ACADIA REALTY TRUST
Form 10-Q
August 05, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2011

or

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

For the transition period from _______ to _______

Commission File Number 1-12002

ACADIA REALTY TRUST

(Exact name of registrant in its charter)

MARYLAND	**23-2715194**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1311 MAMARONECK AVENUE, SUITE 260 WHITE PLAINS, NY	**10605**
(Address of principal executive offices)	**(Zip Code)**

(914) 288-8100

(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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES x NO o

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

Large Accelerated Filer o Accelerated Filer x

Non-accelerated Filer o Smaller Reporting Company o

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act) Yes o No x

As of August 5, 2011 there were 40,332,554 common shares of beneficial interest, par value $.001 per share, outstanding.

ACADIA REALTY TRUST AND SUBSIDIARIES

FORM 10-Q

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Part I. Financial Information

Item 1. Financial Statements.

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)	June 30, 2011	December 31, 2010
	(unaudited)	
ASSETS		
Operating real estate		
Land	$ 252,039	$ 222,167
Building and improvements	936,514	876,588
Construction in progress	2,871	4,236
	1,191,424	1,102,991
Less: accumulated depreciation	199,982	185,878
Net operating real estate	991,442	917,113
Real estate under development	237,373	243,892
Notes receivable, net	45,457	89,202
Investments in and advances to unconsolidated affiliates	68,523	31,036
Cash and cash equivalents	148,859	120,592
Cash in escrow	30,831	28,610
Rents receivable, net	21,646	17,621
Deferred charges, net	24,345	23,715
Acquired lease intangibles, net	20,808	18,622
Prepaid expenses and other assets	23,583	22,354
Assets of discontinued operations		12,049
Total assets	$ 1,612,867	$ 1,524,806
LIABILITIES		
Mortgage notes payable	$ 831,320	$ 806,212
Convertible notes payable, net of unamortized discount of $523 and $1,063, respectively	39,221	48,712
Distributions in excess of income from, and investments in, unconsolidated affiliates	21,356	20,884
Accounts payable and accrued expenses	36,336	27,648
Dividends and distributions payable	7,506	7,427
Acquired lease and other intangibles, net	5,867	5,737
Other liabilities	16,963	20,492
Liabilities of discontinued operations		172
Total liabilities	958,569	937,284
EQUITY		
Shareholders equity		
Common shares, $.001 par value, authorized 100,000,000 shares; issued and outstanding 40,331,366 and 40,254,525 shares, respectively	40	40
Additional paid-in capital	303,536	303,823
Accumulated other comprehensive loss	(2,350)	(2,857)

Retained earnings	42,346	17,206
Total shareholders equity	343,572	318,212
Noncontrolling interests	310,726	269,310
Total equity	654,298	587,522
Total liabilities and equity	$ 1,612,867	$ 1,524,806

See accompanying notes

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(dollars in thousands, except per share amounts)	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Revenues				
Rental income	$ 29,016	$ 24,662	$ 56,423	$ 49,345
Interest income	3,370	5,238	7,908	10,231
Expense reimbursements	5,635	4,574	10,889	10,150
Management fee income	288	436	917	836
Other	495	557	1,183	1,074
Total revenues	38,804	35,467	77,320	71,636
Operating Expenses				
Property operating	7,654	6,302	15,376	13,575
Real estate taxes	4,702	4,144	8,886	8,469
General and administrative	5,699	5,416	11,389	10,535
Depreciation and amortization	8,449	6,472	16,346	15,074
Impairment of asset	6,925		6,925	
Total operating expenses	33,429	22,334	58,922	47,653
Operating income	5,375	13,133	18,398	23,983
Equity in earnings (losses) of unconsolidated affiliates	63	80	(85)	467
Other interest income	80	153	114	287
Gain from bargain purchase		33,805		33,805
(Loss) gain on debt extinguishment	(102)		1,571	
Interest and other finance expense	(8,903)	(9,502)	(17,856)	(19,157)
(Loss) income from continuing operations before income taxes	(3,487)	37,669	2,142	39,385
Income tax provision	(233)	(645)	(495)	(1,084)
(Loss) income from continuing operations	(3,720)	37,024	1,647	38,301
Discontinued Operations				
Operating income from discontinued operations	185	473	548	703
Gain on sale of property	28,576		32,498	
Income from discontinued operations	28,761	473	33,046	703
Net income	25,041	37,497	34,693	39,004
Noncontrolling interests				
Continuing operations	5,525	(24,647)	8,478	(20,974)
Discontinued operations	(332)	(52)	(3,514)	(102)

Net loss (income) attributable to noncontrolling interests		5,193		(24,699)		4,964		(21,076)
Net income attributable to Common Shareholders	$	30,234	$	12,798	$	39,657	$	17,928
Basic Earnings per Share								
Income from continuing operations	$	0.04	$	0.31	$	0.25	$	0.43
Income from discontinued operations		0.71		0.01		0.73		0.02
Basic earnings per share	$	0.75	$	0.32	$	0.98	$	0.45
Diluted Earnings per Share								
Income from continuing operations	$	0.04	$	0.31	$	0.25	$	0.43
Income from discontinued operations		0.70		0.01		0.73		0.02
Diluted earnings per share	$	0.74	$	0.32	$	0.98	$	0.45

See accompanying notes

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2011 AND 2010

(unaudited)

(Amounts in thousands, except per share amounts)	Common Shares		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders Equity	Noncontrolling Interests	Total Equity
	Shares	Amount						
Balance at December 31, 2010	40,254	$ 40	$ 303,823	$ (2,857)	$	$ 318,212	$ 269,310	$ 587,522
Conversion of 11 OP Units to Common Shares by limited partners of the Operating Partnership	11		49		17,206	49	(49)	
Dividends declared ($0.36 per Common Share)					(14,517)	(14,517)	(492)	(15,009)
Vesting of employee Restricted Share and LTIP awards	95		257			257	1,966	2,223
Common Shares issued under Employee Share Purchase Plan	2		45			45		45
Issuance of LTIP Unit awards to employees							2,441	2,441
Issuance of Common Shares to trustees	8		79			79		79
Exercise of trustees options	1		7			7		7
Employee Restricted Shares cancelled	(40)		(724)			(724)		(724)
Noncontrolling interest distributions							(705)	(705)
Noncontrolling interest contributions							43,646	43,646
	40,331	40	303,536	(2,857)	2,689	303,408	316,117	619,525
Comprehensive income (loss):								
Net income (loss)					39,657	39,657	(4,964)	34,693
Unrealized loss on valuation of swap agreements				(803)		(803)	(754)	(1,557)
Reclassification of realized interest on swap agreements				1,310		1,310	327	1,637
Total comprehensive income (loss)				507	39,657	40,164	(5,391)	34,773
Balance at June 30, 2011	40,331	$ 40	$ 303,536	$ (2,350)	$ 42,346	$ 343,572	$ 310,726	$ 654,298
Balance at December 31, 2009	39,787	$ 40	$ 299,014	$ (2,994)	$ 16,125	$ 312,185	$ 220,292	$ 532,477
Conversion of 257 OP Units to Common Shares by limited partners of the Operating Partnership	257		2,174			2,174	(2,174)	
Dividends declared ($0.36 per Common Share)					(14,466)	(14,466)	(381)	(14,847)
Vesting of employee Restricted Share and LTIP awards	133		1,062			1,062	888	1,950
Common Shares issued under Employee Share Purchase Plan	3		50			50		50
Issuance of Common Shares to trustees	13		190			190		190
Exercise of trustees options	7		101			101		101
Employee Restricted Shares cancelled	(57)		(966)			(966)		(966)
Noncontrolling interest distributions							(523)	(523)
Noncontrolling interest contributions							19,476	19,476

	40,143		40		301,625		(2,994)		1,659		300,330	237,578	537,908
Comprehensive income (loss)													
Net income									17,928		17,928	21,076	39,004
Unrealized loss on valuation of swap agreements							(1,701)				(1,701)	(26)	(1,727)
Reclassification of realized interest on swap agreements							1,324				1,324	177	1,501
Total comprehensive income (loss)							(377)		17,928		17,551	21,227	38,778
Balance at June 30, 2010	40,143	$	40	$	301,625	$	(3,371)	$	19,587	$	317,881	$ 258,805	$ 576,686

See accompanying notes

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ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(dollars in thousands)	Six months ended June 30, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 34,693	$ 39,004
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	16,689	16,119
Amortization of financing costs	1,817	2,086
Gain from bargain purchase		(33,805)
Gain on sale of property	(32,498)	
Gain on debt extinguishment	(1,571)	
Impairment of asset	6,925	
Non-cash accretion of notes receivable	(504)	(2,961)
Share compensation expense	2,304	2,141
Equity in losses (earnings) of unconsolidated affiliates	85	(467)
Other, net	2,303	2,107
Changes in assets and liabilities		
Cash in escrow	(2,543)	484
Rents receivable, net	(4,252)	(1,441)
Prepaid expenses and other assets, net	(1,223)	(1,094)
Accounts payable and accrued expenses	1,077	(2,216)
Other liabilities	(3,053)	280
Net cash provided by operating activities	20,249	20,237
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in real estate	(91,918)	(36,934)
Deferred acquisition and leasing costs	(2,554)	(1,802)
Investments in and advances to unconsolidated affiliates	(41,572)	(2,182)
Return of capital from unconsolidated affiliates	3,141	617
Repayments of notes receivable	47,932	2,011
Increase in notes receivable	(3,834)	
Proceeds from sale of property	43,791	
Net cash used in investing activities	(45,014)	(38,290)

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(dollars in thousands)	Six months ended June 30, 2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on mortgage notes	(24,260)	(26,254)
Proceeds received on mortgage notes	51,223	29,035
Increase in deferred financing and other costs	(1,268)	(2,945)
Capital contributions from noncontrolling interests	43,646	19,476
Distributions to noncontrolling interests	(1,123)	(903)
Dividends paid to Common Shareholders	(14,513)	(14,419)
Repurchase and cancellation of Common Shares	(725)	(966)
Common Shares issued under Employee Share Purchase Plan	45	50
Exercise of options to purchase Common Shares	7	101
Net cash provided by financing activities	53,032	3,175
Increase (decrease) in cash and cash equivalents	28,267	(14,878)
Cash and cash equivalents, beginning of period	120,592	93,808
Cash and cash equivalents, end of period	$ 148,859	$ 78,930
Supplemental disclosure of cash flow information		
Cash paid during the period for interest, net of capitalized interest of $2,464 and $876, respectively	$ 16,683	$ 15,597
Cash paid for income taxes	$ 3,701	$ 1,095
Acquisition of interest in unconsolidated affiliate:		
Real estate, net	$	$ (108,000)
Assumption of mortgage debt		25,990
Gain on bargain purchase		33,805
Other assets and liabilities		7,532
Investment in unconsolidated affiliates		37,824
Cash included in investment in real estate	$	$ (2,849)

See accompanying notes

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

Business and Organization

Acadia Realty Trust (the Trust) and subsidiaries (collectively, the Company), is a fully-integrated equity real estate investment trust (REIT) focused on the ownership, management and redevelopment of retail properties and urban/infill mixed-use properties with a retail component concentration located primarily in high-barrier-to-entry, densely-populated metropolitan areas in the United States along the East Coast and in Chicago.

All of the Company s assets are held by, and all of its operations are conducted through, Acadia Realty Limited Partnership (the Operating Partnership) and entities in which the Operating Partnership owns an interest. As of June 30, 2011, the Trust controlled approximately 99% of the Operating Partnership as the sole general partner. As the general partner, the Trust is entitled to share, in proportion to its percentage interest, in the cash distributions and profits and losses of the Operating Partnership. The limited partners primarily represent entities or individuals that contributed their interests in certain properties or entities to the Operating Partnership in exchange for common or preferred units of limited partnership interest (Common or Preferred OP Units) and restricted OP units (LTIP Units) awarded to employees as long-term compensation (Note 13). Limited partners holding Common OP Units are generally entitled to exchange their units on a one-for-one basis for common shares of beneficial interest of the Trust (Common Shares).

As of June 30, 2011, the Company has ownership interests in 35 properties within its core portfolio (Core Portfolio) and 49 properties within its three opportunity funds, Acadia Strategic Opportunity Fund L.P. (Fund I), Acadia Strategic Opportunity Fund II, LLC (Fund II) and Acadia Strategic Opportunity Fund III, LLC (Fund III and together with Fund I and Fund II, the Opportunity Funds). The 84 properties consist of commercial properties, primarily neighborhood and community shopping centers, mixed-use properties with a retail component and self-storage properties. In addition, the Company also invests in operating companies through Acadia Mervyn Investors I, LLC (Mervyns I) and Acadia Mervyn Investors II, LLC (Mervyns II) or Fund II, all on a non-recourse basis. These investments comprise and are referred to as the Company s Retailer Controlled Property initiative (RCP Venture). The Operating Partnership has the following equity interests in the Opportunity Funds, Mervyns I and Mervyns II:

Entity	Equity Interest Held By Operating Partnership
Fund I and Mervyns I	22.2%
Fund II and Mervyns II	20.0%
Fund III	19.9%

In addition, with respect to each of the Opportunity Funds, Mervyns I and Mervyns II, the Operating Partnership is entitled to a profit participation in excess of its equity interest percentage based on certain investment return thresholds (Promote).

Basis of Presentation

The consolidated financial statements include the consolidated accounts of the Company and its investments in partnerships and limited liability companies in which the Company is presumed to have control in accordance with the consolidation guidance of the Financial Accounting Statements Board (FASB) Accounting Standards Codification (ASC). Investments in entities for which the Company has the ability to exercise significant influence but does not have financial or operating control, are accounted for under the equity method of accounting. Accordingly, the Company s share of the net earnings (or losses) of entities accounted for under the equity method are included in consolidated net income under the caption, Equity in Earnings (Losses) of Unconsolidated Affiliates. Investments in entities for which the Company does not have the ability to exercise any influence are accounted for under the cost method.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates. Operating results for the three and six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2011. The information furnished in the accompanying consolidated financial statements reflects all adjustments that, in the opinion of management, are necessary for a fair presentation of the aforementioned consolidated financial statements for the interim periods. These consolidated financial statements should be read in conjunction with the Company s 2010 Annual Report on Form 10-K, as filed with the SEC on February 28, 2011.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION (continued)

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation.

Real Estate

The Company reviews its long-lived assets used in operations for impairment when there is an event, or change in circumstances that indicates that the carrying amount may not be recoverable. The Company records impairment losses and reduces the carrying value of properties when indicators of impairment are present and the expected undiscounted cash flows related to those properties are less than their carrying amounts. In cases where the Company does not expect to recover its carrying costs on properties held for use, the Company reduces its carrying cost to fair value, and for properties held for sale, the Company reduces its carrying value to the fair value less costs to sell. During the quarter ended June 30, 2011, the Company determined that the value of the Granville Centre owned by Fund I was impaired. Accordingly, it recorded an impairment loss of $6.9 million. Management does not believe that the values of any of its other properties within the portfolio are impaired as of June 30, 2011.

Recent Accounting Pronouncements

During April 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-02 A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring. ASU 2011-02 requires a creditor to evaluate whether a restructuring constitutes a troubled debt restructuring by concluding that the restructuring constitutes a concession and that the debtor is experiencing financial difficulties and was effective for the first interim or annual period beginning on or after June 15, 2011. The adoption of ASU 2011-02 did not have a material impact on the Company s financial condition or results of operations.

During May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. ASU No. 2011-04 amended ASC 820, Fair Value Measurements and Disclosures, to converge the fair value measurement guidance in GAAP and International Financial Reporting Standards (IFRS). The amendments, which primarily require additional fair value disclosure, are to be applied prospectively. The Company is currently evaluating the impact of adopting ASU 2011-04 which is effective for interim and annual periods beginning after December 15, 2011.

During June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income which revises the manner in which companies present comprehensive income. Under ASU No. 2011-05, companies may present comprehensive income, which is net income adjusted for the components of other comprehensive income, either in a single continuous statement of comprehensive income or by using two separate but consecutive statements. Regardless of the alternative chosen, companies must display adjustments for items reclassified from other comprehensive income into net income within the presentation of both net income and other comprehensive income. ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011, on a retrospective basis. The Company is currently evaluating the impact of the adoption of ASU 2011-05 on its consolidated financial statements.

2. EARNINGS PER COMMON SHARE

Basic earnings per Common Share is computed using net income attributable to common shareholders and the weighted average Common Shares outstanding. Diluted earnings per Common Share reflect the conversion of obligations and the assumed exercises of securities including the effects of awards issuable under the Company s Share Incentive Plans. The following table sets forth the computation of basic and diluted earnings per share from continuing operations for the periods indicated:

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

2. EARNINGS PER COMMON SHARE (continued)

(dollars in thousands, except per share amounts)	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
Numerator				
Income from continuing operations attributable to Common Shareholders	$ 1,805	$ 12,377	$ 10,125	$ 17,327
Effect of dilutive securities:				
Preferred OP Unit distributions	5	5	9	9
Numerator for diluted earnings per Common Share	$ 1,810	$ 12,382	$ 10,134	$ 17,336
Denominator				
Weighted average shares for basic earnings per share	40,334	40,135	40,326	40,058
Effect of dilutive securities:				
Employee share options	274	212	256	191
Convertible Preferred OP Units	25	25	25	25
Dilutive potential Common Shares	299	237	281	216
Denominator for diluted earnings per share	40,633	40,372	40,607	40,274
Basic earnings per Common Share from continuing operations attributable to Common Shareholders	$ 0.04	$ 0.31	$ 0.25	$ 0.43
Diluted earnings per Common Share from continuing operations attributable to Common Shareholders	$ 0.04	$ 0.31	$ 0.25	$ 0.43

The weighted average shares used in the computation of diluted earnings per share include unvested restricted Common Shares (Restricted Shares) and restricted OP units (LTIP Units) (Note 13) that are entitled to receive dividend equivalent payments. The effect of the conversion of Common OP Units is not reflected in the above table, as they are exchangeable for Common Shares on a one-for-one basis. The income allocable to such units is allocated on this same basis and reflected as noncontrolling interests in subsidiaries in the accompanying consolidated financial statements. As such, the assumed conversion of these units would have no net impact on the determination of diluted earnings per share. The conversion of the convertible notes payable (Note 9) is not reflected in the table above as such conversion, based on the current market price of the Common Shares, would be settled with cash.

The effect of the assumed conversion of 188 Series A Preferred OP Units into 25,067 Common Shares would be dilutive for the three and six months ended June 30, 2011 and 2010 and are accordingly included in the table above.

3. NONCONTROLLING INTERESTS

Noncontrolling interests represent the portion of equity in entities consolidated in the accompanying financial statements that the Company does not own. Such noncontrolling interests are reported on the Consolidated Balance Sheets within equity, separately from shareholders equity.

Noncontrolling interests include third party interests in the Company s Opportunity Funds and other entities. It also include interests in the Operating Partnership which represent (i) the limited partners 280,349 and 281,294 Common OP Units at June 30, 2011 and December 31, 2010, respectively; (ii) 188 Series A Preferred OP Units at both June 30, 2011 and December 31, 2010; and (iii) 1,060,225 and 641,534 LTIP Units at June 30, 2011 and December 31, 2010, respectively.

4. ACQUISITION AND DISPOSITION OF REAL ESTATE AND DISCONTINUED OPERATIONS

Acquisitions

During June 2011, the Company acquired 15 Mercer Street, a 6,000 square foot single-tenant retail condominium located in New York, New York for $4.8 million.

During May 2011, the Company acquired 651-671 West Diversey Parkway, a 44,000 square foot retail property located in Chicago, Illinois, for $28.4 million.

During April 2011, the Company, through Fund III, acquired The Heritage Shops at Millennium Park, a 105,000 square foot property located in the East Loop section of downtown Chicago, Illinois, for $31.6 million.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

4. ACQUISITION AND DISPOSITION OF REAL ESTATE AND DISCONTINUED OPERATIONS (continued)

During February 2011, Fund III, in a venture with an unaffiliated partner, acquired three retail properties (Lincoln Road), aggregating 61,400 square feet located in the Lincoln Road area of South Miami Beach, Florida for $51.9 million, which included the assumption of $20.6 million of in-place mortgage debt. Fund III has a 95% interest in these properties.

During February 2011, Fund III, in a venture with an unaffiliated partner, acquired a 64,600 square foot single-tenant retail property (White Oak) located in Silver Spring, Maryland for $9.8 million. Fund III has a 90% interest in the property.

Discontinued Operations

The Company reports properties held-for-sale and properties sold during the periods as discontinued operations. The results of operations of discontinued operations are reflected as a separate component within the accompanying Consolidated Financial Statements for all periods presented.

During May 2011, the Company sold the Ledgewood Mall, a 517,000 square foot, unencumbered enclosed mall located in Ledgewood, New Jersey, for $37.0 million. The sale resulted in a gain of $28.6 million.

During January 2011, the Company completed the sale of a Fund II leasehold interest in the Neiman Marcus location at Oakbrook Center, located in Oak Brook, Illinois, for $8.2 million. The sale resulted in a gain of $3.9 million.

The combined assets and liabilities as of December 31, 2010 and results of operations of the properties classified as discontinued operations for the three and six months ended June 30, 2011 and 2010, respectively are summarized as follows:

BALANCE SHEET (dollars in thousands)	**December 31, 2010**
ASSETS	
Net real estate	$ 9,420
Rents receivable, net	492
Deferred charges, net of amortization	2,015
Prepaid expenses and other assets, net	122
Total assets of discontinued operations	$ 12,049
LIABILITIES	
Accounts payable and accrued expenses	$ 43
Other liabilities	129
Total liabilities of discontinued operations	$ 172

STATEMENTS OF OPERATIONS (dollars in thousands)	**Three months ended June 30, 2011**	**2010**	**Six months ended June 30, 2011**	**2010**
Total revenues	$ 468	$ 1,465	$ 1,803	$ 3,023
Total expenses	283	992	1,255	2,320

Operating income	185	473	548	703
Gain on sale of property	28,576		32,498	
Income from discontinued operations	28,761	473	33,046	703
Income from discontinued operations attributable to noncontrolling interests	(332)	(52)	(3,514)	(102)
Income from discontinued operations attributable to Common Shareholders	$ 28,429	$ 421	$ 29,532	$ 601

5. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED AFFILIATES

Core Portfolio

The Company owns a 22.2% interest in an approximately one million square foot retail portfolio (the Brandywine Portfolio) located in Wilmington, Delaware and a 49% interest in Crossroads Joint Venture and Crossroads II (collectively, Crossroads), which own a 311,000 square foot shopping center located in White Plains, New York. These investments are accounted for under the equity method.

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

5. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED AFFILIATES (continued)

Opportunity Funds

RCP Venture

During 2004, the Company along with Klaff Realty, LP (Klaff) and Lubert-Adler Management, Inc. (Lubert-Adler) formed an investment group, the RCP Venture, for the purpose of making investments in surplus or underutilized properties owned by retailers. The RCP Venture is neither a single entity nor a specific investment. Any member of this group has the option of participating, or not, in any individual investment and each individual investment has been made on a stand-alone basis through a separate limited liability company (LLC). These investments have been made through different investment vehicles with different affiliated and unaffiliated investors and different economics to the Company. Investments under the RCP Venture are structured as separate joint ventures as there may be other investors participating in certain investments in addition to Klaff, Lubert-Adler and Acadia. The Company has made these investments through its subsidiaries, Mervyns I, Mervyns II and Fund II, (together the Acadia Investors), all on a non-recourse basis. Through June 30, 2011, the Acadia Investors have made investments in Mervyns Department Stores (Mervyns) and Albertsons including additional investments in locations that are separate from these original investments (Add-On Investments). Additionally, the Acadia Investors have invested in Shopko, Marsh and Rex Stores Corporation (collectively Other RCP Investments).

The Acadia Investors have noncontrolling interests in the individual investee LLC s as follows:

Investment	Investee LLC	Acadia Investors Entity	Acadia Investors Ownership % in: Investee LLC	Underlying entity(s)
Mervyns	KLA/Mervyn s, LLC	Mervyns I and Mervyns II	10.5%	5.8%
Mervyns Add-On investments	KLA/Mervyn s, LLC	Mervyns I and Mervyns II	10.5%	5.8%
Albertsons	KLA A Markets, LLC	Mervyns II	18.9%	5.7%
Albertsons Add-On investments	KLA A Markets, LLC	Mervyns II	20.0%	6.0%
Shopko	KLA-Shopko, LLC	Fund II	20.0%	2.0%
Marsh and Add-On investments	KLA Marsh, LLC	Fund II	20.0%	3.3%
Rex Stores	KLAC Rex Venture, LLC	Mervyns II	13.3%	13.3%

The Company accounts for the original investments in Mervyns and Albertsons under the equity method of accounting as the Company has the ability to exercise significant influence, but does not have financial or operating control.

The Company accounts for the Add-On Investments and Other RCP Investments under the cost method. Due to its minor ownership interest, based on the size of the investments as well as the terms of the underlying operating agreements, the Company has no influence over such entities operating and financial policies. Other than the minority investor rights to which the Company is entitled pursuant to statute, it has no rights other than to receive its pro-rata share of cash distributions as declared by the managers of the Add-On Investments and Other RCP Investments. The Company has no rights with respect to the control and operation of these investment vehicles, nor with the formulation and execution of business and investment policies.

The following table summarizes activity related to the RCP Venture investments from inception through June 30, 2011:

(dollars in thousands)

				Operating Partnership Share	
Investment	Year Acquired	Invested Capital and Advances	Distributions	Invested Capital and Advances	Distributions

Mervyns	2004	$	26,058	$	45,966	$	4,901	$	11,251
Mervyns Add-On investments	2005/2008		6,517		3,558		1,046		819
Albertsons	2006		20,717		77,053		4,239		15,410
Albertsons Add-On investments	2006/2007		2,416		1,679		388		336
Shopko	2006		1,108		1,659		222		332
Marsh and Add-on investments	2006/2008		2,667		2,639		533		528
Rex Stores	2007		2,701		840		535		168
		$	62,184	$	133,394	$	11,864	$	28,844

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5. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED AFFILIATES (continued)

Other Opportunity Fund Investments

Fund II Investments

Prior to June 30, 2010, Fund II had a 24.75% interest in CityPoint, a redevelopment project located in downtown Brooklyn, NY, which was accounted for under the equity method. On June 30, 2010, Fund II acquired the remaining interest in the project from its unaffiliated partner and, as a result, now consolidates the CityPoint investment.

Fund III Investments

The unaffiliated venture partners for the Lincoln Road (Note 4), White Oak (Note 4) and the White City Shopping Center investments maintain control over these entities and, as such, the Company accounts for these investments using the equity method.

During June 2010, Fund III, together with an unaffiliated partner, invested in an entity for the purpose of providing management services to owners of self-storage properties, including the 14 locations currently owned through Fund II and Fund III. The entity was determined to be a variable interest entity for which the Company was determined not to be the primary beneficiary. As such, the Company accounts for this investment under the equity method.

Summary of Investments in Unconsolidated Affiliates

The following combined/condensed Balance Sheets and Statements of Operations, in each period, summarize the financial information of the Company s investments in unconsolidated affiliates.

(dollars in thousands)	**June 30, 2011**	**December 31, 2010**
Combined and Condensed Balance Sheets		
Assets		
Rental property, net	$ 246,972	$ 186,802
Investment in unconsolidated affiliates	171,478	192,002
Other assets	29,046	27,841
Total assets	$ 447,496	$ 406,645
Liabilities and partners equity		
Mortgage notes payable	$ 288,345	$ 267,565
Other liabilities	14,758	13,815
Partners equity	144,393	125,265
Total liabilities and partners equity	$ 447,496	$ 406,645
Company s investment in and advances to unconsolidated affiliates	$ 68,523	$ 31,036
Company s share of distributions in excess of share of income and investments in unconsolidated affiliates	$ (21,356)	$ (20,884)

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5. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED AFFILIATES (continued)

(dollars in thousands)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Combined and Condensed Statements of Operations				
Total revenues	$ 10,917	$ 7,401	$ 20,499	$ 14,470
Operating and other expenses	3,528	2,074	7,294	4,611
Interest expense	4,242	3,391	8,258	6,777
Equity in (losses) earnings of unconsolidated affiliates	(1,370)	(159)	(412)	2,764
Depreciation and amortization	2,376	1,557	4,245	2,624
Loss on sale of property, net				(2,957)
Net (loss) income	$ (599)	$ 220	$ 290	$ 265
Company s share of net income	$ 160	$ 177	$ 110	$ 661
Amortization of excess investment	(97)	(97)	(195)	(194)
Company s share of net income (loss)	$ 63	$ 80	$ (85)	$ 467

6. NOTES RECEIVABLE

At June 30, 2011, the Company s notes receivable, net, aggregated $45.5 million, and were collateralized either by the underlying properties or the borrowers ownership interest in the entities that own the properties and/or by the borrowers personal guarantee as follows:

Description	Effective interest rate	Maturity date	First priority liens	Net carrying amount of notes receivable	Extension options
(dollars in thousands)					
Mezzanine Loan	10.0%	7/2011	$	$ 2,530	
Mezzanine Loan	13.0%	9/2011	28,925	2,980	
Mezzanine Loan	13.0%	9/2011	6,000	1,964	
First Mortgage Loan	10.8%	9/2011		10,000	
Mezzanine Loan	10.2%	11/2011	9,348	8,000	1 x 1 year
Other Loan	14.5%	12/2011		8,585	
Other Loan	24.0%	1/2016	166,200	3,394	
Mezzanine Loan	17.5%	1/2017	37,700	2,173	
Mezzanine Loan	15.0%	Upon Capital Event	11,925	3,834	
Individually less than 3%	10% to 13.0%	9/2011 to 12/2011	17,334	1,997	
Total				$ 45,457	

During May 2011, the Company received a payment of $54.7 million on a mezzanine loan, representing $33.8 million of principal, $13.4 million of accrued interest, and a $7.5 million exit fee.

During February 2011, the Company made a mezzanine loan for $3.8 million which accrues interest at 15% and is payable upon a capital event. The Company also received a payment of $1.9 million on a mezzanine loan.

Allowances for real estate notes receivable are established based upon management s quarterly review of the investments. In performing this review, management considers the estimated net recoverable value of the loan as well as other factors, including the fair value of any collateral, the amount and status of any senior debt, and the prospects for the borrower. Because this determination is based upon projections of future economic events, which are inherently subjective, the amounts ultimately realized from the loans may differ materially from the carrying value at the balance sheet date.

ACADIA REALTY TRUST AND SUBSIDIARIES
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6. NOTES RECEIVABLE (continued)

The activity in the allowance for notes receivable for the six months ended June 30, 2011 is as follows:

(dollars in thousands)	Allowance for Notes Receivable
Balance at December 31, 2010	$ 4,964
Provision for losses on notes receivable	180
Balance at June 30, 2011	$ 5,144

7. DERIVATIVE FINANCIAL INSTRUMENTS

As of June 30, 2011, the Company s derivative financial instruments consisted of seven interest rate swaps with an aggregate notional value of $71.3 million, which effectively fix LIBOR at rates ranging from 0.4% to 5.1% and mature between September 2011 and November 2012. The Company also has a derivative financial instrument with a notional value of $28.9 million which caps LIBOR at 6.0% and matures in April 2013. The fair value of the net derivative liability of these instruments, which is included in other liabilities in the Consolidated Balance Sheets, totaled $2.2 million and $2.8 million at June 30, 2011 and December 31, 2010, respectively. The notional value does not represent exposure to credit, interest rate, or market risks.

These derivative instruments have been designated as cash flow hedges and hedge the future cash outflows on variable rate mortgage debt. Such instruments are reported at the fair value reflected above. As of June 30, 2011 and December 31, 2010, unrealized losses totaling $2.4 million and $2.8 million, respectively, were reflected in accumulated other comprehensive loss.

As of June 30, 2011 and December 31, 2010, no derivatives were designated as fair value hedges, hedges of net investments in foreign operations or considered to be ineffective. Additionally, the Company does not use derivatives for trading or speculative purposes.

8. MORTGAGE NOTES PAYABLE

The Company completed the following transactions related to mortgage loans and credit facilities during the six months ended June 30, 2011:

During June 2011, the Company modified an existing $85.3 million loan collateralized by a property. The modification extended the maturity date from October 4, 2011 to September 30, 2012. The loan continues to bear interest at LIBOR plus 350 basis points subject to an interest rate floor of 5.00%.

During June 2011, the Company modified an existing $9.4 million loan collateralized by a property. The modification extended the maturity date from June 29, 2012 to June 30, 2018. The loan continues to bear interest at LIBOR plus 140 basis points.

During February 2011, the Company borrowed $39.0 million under the Fund III subscription line of credit. During April 2011, the Company repaid $15.1 million of the Fund III subscription line of credit. As of June 30, 2011, the total outstanding amount on this line of credit was $195.4 million.

During January 2011, the Company liquidated a $9.3 million mortgage loan for $7.6 million, resulting in a $1.7 million gain on extinguishment of debt.

During January 2011, the Company borrowed the remaining $2.4 million of a $34.0 million loan collateralized by a property.

During January 2011, the Company amended an existing $48.0 million construction loan collateralized by a property. The amendment provided for an additional $3.0 million supplemental loan and a $7.0 million subordinate loan. The amended loan continues to bear interest at LIBOR plus 400 basis points, subject to an interest rate floor of 6.50% and matures on January 12, 2012. During the first six months of 2011, the Company drew down an additional $9.7 million on this construction loan. As of June 30, 2011, the total outstanding amount on this loan was $49.9 million.

ACADIA REALTY TRUST AND SUBSIDIARIES
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9. CONVERTIBLE NOTES PAYABLE

In December 2006 and January 2007, the Company issued $115.0 million of convertible notes with a fixed interest rate of 3.75% due 2026 (the Convertible Notes). The Convertible Notes were issued at par and require interest payments semi-annually in arrears on June 15th and December 15th of each year. The Convertible Notes are unsecured obligations and rank equally with all other unsecured and unsubordinated indebtedness. The Convertible Notes have an effective interest rate of 6.03% giving effect to the accounting treatment required by ASC Topic 470-20 Debt with Conversion and Other Options. Holders of the Convertible Notes may require the Company to repurchase the Convertible Notes at par on December 20, 2011, December 15, 2016 and December 15, 2021. The Company determined that the Convertible Notes will mature on December 20, 2011.

The carrying amount of the equity component included in additional paid-in capital totaled $0.5 million at June 30, 2011 and $1.1 million at December 31, 2010. The additional non-cash interest expense recognized in the Consolidated Statements of Income was $0.3 million for each of the three months ended June 30, 2011 and 2010, and $0.5 million for each of the six months ended June 30, 2011 and 2010, respectively. The if-converted value of the Convertible Notes does not exceed their aggregate principal amount as of June 30, 2011 and there are no derivative transactions that were entered into in connection with the issuance of the Convertible Notes.

During June 2011, the Company purchased $10.0 million in face amount of its Convertible Notes for $10.1 million and recognized a loss on debt extinguishment of $0.1 million.

Through June 30, 2011, the Company has purchased $75.3 million in face amount of its Convertible Notes at an average discount of approximately 16%. The outstanding Convertible Notes face amount as of June 30, 2011 was $39.7 million.

10. FAIR VALUE MEASUREMENTS

The FASB s fair value measurements and disclosure guidance requires the valuation of certain of the Company s financial assets and liabilities, based on a three-level fair value hierarchy. Market participant assumptions obtained from sources independent of the Company are observable inputs that are classified within Levels 1 and 2 of the hierarchy, and the Company s own assumptions about market participant assumptions are unobservable inputs classified within Level 3 of the hierarchy.

The following table presents the Company s fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2011:

(dollars in thousands)	Level 1	Level 2	Level 3
Liabilities			
Derivative financial instruments (Note 7)	$	$ 2,199	$

During the quarter ended June 30, 2011, the Company determined that the value of the Granville Centre owned by Fund I was impaired and recorded an impairment loss of $6.9 million (Note 1). The Company estimated the Granville Centre s fair value by using projected future cash flows, which it determined were not sufficient to recover the property s net book value. The inputs used to determine the fair value of the Granville Centre are classified as Level 3 under authoritative guidance for fair value measurements.

Financial Instruments

Certain of the Company s assets and liabilities meet the definition of financial instruments. Except as disclosed below, the carrying amounts of these financial instruments approximates their fair value.

ACADIA REALTY TRUST AND SUBSIDIARIES
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10. FAIR VALUE MEASUREMENTS (continued)

The Company has determined the estimated fair values of the following financial instruments by discounting future cash flows utilizing a discount rate equivalent to the rate at which similar financial instruments would be originated at the reporting date:

(dollars in thousands)	June 30, 2011 Carrying Amount	June 30, 2011 Estimated Fair Value	December 31, 2010 Carrying Amount	December 31, 2010 Estimated Fair Value
Notes Receivable	$ 45,457	$ 45,457	$ 89,202	$ 90,612
Mortgage Notes Payable and Convertible Notes Payable	$ 870,541	$ 849,944	$ 854,924	$ 863,639

11. RELATED PARTY TRANSACTIONS

The Company earned property management fees, legal and leasing fees from the Brandywine portfolio totaling $0.2 million for each of the three months ended June 30, 2011 and 2010 and $0.7 million and $0.4 million for the six months ended June 30, 2011 and June 30, 2010, respectively.

Related party receivables due from an unconsolidated affiliate totaled $2.7 million at June 30, 2011 and $2.5 million at December 31, 2010.

Lee Wielansky, the Lead Trustee of the Company, was paid a consulting fee of $25,000 for each of the three months ended June 30, 2011 and 2010 and $50,000 for each of the six months ended June 30, 2011 and 2010.

12. SEGMENT REPORTING

The Company has five reportable segments: Core Portfolio, Opportunity Funds, Self-Storage Investments, Notes Receivable and Other. Notes Receivable consists of the Company s notes receivable and preferred equity investment and related interest income. Other consists primarily of management fees and interest income. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates property performance primarily based on net operating income before depreciation, amortization and certain nonrecurring items. Investments in the Core Portfolio are typically held long-term. Given the contemplated finite life of the Opportunity Funds, these investments are typically held for shorter terms. Fees earned by the Company as the general partner/member of the Opportunity Funds are eliminated in the Company s consolidated financial statements. The following tables set forth certain segment information for the Company, reclassified for discontinued operations, as of and for the three and six months ended June 30, 2011 and 2010 (does not include unconsolidated affiliates):

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12. SEGMENT REPORTING, (continued)

Three Months Ended June 30, 2011

(dollars in thousands)	Core Portfolio	Opportunity Funds	Self - Storage Investments	Notes Receivable	Other	Amounts Eliminated in Consolidation	Total
Revenues	$ 14,121	$ 15,381	$ 5,646	$ 3,370	$ 4,751	$ (4,465)	$ 38,804
Property operating expenses and real estate taxes	4,165	5,362	3,506			(677)	12,356
Other expenses	6,058	2,523				(2,882)	5,699
Income before depreciation, amortization and impairment	$ 3,898	$ 7,496	$ 2,140	$ 3,370	$ 4,751	$ (906)	$ 20,749
Depreciation and amortization	$ 3,671	$ 4,005	$ 1,070	$	$	$ (297)	$ 8,449
Interest and other finance expense	$ 4,145	$ 3,884	$ 874	$	$	$	$ 8,903
Real estate at cost	$ 477,573	$ 754,483	$ 210,997	$	$	$ (14,256)	$ 1,428,797
Total assets	$ 641,008	$ 846,477	$ 192,713	$ 45,457	$	$ (112,788)	$ 1,612,867
Expenditures for real estate and improvements	$ 36,538	41,116	$ 1,671	$	$	$ (632)	$ 78,693

Reconciliation to net income and net income attributable to Common Shareholders

Net property income before depreciation and amortization	$ 20,749
Other interest income	80
Depreciation and amortization	(8,449)
Equity in earnings of unconsolidated affiliates	63
Interest and other finance expense	(8,903)
Income tax provision	(233)
Loss on debt extinguishment	