902) |
| Net income | $ 9,380 | $8,085 | $ 22,802 | $22,294 |
| Net income: | | | | |
| General partner | $ 7,658 | $5,593 | $ 18,411 | $15,203 |
| Limited partners | 1,722 | 2,492 | 4,391 | 7,091 |
| Total | $ 9,380 | $8,085 | $22,802 | $ 22,294 |
| Net income per unit: | | | | |
| General partner (including $0.05 net loss per unit from extraordinary item in the nine months ended September 30, 1996) | $ 0.50 | $ 0.47 | $ 1.28 | $ 1.32 |
| Limited partners (including $0.05 net loss per unit from extraordinary item in the nine months ended September 30, 1996) | $0.50 | $0.47 | $1.27 | $1.29 |
| WEIGHTED AVERAGE UNITS OUTSTANDING: | | | | |
| General partner | 15,262 | 11,834 | 14,355 | 11,539 |
| Limited partners | 3,433 | 5,298 | 3,446 | 5,503 |
| Total | 18,695 | 17,132 | 17,801 | 17,042 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

CHELSEA GCA REALTY PARTNERSHIP, L.P.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997 AND 1996
(UNAUDITED)
(IN THOUSANDS)

| | 1997 | 1996 |
|---|---|---|
| Cash flows from operating activities | | |
| Net income | $22,802 | $22,294 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 18,111 | 11,765 |
| Minority interest in net income | 127 | 195 |
| Loss on early extinguishment of debt | - | 902 |
| Amortization of debt discount | 54 | 56 |
| Other operating activities | 53 | (164) |
| Additions to deferred lease costs | (4,928) | (1,274) |
| Changes in assets and liabilities: | | |
| Straight line rent receivable | (1,144) | (1,184) |
| Other assets | 5,391 | 389 |
| Accounts payable and accrued expenses | (770) | 3,494 |
| Net cash provided by operating activities | 39,696 | 36,473 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to and acquisitions of rental properties | (153,416) | (81,052) |
| Additions to deferred development costs | (1,060) | (1,894) |
| Advances to related parties | - | (67) |
| Payments from related parties | - | 173 |
| Net cash used in investing activities | (154,476) | (82,840) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net proceeds from sale of common stock | 51,976 | 1,290 |
| Distributions | (26,459) | (29,472) |
| Debt proceeds | 137,035 | 188,592 |
| Repayments of debt | (50,000) | (107,000) |
| Additions to deferred financing costs | (536) | (3,349) |
| Other financing activities | (113) | (25) |
| Net cash provided by financing activities | 111,903 | 50,036 |
| Net (decrease) increase in cash and equivalents | (2,877) | 3,669 |
| Cash and equivalents, beginning of period | 13,886 | 3,987 |
| Cash and equivalents, end of period | $11,009 | $7,656 |

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

During the nine months ended September 30, 1997 and 1996, 1.4 million and 0.5 million Operating Partnership units with a book value of approximately $20.0 million and $7.9 million, respectively, were converted to common shares. In June 1997, the Operating Partnership forgave a $3.3 million related party note receivable as partial consideration to acquire the remaining 50% interest in Solvang. On March 31, 1997, the Operating Partnership issued units having a market value of $0.5 million as partial consideration to acquire Waikele Factory Outlets. Additionally, during 1996, the Operating Partnership issued units to acquire property valued at $1.6 million.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

CHELSEA GCA REALTY PARTNERSHIP, L.P.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. ORGANIZATION AND BASIS OF PRESENTATION

Chelsea GCA Realty Partnership, L.P. (the "Operating Partnership"), which commenced operations on November 2, 1993, is engaged in the development, ownership, acquisition, leasing and operation of manufacturers' outlet centers. As of September 30, 1997, the Operating Partnership operated 19 centers in 11 states (the "Properties") containing approximately 4.1 million square feet of gross leasable area ("GLA"). The Properties are located near large metropolitan areas including New York, Los Angeles, San Francisco, Sacramento, Atlanta, Portland (Oregon), Kansas City and Cleveland, or at or near tourist destinations including Honolulu, the Napa Valley, Palm Springs and the Monterey Peninsula. The Operating Partnership also has a number of properties under development and expansion. The sole general partner in the Operating Partnership, Chelsea GCA Realty, Inc. (the "Company"), is a self-administered and self-managed Real Estate Investment Trust.

Ownership of the Operating Partnership as of September 30, 1997 was as follows:

| | | | |
|---|---|---|---|
| General Partner | 81.6% | 15,264,000 | units |
| Limited Partners | 18.4% | 3,433,000 | units |
| TOTAL | 100.0% | 18,697,000 | |

The condensed consolidated financial statements of the Operating Partnership include the accounts of Solvang Designer Outlets ("Solvang"), a limited partnership. The Operating Partnership previously had a 50% interest and was the sole general partner. On June 30, 1997, the Operating Partnership acquired the remaining 50% interest in Solvang. Solvang is not material to the operations or financial position of the Operating Partnership.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. Operating results for the three and nine month periods ended September 30, 1997 are not necessarily indicative of the results that may be expected for the year ending December 31, 1997. These financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Operating Partnership's Annual Report on Form 10-K for the year ended December 31, 1996.

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, Earnings per Share, which is required to be adopted for fiscal years ending after December 15, 1997. The Operating Partnership will be required to change the method currently used to compute earnings per parnership unit and to restate all prior periods. Management does not believe the adoption of Statement No. 128 will have a material impact on earnings per partnership unit.

2. JOINT VENTURE AGREEMENT

In May 1997, the Operating Partnership announced the formation of a strategic alliance with Simon DeBartolo Group, Inc. ("Simon") to develop and acquire high-end outlet centers with GLA of 500,000 square feet or more in the United States. The Operating Partnership and Simon will be co-managing general partners, each with 50% ownership of the joint venture and any entities formed with respect to specific projects; the Operating Partnership will have primary responsibility for the day-to-day activities of each project. In conjunction with the alliance, the Company completed the sale on June 16, 1997 to Simon of 1.4 million shares of new common stock, for an aggregate sales price of $50 million. Net proceeds from the sale were used to repay borrowings under the Operating Partnership's Unsecured Facility.

3. PROPERTY ACQUISITION

On March 31, 1997, the Operating Partnership acquired Waikele Factory Outlets, a manufacturers' outlet shopping center located near Honolulu, Hawaii. The consideration paid by the Operating Partnership consisted of the assumption of $70.7 million of indebtedness outstanding with respect to the property (which indebtedness was repaid in full immediately after the closing) and the issuance of special partnership units having a fair market value of $0.5 million. Immediately after the closing, the Operating Partnership paid a special cash distribution of $5.0 million to special unit holders. The cash used by the Operating Partnership in the acquisition was obtained through borrowings under the Unsecured Facility.

4. DEBT

In March 1996, the Operating Partnership replaced its secured revolving credit facility (the "Secured Facility") with an unsecured $100 million revolving credit facility (the "Unsecured Facility") which expires March 29, 1998. In connection with the termination of the Secured Facility, the Operating Partnership expensed as an extraordinary item unamortized deferred financing costs of $0.9 million. In March 1997, the Operating Partnership obtained a supplemental $50 million unsecured revolving credit facility bearing the same terms and conditions as the Unsecured Facility. Interest on the outstanding balance of the unsecured facilities is payable monthly at a rate equal to the London Interbank Offered Rate ("LIBOR") plus 1.45% (reduced to LIBOR plus 1.15% on October 10, 1997), or the prime rate, at the Operating Partnership's option. Fees on the unused portion of the unsecured facilities are payable quarterly at a rate of 0.25% per annum. The outstanding balance at September 30, 1997 was $87.0 million, which approximates fair value, leaving $63.0 million of borrowing availability. The Operating Partnership repaid substantially all borrowings under the Unsecured Facility with proceeds from two offerings in October 1997. (See Note 6).

The unsecured facilities require compliance with certain loan covenants relating to debt service coverage, tangible net worth, cash flow, earnings, occupancy rate, new development and dividends. The Operating Partnership has remained in compliance with these covenants since inception of the facilities.

In January 1996, the Operating Partnership completed a $100 million public debt offering of 7.75% unsecured term notes due January 2001 (the "Term Notes"), which are guaranteed by the Company. The five-year non-callable Term Notes were priced at a discount of 99.952 to yield 7.85% to investors. Net proceeds from the offering were used to pay down substantially all of the borrowings under the Secured Facility.

In October 1996, the Operating Partnership completed a $100 million offering of Remarketed Floating Rate Reset Notes (the "Reset Notes"), which are guaranteed by the Company. The interest rate will reset quarterly and will equal LIBOR plus 75 basis points during the first year. The spread and the spread period for subsequent periods will be adjusted in whole or part at the end of the first year, pursuant to an agreement with the underwriters. Unless previously redeemed, the Reset Notes will have a final maturity of October 23, 2001. Net proceeds from the offering were used to repay all of the borrowings under the Unsecured Facility and for working capital. The carrying amount of the Reset Notes approximates their fair value. In October 1997, the Operating Partnership redeemed $40 million principal amount and reset the interest rate to LIBOR plus 48 basis points for one year on the remaining $60 million of Reset Notes.

Interest and loan costs of approximately $3.5 million and $3.6 million were capitalized as development costs during the nine months ended September 30, 1997 and 1996, respectively.

In October 1997, the Operating Partnership completed a $125 million public debt offering of 7.25% unsecured term notes due October 2007 (the "7.25% Notes"). The 7.25% Notes were priced to yield 7.29% to investors, 120 basis points over the then 10-year U.S. Treasury rate. The 7.25% Notes are redeemable by the Operating Partnership at any time and from time to time at a premium. Net proceeds from the offering were used to repay substantially all borrowings under the Operating Partnership's Unsecured Facility, to redeem $40 million of Reset Notes as mentioned above and for general corporate purposes.

5. DISTRIBUTIONS

On September 11, 1997, the Board of Directors of the Company declared a $0.63 per unit cash distribution to unitholders of record on September 30, 1997. The distribution, totaling $11.8 million, was paid on October 20, 1997.

6. PREFERRED STOCK

In October 1997, the Company issued 1,000,000 shares of 8.375% Series A Cumulative Redeemable Preferred Stock (the "Preferred Stock"), par value $0.01 per share, having a liquidation preference of $50.00 per share. The Preferred Stock has no stated maturity and is not convertible into any other securities of the Company. The Preferred Stock is redeemable on or after October 15, 2027 at the Company's option. Net proceeds from the offering were used to repay borrowings under the Operating Partnership's Unsecured Facility.

7. INCOME TAXES

No provision has been made for income taxes in the accompanying consolidated financial statements since such taxes, if any, are the responsibility of the individual partners.

8. NET INCOME PER PARTNERSHIP UNIT

Net income per partnership unit is determined by allocating net income to the general partner and the limited partners based on their weighted average partnership units outstanding during the respective periods presented.

9. COMMITMENTS AND CONTINGENCIES

The Operating Partnership is not presently involved in any material litigation nor, to its knowledge, is any material litigation threatened against the Operating Partnership or its properties, other than routine litigation arising in the ordinary course of business. Management believes the costs, if any, incurred by the Operating Partnership related to this litigation will not materially affect the financial position, operating results or liquidity of the Operating Partnership.

10. RELATED PARTY INFORMATION

On June 30, 1997, the Operating Partnership forgave a $3.3 million related party note and paid $2.4 million in cash to acquire the remaining 50% interest in Solvang Designer Outlets. The Operating Partnership also collected $0.8

million in accrued interest on the note.

The Operating Partnership recognized lease settlement income of approximately $99,000 from a related party during the nine months ended September 30, 1996. This amount is included in other income in the accompanying condensed consolidated financial statements.

11. EXTRAORDINARY ITEM

Deferred financing costs of $0.9 million related to the Secured Facility replaced in March 1996 were expensed and are reflected in the accompanying financial statements as an extraordinary item.

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

The following discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and notes thereto. These financial statements include all adjustments which, in the opinion of management, are necessary to reflect a fair statement of results for the interim periods presented, and all such adjustments are of a normal recurring nature.

GENERAL OVERVIEW

The Operating Partnership has grown by increasing rent at its existing centers, expanding its existing centers, developing new centers and acquiring and redeveloping centers. The Operating Partnership operated 19 manufacturers' outlet centers at September 30, 1997 compared to 18 at the end of the same quarter in the prior year. The Operating Partnership's operating gross leasable area (GLA) at September 30, 1997, increased 15.1% to 4.1 million square feet from 3.5 million square feet at September 30, 1996. GLA added since October 1, 1996 is detailed as follows:

| | 12 mos. ended September 30, 1977 | 9 mos. ended September 30, 1977 | 3 mos. ended December 31 1977 |
|---|---|---|---|
| GLA added (in 000's): | | | |
| CENTERS EXPANDED: | | | |
| North Georgia | 111 | 111 | - |
| Desert Hills | 18 | 18 | - |
| Camarillo | 139 | 85 | 54 |
| Folsom | 38 | 16 | 22 |
| Liberty Village | 18 | 13 | 5 |
| Other | (4) | (4) | - |
| TOTAL CENTERS EXPANDED | 320 | 239 | 81 |
| CENTER ACQUIRED: | | | |
| Waikele | 214 | 214 | - |
| Net GLA added during the period | 534 | 453 | 81 |
| GLA at end of period | 4,063 | 4,063 | 3,610 |

RESULTS OF OPERATIONS

COMPARISON OF THE THREE MONTHS ENDED SEPTEMBER 30, 1997 TO THE THREE MONTHS ENDED SEPTEMBER 30, 1996.

Net income before minority interest and extraordinary item increased $1.3 million to $9.4 million for the three months ended September 30, 1997 from $8.1 million for the three months ended September 30, 1996. Increases in revenues were offset by higher interest expense and depreciation and amortization.

Base rental revenue increased $3.4 million, or 22.8%, to $18.1 million for the three months ended September 30, 1997 from $14.7 million for the three months ended September 30, 1996 due to expansions, new center openings, an acquisition and higher average rents.

Percentage rent revenue increased $0.7 million to $2.7 million for the three months ended September 30, 1997, from $2.0 million for the three months ended September 30, 1996. The increase was primarily due to increases in tenant sales at the Operating Partnership's larger centers and an increase in tenants contributing percentage rents.

Expense reimbursements, representing contractual recoveries from tenants of certain common area maintenance, operating, real estate tax, promotional and management expenses, increased $1.2 million, or 21.1%, to $7.2 million for the three months ended September 30, 1997 from $6.0 million for the three months ended September 30, 1996, due to the recovery of operating and maintenance costs from increased GLA. The average recovery of reimbursable expenses was 91.6% in the third quarter of 1997, compared to 92.2% in the third quarter of 1996.

Other income increased $0.2 million to $0.8 million for the three months ended September 30, 1997 from $0.6 million for the three months ended September 30, 1996 as the result of an outparcel sale at one of the operating centers, net of lease termination income in the 1996 period.

Interest in excess of amounts capitalized increased $1.3 million to $3.8 million for the three months ended September 30, 1997 from $2.5 million for the three months ended September 30, 1996 primarily due to higher debt balances from new centers, expansion openings, and a center acquisition financed with borrowings.

Operating and maintenance expenses increased $1.2 million, or 17.2%, to $7.9 million for the three months ended September 30, 1997 from $6.7 million for the three months ended September 30, 1996. The increase was primarily due to costs related to increased GLA.

Depreciation and amortization expense increased $1.5 million, or 33.6%, to $6.1 million for the three months ended September 30, 1997 from $4.6 million for the three months ended September 30, 1996. The increase was primarily related to increased GLA.

General and administrative expenses increased $0.2 million, or 22.9%, to $1.0 million, for the three months ended September 30, 1997 from $0.8 million for the three months ended September 30, 1996 due to increased personnel and overhead costs.

Other expenses remained flat at $0.6 million for the three months ended September 30, 1997 and 1996.

COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 1997 TO THE NINE MONTHS ENDED SEPTEMBER 30, 1996.

Net income before minority interest and extraordinary item decreased $0.4 million to $23.0 million for the nine months ended September 30, 1997, from $23.4 million for the nine months ended September 30, 1996. Increases in revenues were more than offset by higher interest expense and increases in depreciation and amortization.

Base rental revenue increased $9.8 million, or 23.8%, to $51.0 million for the nine months ended September 30, 1997, from $41.2 million for the nine months ended September 30, 1996, due to expansions, new center openings, an acquisition and higher average rents.

Percentage rent revenue increased $2.1 million to $5.8 million for the nine months ended September 30, 1997 from $3.7 million for the nine months ended September 30, 1996. The increase was primarily due to increases in tenant sales, expansions at the Operating Partnership's larger centers and increases in tenants contributing percentage rents.

Expense reimbursements, representing contractual recoveries from tenants of certain common area maintenance, operating, real estate tax, promotional and management expenses, increased $2.8 million, or 16.8%, to $19.6 million for the nine months ended September 30, 1997 from $16.8 million for the nine months ended September 30, 1996, due to the recovery of operating and maintenance costs from increased GLA. The average recovery of reimbursable expenses was 91.8% in 1997 compared to 93.1% in 1996.

Interest in excess of amounts capitalized increased $5.4 million to $11.3 million for the nine months ended September 30, 1997 from $5.9 million for the nine months ended September 30, 1996 primarily due to higher debt balances from new centers, expansion openings, and a center acquisition financed with borrowings.

Operating and maintenance expenses increased $3.1 million, or 16.9%, to $21.4 million for the nine months ended September 30, 1997 from $18.3 million for the nine months ended September 30, 1996. The increase was primarily due to costs related to increased GLA.

Depreciation and amortization expense increased $6.3 million, or 53.9%, to $18.1 million for the nine months ended September 30, 1997 from $11.8 million for the nine months ended September 30, 1996. The increase was primarily due to costs related to increased GLA.

General and administrative expenses increased $0.2 million to $2.5 million for the nine months ended September 30, 1997 from $2.3 million for the nine months ended September 30, 1996 due to increased personnel and overhead costs.

Other expenses increased $0.2 million to $1.8 million for the nine months ended September 30, 1997 from $1.6 million for the nine months ended September 30, 1996. The increase included additional reserves for bad debts.

In March 1996, the Operating Partnership replaced its Secured Facility. Deferred financing costs of $0.9 million were expensed in connection with the early retirement of the Secured Facility.

## LIQUIDITY AND CAPITAL RESOURCES

The Operating Partnership believes it has adequate financial resources to fund operating expenses, distributions, and planned development and construction activities. Operating cash flow during 1997 is expected to increase with a full year of operations of the 676,000 square feet of GLA added during 1996, the acquisition of Waikele Factory Outlets and scheduled openings of one new center and several expansions in 1997.

Operating cash flow is expected to provide sufficient funds for distributions. In addition, the Operating Partnership anticipates retaining sufficient operating cash to fund re-tenanting and lease renewal tenant improvement costs, as well as capital expenditures to maintain the quality of its centers.

Distributions declared and recorded during the nine months ended September 30, 1997 were $34.4 million, or $1.89 per unit. The Operating Partnership's distribution payout ratio as a percentage of net income before depreciation and amortization, exclusive of amortization of deferred financing costs, minority interest and extraordinary item ("FFO") was 86.8% during the nine months ended September 30, 1997. The Unsecured Facility limits aggregate distributions to the lesser of (i) 90% of FFO on an annual basis or (ii) 100% of FFO for any two consecutive quarters.

In October 1997, the Company issued 1,000,000 shares of 8.375% Series A Cumulative Redeemable Preferred Stock (the "Preferred Stock"), par value $0.01 per share, having a liquidation preference of $50.00 per share. The Preferred Stock has no stated maturity and is not convertible into any other securities of the Company. The Preferred Stock is redeemable on or after October 15, 2027 at the Company's option. Net proceeds from the offering were used to repay borrowings under the Operating Partnership's Unsecured Facility.

In October 1997, the Operating Partnership completed a $125 million public debt offering of 7.25% unsecured term notes due October 2007 (the "7.25% Notes"). The 7.25% Notes were priced to yield 7.29% to investors, 120 basis points over the 10-year U.S. Treasury rate. Net proceeds from the offering were used to repay substantially all borrowings under the Operating Partnership's Unsecured Facility, redeem $40 million of Reset Notes and for general corporate purposes.

Subsequent to the two offerings in October 1997, the Operating Partnership had $145 million available under its unsecured facilities, access to the public markets through its $175 million debt and the Company's $200 million equity shelf registration and cash and cash equivalents of approximately $44 million.

The 227,000 square foot first phase of Wrentham Village Premium Outlets (Wrentham, MA), located near the junction of Interstates 95 and 495 between Boston and Providence, opened in mid-October. The Operating Partnership expects to be under construction by the end of November on approximately 730,000 square feet of new GLA to be completed during the balance of 1997 and in 1998, including the 270,000 square foot first phase of Leesburg Corner Premium Outlets (Leesburg, VA), a new center serving the greater Washington, D.C. market; and expansions, already underway, of 270,000 square feet at Woodbury Common Premium Outlets (Central Valley, NY), 140,000 square feet (Phase II) at Wrentham Village Premium Outlets, 30,000 square feet at Desert Hills Premium Outlets (Cabazon, CA), and 20,000 square feet at Folsom Premium Outlets (Folsom, CA). These projects are in various stages of development and there can be no assurance that any of them will be completed or opened, or that there will not be delays in the opening or completion of any of them. The Operating Partnership anticipates development and construction costs of approximately $75 million to $115 million annually.

To achieve planned growth and favorable returns in both the short and long term, the Operating Partnership's financing strategy is to maintain a strong, flexible financial position by: (i) maintaining a conservative level of leverage; (ii) extending and sequencing debt maturity dates; (iii) managing exposure to floating interest rates; (iv) maintaining a significant level of unencumbered assets; and (v) maintaining liquidity. Management believes these strategies will enable the Operating Partnership to access a broad array of capital sources, including bank or institutional borrowings and secured and unsecured debt and equity offerings, subject to market conditions.

It is the Operating Partnership's policy to limit its borrowings to less than 40% of total market capitalization (defined as the value of outstanding common and preferred shares of the Company on a fully diluted basis including conversion of partnership units to stock, plus total debt). After the two October 1997 offerings were completed, using an October 21, 1997 closing price of $41.125 per common share of the Company plus a liquidation preference of $50.00 per preferred share of the Company, the Operating Partnership's ratio of debt to total market capitalization was approximately 26%.

Net cash provided by operating activities was $39.7 million and $36.5 million for the nine months ended September 30, 1997 and 1996, respectively. The increase was primarily due to the growth of the Operating Partnership's GLA to 4.1 million square feet in 1997 from 3.5 million square feet in 1996 and decreases in accounts receivable, offset by decreases in accrued expenses. Net cash used in investing activities increased $71.6 million for the nine months ended September 30, 1997 compared to the corresponding 1996 period primarily as a result of the acquisition of Waikele Factory Outlets. Net cash provided by financing activities increased $61.9 million primarily due to the purchase of stock by Simon.

FUNDS FROM OPERATIONS

Management believes that funds from operations ("FFO") should be considered in conjunction with net income, as presented in the statements of operations included elsewhere herein, to facilitate a clear understanding of the operating results of the Operating Partnership. Management considers FFO an appropriate measure of performance for an equity real estate investment trust. FFO, as defined by the National Association of Real Estate Investment Trusts ("NAREIT"), is net income (computed in accordance with generally accepted accounting principles), excluding gains (or losses) from debt restructuring and sales of property, exclusive of outparcel sales, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures are calculated to reflect FFO on the same basis. FFO does not represent net income or cash flow from operations as defined by generally accepted accounting principles and should not be considered an alternative to net income as an indicator of operating performance or to cash from operations, and is not necessarily indicative of cash flow available to fund cash needs.

| | THREE MONTHS ENDED SEPTEMBER 30, | | NINE MONTHS ENDED SEPTEMBER 30, | |
|---|---|---|---|---|
| | 1997 | 1996 | 1997 | 1996 |
| Net income before extraordinary item...................... | $9,380 | $8,085 | $22,802 | $23,196 |
| Add back: | | | | |
| Depreciation and amortization(1).......................... | 6,143 | 4,539 | 17,999 | 11,604 |
| Amortization of deferred financing costs and depreciation of non-real estate assets................ | (430) | (264) | (1,166) | (920) |
| FFO...................................................... | $15,093 | $12,360 | $39,635 | $33,880 |

- ---------------------------------------

(1 Excludes depreciation and minority interest attributed to a third-party limited partner's interest in a partnership.

SIGNATURES

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

CHELSEA GCA REALTY PARTNERSHIP, L.P.

By: CHELSEA GCA REALTY, INC.
Its General Partner

By: /S/ LESLIE T. CHAO
-----------------------------------------
Leslie T. Chao
President and Chief Financial Officer

Date: November 11, 1997

5

3-MOS
DEC-31-1997
JUL-01-1997
SEP-30-1997
11,009
0
4,781
0
0
0
666,408
(74,166)
634,702
0
199,722
0
0
0
296,396
634,702
28,822
28,822
0
19,442
619
0
3,785
9,380
0
9,380
0
0
0
9,380
0.50
0.50