ICICI BANK LTD
Form F-3
November 16, 2005

As filed with the Securities and Exchange Commission on November 16, 2005
Registration No. 333-_____

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

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FORM F-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

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ICICI BANK LIMITED
(Exact Name of Registrant as Specified in Its Charter)

| VADODARA, GUJARAT, INDIA | Not Applicable | Not Applicable |
|---|---|---|
| (State or Other Jurisdiction of Incorporation or Organization) | (Translation of Registrant's name into English) | (I.R.S. Employer Identification Number) |

ICICI Bank Towers
Bandra-Kurla Complex
Mumbai 400051, India
Tel: 011-91-22-2653-1414
(Address and Telephone Number of Registrant's Principal Executive Offices)

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Mr. Madhav Kalyan
Joint General Manager, ICICI Bank
New York Representative Office
500 Fifth Avenue, Suite 2830
New York, New York 10110
Tel: (646) 827-8448

(Name, Address, Including Zip Code, and Telephone Number,
Including Area Code, of Agent For Service)

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Copies to:

| Margaret E. Tahyar, Esq. | Michael W. Sturrock, Esq. |
|---|---|
| Davis Polk & Wardwell | Latham & Watkins LLP |
| 15, avenue Matignon | 80 Raffles Place |
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| France | Singapore 048624 |
| Tel. No.: 011-33-1-5659-3670 | Tel. No.: 011-65-6536-1161 |

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement is declared effective.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. [ ]

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of

1933, check the following box. [ ]

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

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CALCULATION OF REGISTRATION FEE

| Title Of Securities To Be Registered(1) | Number of Equity Shares | Proposed Maximum Aggregate Price Per Unit(2) | Proposed Aggre Offeri |
|---|---|---|---|
| Equity Shares, par value Rs. 10 per share..... | 118,400,000 | $24.37 | $1,442 |

(1) Includes shares subject to the U.S. Underwriters' over-allotment option, shares that are to be offered and sold in India and elsewhere outside the United States but that may be resold from time to time in the United States during the distribution and shares offered directly to United States employees and pensioners of the Registrant and its subsidiaries in a direct sale. Offers and sales of shares outside the United States are not registered under this Registration Statement. The equity shares hereby registered will be represented by American Depositary Shares evidenced by American Depositary Receipts issuable on deposit of the equity shares which have been registered under a separate statement on Form F-6, Registration No. 333-123236. Each American Depositary Share represents two equity shares.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act on the basis of the average of the high and low prices of the equity shares represented by the American Depositary Shares on the New York Stock Exchange on November 4, 2005.

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The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such dates as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer

to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS DATED NOVEMBER , 2005 SUBJECT TO COMPLETION

[ICICI LOGO]

ICICI BANK LIMITED

American Depositary Shares

Representing Equity Shares

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We are offering American Depositary Shares, or ADSs, representing of our equity shares. Each ADS offered represents two equity shares of ICICI Bank Limited.

Our outstanding ADSs are traded on the New York Stock Exchange under the symbol "IBN." The last reported sales price of our ADSs on the New York Stock Exchange on November 16, 2005 was US$ 25.67 per ADS. Our equity shares are traded in India on The Stock Exchange, Mumbai and the National Stock Exchange of India Limited. The closing price for our equity shares on The Stock Exchange, Mumbai on November 16, 2005 was US$ 11.67 assuming an exchange rate of Rs. 45.69 per dollar.

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Investing in our ADSs involve certain risks, see "Risk Factors" beginning on page 5.

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Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

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| | Per ADS | Total |
|---|---|---|
| Initial Price to Public | US$ | US$ |
| Underwriting Discounts and Commissions | US$ | US$ |
| Proceeds to us, Before Expenses | US$ | US$ |

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We have granted the underwriters an option exercisable within 30 days from the date of this prospectus to purchase up to an aggregate of an additional ADSs, representing up to an additional equity shares, at the initial price to the public, less the underwriting discounts and commissions.

The underwriters are offering the ADSs subject to various conditions. The underwriters expect to deliver the ADSs in book-entry form only through the facilities of The Depository Trust Company against payment in New York, New York on or about , 2005.

Investors in our shares are subject to restrictions imposed by the Reserve

Bank and the government of India. See "Restriction on Foreign Ownership of Indian Securities" in this prospectus, and "Supervision and Regulation" in our annual report on Form 20-F for the fiscal year ended March 31, 2005, which is incorporated by reference in this prospectus, for information on such restrictions.

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Joint Global Coordinators

Merrill Lynch International | Morgan Stanley | Nomura International (Hong Kong) Limited

Bookrunners

Merrill Lynch International | Morgan Stanley

Japan Offering Bookrunner: Nomura Securities Co. Ltd. | Indian Advisor: ICICI Securities

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Prospectus dated November , 2005



TABLE OF CONTENTS

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## ABOUT THIS PROSPECTUS

You should read this prospectus together with the additional information described under the heading "Where You Can Find More Information About Us."

Unless otherwise stated in this prospectus or unless the context otherwise requires, references in this prospectus to "we", "our" and "us" are to ICICI Bank Limited and its consolidated subsidiaries and other consolidated entities. References in this prospectus to "ICICI" are to ICICI Limited prior to its amalgamation with ICICI Bank Limited.

In this prospectus, references to "US" or "United States" are to the United States of America, its territories and its possessions. References to "India" are to the Republic of India. References to "$" or "US$" or "dollars" or "US dollars" are to the legal currency of the United States and references to "Rs." or "rupees" or "Indian rupees" are to the legal currency of India. References to a particular "fiscal" year are to our fiscal year ended March 31 of such year.

Except as otherwise stated in this prospectus, all translations from Indian rupees to US dollars are based on the noon buying rate in the City of New York on September 30, 2005, for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York which was Rs. 43.94 per $1.00. No representation is made that the Indian rupee amounts have been, could have been or could be converted into US dollars at such a rate or any other rate. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.



## SUMMARY

You should read the following summary together with the risk factors and the more detailed information about us and our financial results included elsewhere in this prospectus or incorporated by reference. See "Incorporation of Documents by Reference."

### Overview

We are a leading Indian private sector commercial bank offering a variety of products and services. We were incorporated in India in 1994. In 2002, ICICI, a non-bank financial institution, and two of its subsidiaries, ICICI Personal Financial Services and ICICI Capital Services, were amalgamated with us. In the six-month period ended September 30, 2005, we made a net profit of Rs. 7.73 billion (US$ 176 million) compared to a net profit of Rs. 2.78 billion (US$ 63 million) in the six-month period ended September 30, 2004, a net profit of Rs. 8.5 billion (US$ 194 million) in fiscal 2005 and a net profit of Rs. 5.2 billion (US$ 119 million) in fiscal 2004. At September 30, 2005, we had assets of Rs. 2,077.4 billion (US$ 47.3 billion) and stockholders' equity of Rs. 131.1 billion (US$ 3.0 billion). As of September 30, 2005, we were the largest private sector bank in India and the second largest bank in India, in terms of total assets.

Our commercial banking operations span the corporate and the retail sector. We offer a suite of products and services for both our corporate and retail customers. We offer a range of retail credit and deposit products and services to retail customers. The implementation of our retail strategy and the growth in

our commercial banking operations for retail customers has had a significant impact on our business and operations in recent years. We have approximately 15.8 million retail customer accounts. Our corporate customers include India's leading companies as well as growth-oriented small and middle market businesses, and the products and services offered to them include loan and deposit products and fee and commission-based products and services. Through our treasury operations, we manage our balance sheet and strive to optimize profits from our trading portfolio by taking advantage of market opportunities. We believe that the international markets present a major growth opportunity and have, therefore, expanded to countries other than India to serve our customers' cross border needs and offer our commercial banking products to international customers.

At September 30, 2005 our principal network consisted of 531 branches, 52 extension counters and 2,030 automated teller machines, or ATMs, in 371 centers across several Indian states. We offer our customers a choice of delivery channels, and we use technology to differentiate our products and services from those of our competitors. We remain focused on changes in customer needs and technological advances to remain at the forefront of electronic banking in India, and seek to deliver high quality and effective services.

Strategy

Our objective is to enhance our position as a provider of banking and other financial services in India and to leverage our competencies in financial services and technology to develop an international business franchise. The key elements of our business strategy are to:

Focus on Quality Growth Opportunities: We believe that the Indian retail financial services market is likely to continue to experience sustained growth. With upward migration of household income levels, affordability and availability of retail finance and acceptance of use of credit to finance purchases, retail credit has emerged as a rapidly growing opportunity for banks that have the necessary skills and infrastructure to succeed in this business. We have capitalized on the growing retail opportunity in India and believe that we have emerged as a market leader in retail credit. Our gross consumer loans and credit card receivables grew by approximately 70.3% during fiscal 2005 and 25.8% during the six-month period ended September 30, 2005. We aim to focus on quality growth opportunities by building on our leadership position in retail credit and focusing on leveraging our corporate relationships to increase our market share in non-fund-based working capital products and fee-based services. We aim to provide comprehensive and integrated services, and to increase the cross-selling of our products and services and maximize the value of our corporate relationships through the effective use of technology, speedy response times, quality service and the provision of products and services designed to meet specific customer needs.



Build an International Presence: We believe that the international markets present a major growth opportunity. We have therefore expanded to countries other than India to cater to our customers' cross border needs and offer our commercial banking products in select international markets, and aim to develop an international presence.

Build a Rural Banking Franchise: Our rural banking strategy seeks to adopt a holistic approach to the financial services needs of various segments of the rural population in the medium to long-term, by delivering a comprehensive product suite encompassing credit, transaction banking, deposit, investment and

insurance, through a range of channels. Our rural delivery channels include branches, internet kiosks, franchisees and micro-finance institution partners.

Strengthen Our Insurance and Asset Management Businesses: We believe that the insurance and asset management sectors have significant growth potential. We believe that our subsidiaries, ICICI Prudential Life Insurance Company Limited, ICICI Lombard General Insurance Company Limited and Prudential ICICI Asset Management Company Limited have built a platform for continued growth, high market share and profitability in the medium term based on extensive distribution efforts, brand recall and underwriting and portfolio management capabilities. According to statistics published by the Insurance Regulatory & Development Authority, ICICI Prudential Life Insurance Company is the largest private sector life insurance company in India, with a market share of approximately 32% based on new business premiums (excluding group business and including 10% of single premium) of private sector life insurance companies in India during the six-month period ended September 30, 2005. ICICI Lombard General Insurance is the largest private sector general insurance company in India and had a market share of 31% among the private sector general insurance companies in India during the six-month period ended September 30, 2005. Prudential ICICI Asset Management Company had a market share of about 11% in assets under management of the mutual fund industry at September 30, 2005 and is the largest private sector asset management company in India. We seek to leverage the synergies we have with our insurance and asset management subsidiaries.

Emphasize Conservative Risk Management Practices and Enhance Asset Quality: We believe that conservative credit risk management policies and procedures are critical to maintain competitive advantages in our business, and we continue to build on our credit risk management tools, and aim to mitigate credit risk by adopting various measures.

Use Technology for Competitive Advantage: We seek to be at the forefront of technology usage in the financial services sector. Technology is a strategic tool for our business operations to gain competitive advantage and to improve overall productivity and efficiency of the organisation.

Attract and Retain Talented Professionals: We have been successful in building a team of talented professionals with relevant experience. We believe a key to our success will be our ability to continue to maintain and grow a pool of strong and experienced professionals. We intend to continuously develop our management and organizational structure to allow us to respond effectively to changes in the business environment and enhance our overall performance.

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Our principal executive offices are located at ICICI Bank Towers, Bandra-Kurla Complex, Mumbai 400051, India; our telephone number is (91) 22-2653-1414 and our website address is www.icicibank.com. Our registered agent in the United States is Mr. Madhav Kalyan, Joint General Manager, ICICI Bank, New York Representative Office, 500 Fifth Avenue, Suite 2830, New York, New York 10110. The information on our website is not a part of this prospectus.

Recent Developments

In November 2005, Ms. Ramni Nirula succeeded Mr. Balaji Swaminathan as head of corporate banking as he decided to leave ICICI Bank to explore other professional opportunities.

In its mid-term review of its annual policy statement for fiscal 2006 announced on October 25, 2005, the Reserve Bank of India has raised the reverse repo rate by 25 basis points to 5.25% with effect from October 26, 2005. The bank rate has remained unchanged at 6.0%. In addition, the Reserve Bank of

India has proposed to limit



a bank's capital market exposure to 40.0% of its net worth on a standalone and consolidated basis and the consolidated direct capital market exposure to 20.0% of the consolidated net worth. The general provisioning requirement on standard advances has also been increased from 0.25% to 0.40% (excluding direct advances to the agricultural and small and medium enterprise sectors).



The Offering

| | |
|---|---|
| ADSs offered ..... | ADSs representing equity shares, constituting approximately % of our issued and outstanding equity shares, which is expected to include a public offering without listing in Japan, referred to herein as the Japanese Public Offering. The completion of this ADS offering is not conditional upon the completion of the Japanese Public Offering.<br><br>The pricing of this ADS offering must be in compliance with the guidelines issued by the Ministry of Finance. The ADS offering is also conditional upon the completion of the Indian public offering described below. |
| Over-allotment option granted by us ..... | We have granted the underwriters an option exercisable within 30 days from the date of this prospectus to purchase up to an aggregate of an additional ADSs, representing an additional equity shares, at the initial price to the public, less the underwriting discount. |
| The ADSs ..... | Each offered ADS represents two equity shares par value Rs. 10 per share. The offered ADSs are evidenced by American Depositary Receipts. See "Description of American Depositary Receipts" and "Description of Equity Shares" incorporated by reference in this prospectus. |
| ADSs to be outstanding after this offering ..... | (assumes no exercise of the underwriters' over-allotment option to purchase additional ADSs). |
| Equity shares to be outstanding after this offering ..... | |
| Offering price ..... | The offered ADSs are being offered at a price |

| | |
|---|---|
| | of $ per ADS. |
| Depositary ..... | Deutsche Bank Trust Company Americas. |
| Use of proceeds after this offering ..... | We intend to use the net proceeds of this offering for future asset growth and compliance with regulatory requirements. The objects of the offering are to augment our capital base to meet the capital requirements arising out of growth in our assets, primarily our loan and investment portfolio due to the growth of the Indian economy, compliance with regulatory requirements and for other general corporate purposes including meeting the expenses of the ADS offering. |
| Listing ..... | We are listing the offered ADSs on the New York Stock Exchange. Our outstanding equity shares are principally traded in India on the Stock Exchange, Mumbai and the National Stock Exchange of India Limited. |
| New York Stock Exchange symbol for ADSs ..... | IBN |
| Dividends ..... | The declaration, amount and payment of dividends are subject to the recommendation of our board of directors and the approval of our shareholders. Under Indian regulations currently in force, the declaration of dividends by banks is subject to certain additional conditions. If we |



| | |
|---|---|
| | comply with such conditions, we are allowed to declare a dividend but only up to a certain percentage of our profits. For any dividends beyond such percentage, we are required to obtain permission from the Reserve Bank of India. Holders of equity shares and ADSs will be entitled to dividends paid, if any. In fiscal 2005, we paid a dividend of Rs. 7.50 per equity share. In fiscal 2006, in addition to the dividend of Rs. 7.50 per equity share for the year, we paid a special dividend, excluding dividend tax, of Rs. 1.00 per equity share. See also "Dividends" in our annual report on Form 20-F for the fiscal year ended March 31, 2005, which is incorporated by reference in this prospectus. |
| Voting rights ..... | The ADSs will have no voting rights. Under the deposit agreement, the depositary will vote the equity shares deposited with it as directed by our board of directors. See |

"Restriction on Foreign Ownership of Indian Securities" in our annual report on Form 20-F for the fiscal year ended March 31, 2005, which is incorporated by reference in this prospectus.

Public Offering in India

We have sought the approval of our shareholders through postal ballot to issue equity shares up to an aggregate par value of Rs. 2,000 million, including equity shares issued pursuant to over-allotment options granted to the underwriters, which represents 20.0% of our authorized equity share capital. Part of the equity shares will be offered in India and other jurisdictions outside the United States, where permitted, under an Indian prospectus filed with the Registrar of Companies, or the "RoC", in India (the "Indian public offering"). Another part of the equity shares will be offered as ADSs representing equity shares to the public in the United States under this prospectus, and to the public in Japan pursuant to the Japanese Public Offering (the "ADS offering").

The proportion of equity shares offered in the Indian public offering and the ADS offering will be determined in consultation with the underwriters prior to the filing of the Indian prospectus with the RoC. The ADS offering is conditional on the completion of the Indian public offering but not vice versa. We, in our discretion, may decide to withdraw the ADS offering at any time.

The prospectus used for the Indian public offering may not be distributed or made available in the United States. The prospectus may also not be distributed in any other jurisdiction outside India where such distribution would be unlawful.



## SUMMARY FINANCIAL AND OPERATING DATA

The following tables set forth our summary financial and operating data on a consolidated basis. The summary data for fiscal 2003, fiscal 2004 and fiscal 2005 have been derived from our audited consolidated financial statements as of the end of and for each of these years prepared in accordance with US GAAP, and included in our annual report on Form 20-F for the fiscal year ended March 31, 2005, which is incorporated by reference in this prospectus. The summary data for ICICI for fiscal 2001 and fiscal 2002 have been derived from the audited consolidated financial statements of ICICI as of the end of and for each of these fiscal years prepared in accordance with US GAAP. The summary data for the six-month periods ended September 30, 2004 and September 30, 2005 have been derived from our interim unaudited condensed consolidated financial statements, prepared in accordance with US GAAP, and included in this prospectus. Our consolidated financial statements for the six-month periods ended September 30, 2004 and September 30, 2005 include our unaudited condensed consolidated statements of operations, unaudited condensed consolidated statements of cash flows and unaudited condensed consolidated statements of stockholders' equity and other comprehensive income.

You should read the following data with the more detailed information contained in "Operating and Financial Review and Prospects" included elsewhere in this prospectus and our consolidated financial statements and the related notes included elsewhere and incorporated by reference in this prospectus. Historical results do not necessarily predict the results in the future.

| | Year ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2004 | 2005 | 20 |
| | | | | (in millions, except per common share da | | |
| Selected income statement data: | | | | | | |
| Interest income (including dividends) | Rs.80,104 | Rs.78,867 | Rs.98,103 | Rs.91,119 | Rs.92,260 | Rs.42 |
| Interest expense | (67,893) | (69,520) | (83,208) | (72,375) | (68,409) | (32 |
| Net interest income | 12,211 | 9,347 | 14,895 | 18,744 | 23,851 | 9 |
| Provisions for loan losses | (9,892) | (9,743) | (19,649) | (20,055) | (14,677) | (4 |
| Net interest income/(loss), after provisions for loan losses | 2,319 | (396) | (4,754) | (1,311) | 9,174 | 5 |
| Non-interest income | 9,243 | 8,148 | 13,253 | 36,678 | 34,645 | 13 |
| Net revenue | 11,562 | 7,752 | 8,499 | 35,367 | 43,819 | 19 |
| Non-interest expense | (5,479) | (7,596) | (18,609) | (27,101) | (33,089) | (15 |
| Equity in earnings/(loss) of affiliates | 735 | 294 | (958) | (1,437) | (577) | |
| Minority interest | 1 | 83 | 24 | 28 | 14 | |
| Income/(loss) before income taxes and cumulative effect of accounting changes | 6,819 | 533 | (11,044) | 6,857 | 10,167 | 3 |
| Income tax (expense)/benefit | (189) | (251) | 3,061 | (1,638) | (1,637) | |
| Income /(loss) before cumulative effect of accounting changes, net of tax | 6,630 | 282 | (7,983) | 5,219 | 8,530 | 2 |
| Cumulative effect of accounting changes, net of tax(2) | - | 1,265 | - | - | - | |
| Net income/ (loss) | Rs. 6,630 | Rs. 1,547 | Rs.(7,983) | Rs. 5,219 | Rs. 8,530 | Rs. 2 |
| Per common share:(3) | | | | | | |
| Net income/(loss) from continuing operations - Basic(4) | Rs. 16.88 | Rs. 3.94 | Rs.(14.18) | Rs. 8.50 | Rs. 11.72 | Rs. |
| Net income/(loss) from continuing operations - Diluted(5) | 16.81 | 3.94 | (14.18) | 8.43 | 11.60 | |
| Dividends(6) | 11.00 | 22.00 | - | 7.50 | 7.50 | |
| Book value(7) | 193.35 | 181.70 | 150.42 | 153.35 | 173.73 | 16 |



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Year ended March 31,

| | 2001 | 2002 | 2003 | 2004 | 2005 | 20 |
|---|---|---|---|---|---|---|
| | | | (in millions, except per common share dat | | | |
| Common shares outstanding at end of period (in millions of common shares)..... | 393 | 393 | 613 | 616 | 737 | |
| Weighted average common shares outstanding - Basic (in millions of common shares)..... | 393 | 393 | 563 | 614 | 728 | |
| Weighted average common shares outstanding - Diluted (in millions of common shares)..... | 393 | 393 | 563 | 619 | 734 | |

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(1) Rupee amounts for the six-month period ended September 30, 2005 have been translated into US dollars using the noon buying rate of Rs. 43.94 = US$ 1.00 in effect on September 30, 2005.

(2) In June 2001, the FASB issued SFAS No. 141, which requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. The excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed shall be recognized as goodwill. SFAS No. 141 specifies that intangible assets acquired in a purchase method business combination must be recognized and reported apart from goodwill, noting that any purchase price allocated to an assembled workforce need not be accounted separately. The excess of the fair value of the net assets over the cost of acquired entity is allocated pro rata to specified non-financial assets and remaining excess, if any, is recognized as an extraordinary gain. As of April 1, 2001, ICICI had an unamortized deferred credit of Rs. 1.3 billion (US$ 29 million) relating to the excess of the fair value of assets acquired over the cost of acquisition of SCICI. As required by SFAS No. 141, in conjunction with the early adoption of SFAS No. 142, the unamortized deferred credit as of April 1, 2001, was written-off and recognized as the effect of a change in the accounting principle.

(3) For fiscal years 2001 and 2002, based on the exchange ratio of 1:2 in which the shareholders of ICICI were issued shares of ICICI Bank, number of shares has been adjusted by dividing by two. Hence, these numbers are different from the numbers reported in the annual report on Form 20-F for fiscal 2002.

(4) Represents net income/(loss) before dilutive impact.

(5) Represents net income/(loss) adjusted for full dilution. All convertible instruments are assumed to be converted to common shares at the beginning of the year, at prices that are most advantageous to the holders of these instruments. Options to purchase 2,546,675, 7,015,800, 12,610,275 and 1,098,225 equity shares granted to employees at a weighted average exercise price of Rs. 226.0, Rs. 81.3, Rs. 154.7 and Rs. 266.6 were outstanding in fiscal 2001, 2002, 2003 and 2004, respectively, but were not included in the computation of diluted earnings per share because the exercise price of the options was greater than the average market price of the equity shares during the period. In fiscal 2003, we reported a net loss and accordingly all outstanding options at year-end fiscal 2003 are anti-dilutive. Options to purchase 7,397,125 and 70,600 equity shares granted to employees at a

weighted average exercise price of Rs. 300.05 and Rs. 498.20 were outstanding in the six-month periods ended September 30, 2004 and 2005, respectively, but were not included in the computation of diluted earnings per share of the respective periods because the exercise price of the options was greater than the average market price of the equity shares during the period.

(6) We declared a dividend of Rs. 7.50 per equity share for fiscal 2004, which was paid out in September 2004, i.e. in the six-month period ended September 30, 2004. We declared a dividend of Rs. 8.50 per equity share, including a special dividend of Rs. 1.00 per equity share, for fiscal 2005, which was paid in August 2005, i.e. in the six-month period ended September 30, 2005. The dividend per equity share shown above is based on the total amount of dividends paid out on the equity shares during the year, exclusive of dividend tax. This was different from the dividend declared for the year. In US dollars, dividend was US$ 0.19 per equity share for fiscal 2005.

(7) Represents the stockholders' equity divided by the number of equity shares outstanding at the year/period end.

(8) Certain reclassifications have been made in the financial statements of prior years to conform to classifications used in the current year. These changes have no impact on previously reported results of operations or stockholders' equity.



The following table sets forth, for the periods indicated, selected income statement data expressed as a percentage of average total assets for the respective period (percentages for the six-month periods ended September 30, 2004 and September 30, 2005 are annualized).

| | Year ended March 31, | | | | |
|---|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2004 | 20 |
| Selected income statement data: | | | | | |
| Interest income(including dividends).. | 11.34% | 10.57% | 8.66% | 7.17% | |
| Interest expense..... | (9.61) | (9.31) | (7.35) | (5.70) | ( |
| Net interest income..... | 1.73 | 1.26 | 1.31 | 1.47 | |
| Provisions for loan losses..... | (1.40) | (1.31) | (1.73) | (1.58) | ( |
| Net interest income/(loss), after provisions for loan losses..... | 0.33 | (0.05) | (0.42) | (0.11) | |
| Non-interest income..... | 1.32 | 1.09 | 1.17 | 2.89 | |
| Net revenue..... | 1.65 | 1.04 | 0.75 | 2.78 | |
| Non-interest expense..... | (0.78) | (1.02) | (1.64) | (2.13) | ( |
| Equity in earnings/(loss) of affiliates..... | 0.10 | 0.04 | (0.08) | (0.11) | ( |
| Minority interest..... | 0.00 | 0.01 | 0.00 | 0.00 | |
| Income/(loss) before income taxes and | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| cumulative effect of accounting changes | 0.97 | 0.07 | (0.97) | 0.54 | |
| Income tax (expense)/benefit | (0.03) | (0.03) | 0.27 | (0.13) | ( |
| Income/(loss) before cumulative effect of accounting changes, net of tax | 0.94 | 0.04 | (0.70) | 0.41 | |
| Cumulative effect of accounting changes, net of tax | - | 0.17 | - | - | |
| Net income/(loss) | 0.94% | 0.21% | (0.70)% | 0.41% | |

| | At March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2004 |
| | | | | | | ( |
| | | | (in millions, except percentages) | | | |
| Selected balance sheet data: | | | | | | |
| Total assets | Rs. 739,892 | Rs. 743,362 | Rs. 1,180,263 | Rs. 1,409,131 | Rs. 1,863,447 | Rs. 1,498 |
| Securities | 18,861 | 60,046 | 280,621 | 310,368 | 380,959 | 324 |
| Loans, net(2) | 602,023 | 523,601 | 630,421 | 728,520 | 999,858 | 775 |
| Troubled debt restructuring (restructured loans), net | 32,309 | 77,366 | 122,659 | 121,417 | 95,589 | 102 |
| Other impaired loans, net | 20,081 | 33,187 | 55,319 | 28,764 | 14,196 | 26 |
| Total liabilities | 663,829 | 671,754 | 1,087,926 | 1,313,556 | 1,733,383 | 1,378 |
| Long-term debt | 492,882 | 511,458 | 400,812 | 373,449 | 367,499 | 355 |
| Deposits | 6,072 | 7,380 | 491,290 | 684,955 | 1,016,534 | 722 |
| Redeemable preferred stock(3) | 698 | 772 | 853 | 944 | 1,044 | |
| Stockholders' equity | 75,927 | 71,348 | 92,213 | 94,525 | 127,996 | 118 |
| Common stock | 3,924 | 3,922 | 6,127 | 6,164 | 7,368 | 7 |
| Period average(4): | | | | | | |
| Total assets | 706,343 | 746,330 | 1,132,638 | 1,269,638 | 1,562,983 | 1,440 |
| Interest-earning assets | 615,164 | 641,141 | 924,573 | 1,017,009 | 1,198,058 | 1,100 |
| Loans, net(2) | 570,989 | 591,398 | 606,496 | 662,752 | 799,169 | 731 |
| Total liabilities(5) | 631,324 | 670,750 | 1,038,377 | 1,173,961 | 1,442,117 | 1,324 |
| Interest-bearing liabilities | 576,474 | 613,401 | 905,226 | 977,941 | 1,148 ,995 | 1,059 |
| Long-term debt | 462,916 | 504,103 | 455,347 | 382,674 | 359,724 | 359 |
| Stockholders' equity | Rs. 75,019 | Rs. 75,580 | Rs. 94,261 | Rs. 95,678 | Rs. 120,866 | Rs. 116 |
| Profitability(6): | | | | | | |
| Net income/(loss) as a percentage of: | | | | | | |
| Average total assets | 0.94% | 0.21% | (0.70)% | 0.41% | 0.55% | |
| Average stockholders' equity | 8.84 | 2.05 | (8.47) | 5.45 | 7.06 | |

| | At March 31, | | | | |
|---|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2004 | 2005 |
| | (in millions, except percentages) | | | | |
| Average stockholders' equity (including redeemable preferred stock)(7) | 8.89 | 2.12 | (8.31) | 5.50 | 7.08 |
| Dividend payout ratio(8) | 52.90 | 635.20 | – | 88.10 | 64.57 |
| Spread(9) | 1.19 | 0.93 | 1.38 | 1.52 | 1.71 |
| Net interest margin(10) | 1.93 | 1.42 | 1.57 | 1.80 | 1.95 |
| Cost-to-income ratio(11) | 25.54 | 43.42 | 66.11 | 48.90 | 56.57 |
| Cost-to-average assets ratio(12) | 0.78 | 1.02 | 1.64 | 2.13 | 2.12 |
| Capital: | | | | | |
| Average shareholders' equity as a percentage of average total assets | 10.62 | 10.13 | 8.32 | 7.54 | 7.73 |
| Average stockholders' equity (including redeemable preferred stock) as a percentage of average total assets(13) | 10.95 | 10.23 | 8.39 | 7.61 | 7.80 |

| | At or for the year ended March 31, | | | |
|---|---|---|---|---|
| | 2001 | 2002 | 2003 | 2004 |
| | (in percentages) | | | |
| Asset quality: | | | | |
| Net restructured loans as a percentage of net loans | 5.37% | 14.78% | 19.45% | 16.67% |
| Net other impaired loans as a percentage of net loans | 3.34 | 6.34 | 8.77 | 3.95 |
| Allowance for loan losses on restructured loans as a percentage of gross restructured loans | 26.03 | 18.64 | 16.78 | 25.23 |
| Allowance for loan losses on other | | | | |

| | | | | |
|---|---|---|---|---|
| impaired loans as a percentage of gross impaired loans..... | 51.89 | 34.61 | 33.48 | 42.74 |
| Allowance for loan losses as a percentage of gross loans..... | 5.20 | 6.54 | 7.92 | 8.40 |

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(1) Rupee amounts at September 30, 2005 have been translated into US dollars using the noon buying rate of Rs. 43.94 = US$ 1.00 in effect at September 30, 2005.

(2) Net of allowance for loan losses, security deposits and unearned income in respect of restructured and other impaired loans and allowances for non-impaired loans.

(3) ICICI had issued preferred stock redeemable at face value after 20 years. Banks in India are not currently allowed to issue preferred stock. However, we are currently exempt from this restriction for the existing preferred stock.

(4) For the six-month periods ended September 30, 2004 and September 30, 2005, the average balances are the average of quarterly balances outstanding at the end of March of the previous fiscal year, June and September of that year. For fiscal years 2002, 2003, 2004 and 2005, the average balances are the average of quarterly balances outstanding at the end of March of the previous fiscal year, June, September, December and March of that fiscal year. For fiscal 2001, due to deconsolidation of ICICI Bank, the average balances are calculated as the average of quarterly balances outstanding at the end of June, September, December and March of that fiscal year.

(5) Represents the average of the quarterly balance of total liabilities and minority interest.

(6) Profitability data for the six-month periods ended September 30, 2004 and September 30, 2005 is annualized.

(7) Represents the ratio of net income plus dividend on redeemable preferred stock to the sum of average stockholders' equity and average redeemable



preferred stock. Under Indian tax laws, dividend on preferred stock is not tax deductible.

(8) Represents the ratio of total dividends paid on common stock, exclusive of dividend distribution tax, as a percentage of net income.

(9) Represents the difference between yield on average interest-earning assets and cost of average interest-bearing liabilities. Yield on average interest-earning assets is the ratio of interest income to average interest-earning assets. Cost of average interest-bearing liabilities is the ratio of interest expense to average interest-bearing liabilities.

(10) Represents the ratio of net interest income to average interest-earning assets. The difference in net interest margin and spread arises due to the difference in the amount of average interest-earning assets and average interest-bearing liabilities. If average interest-earning assets exceed average interest-bearing liabilities, net interest margin is greater than spread, and if average interest-bearing liabilities exceed average interest-earning assets, net interest margin is less than spread.

(11) Represents the ratio of non-interest expense to the sum of net interest income and non-interest income.

(12) Represents the ratio of non-interest expense to average total assets.

(13) ICICI Bank's capital adequacy is computed in accordance with the Reserve Bank of India's guidelines and is based on unconsolidated financial statements prepared in accordance with Indian GAAP. At September 30, 2005, ICICI Bank's total capital adequacy ratio was 11.52% with a Tier 1 capital adequacy ratio of 7.24% and a Tier 2 capital adequacy ratio of 4.28%.



## RISK FACTORS

Investing in the securities offered using this prospectus involves risk. You should consider carefully the following risk factors as well as the risks described in the documents incorporated by reference into this prospectus before you decide to buy our securities. If any of these risks actually occur you may lose all or part of your investment.

### Risks Relating to India

A slowdown in economic growth in India could cause our business to suffer.

Any slowdown in the Indian economy or volatility of global commodity prices, in particular oil and steel prices, could adversely affect our borrowers and contractual counterparties. Because of the importance of our commercial banking operations for retail customers and the increasing importance of our agricultural loan portfolio to our business, any slowdown in the growth of the housing, automobiles and agricultural sectors could adversely impact our business, including our ability to grow our asset portfolio, the quality of our assets, our financial performance, our stockholders' equity, our ability to implement our strategy and the price of our equity shares and ADSs.

A significant increase in the price of crude oil could adversely affect the Indian economy, which could adversely affect our business.

India imports approximately 70.0% of its requirements of crude oil, which constituted approximately 27.9% of total imports in fiscal 2005. The sharp increase in global crude oil prices during fiscal 2001 adversely affected the Indian economy in terms of volatile interest and exchange rates. This adversely affected the overall state of liquidity in the banking system leading to intervention by the Reserve Bank of India. Over the last year, there has been a sharp increase in global crude oil prices which was due to both increased demand and pressure on production and refinery capacity. The full burden of the oil price increase has not yet been passed to Indian consumers and has been largely absorbed by the government and government-owned oil marketing companies. Sustained high levels, further increases or volatility of oil prices and the pass-through of recent increases to Indian consumers could have a material negative impact on the Indian economy and the Indian banking and financial system in particular, including through a rise in inflation and market interest rates and a higher trade deficit. This could adversely affect our business including our liquidity, our ability to grow, the quality of our assets, our financial performance, our stockholders' equity, our ability to implement our strategy and the price of our equity shares and ADSs.

A significant change in the Indian government's economic liberalization and deregulation policies could adversely affect our business and the

price of our equity shares and ADSs.

Our assets and customers are predominantly located in India. The Indian government has traditionally exercised and continues to exercise a dominant influence over many aspects of the economy. Government policies could adversely affect business and economic conditions in India, our future financial performance, our stockholders' equity and the price of our equity shares and ADSs.

Financial instability in other countries, particularly emerging market countries and countries where we have established operations, could adversely affect our business and the price of our equity shares and ADSs.

The Indian economy is influenced by economic and market conditions in other countries, particularly emerging market countries in Asia. We have also established operations in several other countries. A loss of investor confidence in the financial systems of other emerging markets and countries where we have established operations or any worldwide financial instability may cause increased volatility in the Indian financial markets and, directly or indirectly, adversely affect the Indian economy and financial sector, our business, our future financial performance, our stockholders' equity and the price of our equity shares and ADSs.



If regional hostilities, terrorist attacks or social unrest in some parts of the country increase, our business and the price of our equity shares and ADSs could be adversely affected.

India has from time to time experienced social and civil unrest and hostilities both internally and with neighboring countries. In the past, there have been military confrontations between India and Pakistan. India has also experienced terrorist attacks in some parts of the country. These hostilities and tensions could lead to political or economic instability in India and adversely affect our business, our future financial performance and the price of our equity shares and ADSs.

Trade deficits could adversely affect our business and the price of our equity shares and ADSs.

India's trade relationships with other countries and its trade deficit, driven to a major extent by global crude oil prices, may adversely affect Indian economic conditions. If trade deficits increase or are no longer manageable because of the rise in global crude oil prices or otherwise, the Indian economy, and therefore our business, our financial performance, our stockholders' equity and the price of our equity shares and our ADSs could be adversely affected.

Natural calamities could adversely affect the Indian economy, our business and the price of our equity shares and ADSs.

India has experienced natural calamities like earthquakes, floods and drought in the past few years. The extent and severity of these natural disasters determine their impact on the Indian economy. For example, in fiscal 2003, many parts of India received significantly less than normal rainfall. As a result of the drought conditions in the economy during fiscal 2003, the agricultural sector recorded a negative growth of 7.0%. Also, the erratic progress of the monsoon in fiscal 2005 adversely affected sowing operations for certain crops and resulted in a decline in the growth rate of the agriculture

sector from 9.1% in fiscal 2004 to 1.1% in fiscal 2005. Further prolonged spells of below or above normal rainfall or other natural calamities could adversely affect the Indian economy, our business and the price of our equity shares and ADSs.

Financial difficulty and other problems in certain financial institutions in India could adversely affect our business and the price of our equity shares and ADSs.

As an Indian bank, we are exposed to the risks of the Indian financial system which may be affected by the financial difficulties faced by certain Indian financial institutions because the commercial soundness of many financial institutions may be closely related as a result of credit, trading, clearing or other relationships. This risk, which is sometimes referred to as "systemic risk", may adversely affect financial intermediaries, such as clearing agencies, banks, securities firms and exchanges with whom we interact on a daily basis. Any such difficulties or instability of the Indian financial system in general could create an adverse market perception about Indian financial institutions and banks and adversely affect our business, our future financial performance, our Stockholders' equity and the price of our equity shares and ADSs. See also "Overview of the Indian Financial Sector" in our annual report on Form 20-F for the fiscal year ended March 31, 2005, which is incorporated by reference in this prospectus. As the Indian financial system operates within an emerging market, it faces risks of a nature and extent not typically faced in more developed economies, including the risk of deposit runs notwithstanding the existence of a national deposit insurance scheme. For example, in April 2003, unsubstantiated rumours, believed to have originated in Gujarat, a state in India, alleged that we were facing liquidity problems. Although our liquidity position was sound, we witnessed higher than normal deposit withdrawals on account of these unsubstantiated rumours for several days in April 2003. We successfully controlled the situation in this instance, but any failure to control such situations in the future could result in high volumes of deposit withdrawals which would adversely impact our liquidity position.

A decline in India's foreign exchange reserves may affect liquidity and interest rates in the Indian economy which could adversely impact us.

A decline in India's foreign exchange reserves could result in reduced liquidity and higher interest rates in the Indian economy, which could adversely affect our business, our future financial performance, our stockholders' equity and the price of our equity shares and ADSs. See also "-- Risks Relating to Our Business".



Any downgrading of India's debt rating by an international rating agency could adversely affect our business and the price of our equity shares and ADSs.

Any adverse revisions to India's credit ratings for domestic and international debt by international rating agencies may adversely affect our business, our future financial performance, our stockholders' equity and the price of our equity shares and ADSs.

Risks Relating to Our Business

Our business is particularly vulnerable to interest rate risk and volatility in interest rates could adversely affect our net interest

margin, the value of our fixed income portfolio, our income from treasury operations and our financial performance.

As a result of certain reserve requirements of the Reserve Bank of India, we are more structurally exposed to interest rate risk than banks in many other countries. See "Supervision and Regulation - Legal Reserve Requirements" in our annual report on Form 20-F for the fiscal year ended March 31, 2005, which is incorporated by reference in this prospectus. These requirements result in our maintaining a large portfolio of fixed income government of India securities, and we could be materially adversely impacted by a rise in interest rates, especially if the rise were sudden or sharp. These requirements also have a negative impact on our net interest income and net interest margin because we earn interest on a portion of our assets at rates that are generally less favorable than those typically received on our other interest-earning assets. If our cost of funds does not decline at the same time or to the same extent as the yield on our interest-earning assets, or if the yield on our interest-earning assets does not increase at the same time or to the same extent as our cost of funds, our net interest income and net interest margin would be adversely impacted. We are also exposed to interest rate risk through our treasury operations and our subsidiary ICICI Securities, which is a primary dealer in government of India securities. A rise in interest rates or greater interest rate volatility could adversely affect our income from treasury operations or the value of our fixed income securities trading portfolio.

A large proportion of ICICI's loans consisted of project finance assistance, a substantial portion of which is particularly vulnerable to completion and other risks.

Long-term project finance assistance constituted a significant proportion of ICICI's asset portfolio and, despite the growth of our retail loan portfolio, continues to be a significant proportion of our loan portfolio. The viability of these projects depends upon a number of factors, including market demand, government policies and the overall economic environment in India and the international markets. These projects are particularly vulnerable to a variety of risks, including completion risk and counterparty risk, which could adversely impact their ability to generate revenues. We cannot be sure that these projects will perform as anticipated. Over the last several years, we experienced a high level of impaired loans in our project finance loan portfolio as a result of the downturn in certain global commodity markets and increased competition in India. Future project finance losses or high levels of loan impairment could have a materially adverse effect on our profitability and the quality of our loan portfolio.

We have a high concentration of loans to certain customers and sectors and impairment of a substantial portion of these loans could adversely affect the overall quality of our loan portfolio, our business and the price of our equity shares and ADSs.

Our loan portfolio, gross restructured loan portfolio and gross other impaired loan portfolio have a high concentration in certain customers and sectors. See "Business - Loan Portfolio" in our annual report on Form 20-F for the fiscal year ended March 31, 2005, which is incorporated by reference in this prospectus. In the past, these borrowers and sectors have been adversely affected by economic conditions in varying degrees. Credit losses or financial difficulties of these borrowers and sectors in the future could adversely affect our business, our financial performance, our stockholders' equity and the price of our equity shares and ADSs.

If we are not able to control or reduce the level of impaired loans in our portfolio, our business will suffer.

We have experienced rapid growth in our retail loan portfolio. See

"Business - Loan Portfolio" in our annual report on Form 20-F for the fiscal year ended March 31, 2005, which is incorporated by reference in this prospectus.



Various factors, including a rise in unemployment, prolonged recessionary conditions, a sharp and sustained rise in interest rates, developments in the Indian economy, movements in global commodity markets and exchange rates and global competition could cause an increase in the level of impaired loans on account of these retail loans and have a material adverse impact on the quality of our loan portfolio. In addition, under the directed lending norms of the Reserve Bank of India, we are required to extend 50.0% of our residual net bank credit (excluding the advances of ICICI at year-end fiscal 2002) to certain eligible sectors, which are categorized as "priority sectors". See "Business - Loan Portfolio - Directed Lending" in our annual report on Form 20-F for the fiscal year ended March 31, 2005, which is incorporated by reference in this prospectus. We may experience a significant increase in impaired loans in our directed lending portfolio, particularly loans to the agriculture sector and small-scale industries, where we are less able to control the portfolio quality and where economic difficulties are likely to affect our borrowers more severely. We may not be able to control or reduce the level of impaired loans in our project and corporate finance portfolio or assure that troubled debt restructuring will be successful or that borrowers will meet their obligations under the restructured terms. We may not be successful in our efforts to improve collections and foreclose on existing impaired loans.

If we are not able to control or reduce the level of impaired loans, the overall quality of our loan portfolio may deteriorate and our business, our future financial performance, our stockholders' equity and the price of our equity shares and ADSs may be adversely affected.

Further deterioration of our impaired loan portfolio and an inability to improve our allowance for loan losses as a percentage of impaired loans could adversely affect the price of our equity shares and ADSs.

The level of our impaired loans is significantly higher than the average percentage of impaired loans in the portfolios of banks in more developed countries. Although we believe that our allowances for loan losses will be adequate to cover all known losses in our asset portfolio, we cannot assure you that there will be no deterioration in the allowance for loan losses as a percentage of gross impaired loans or otherwise or that the percentage of impaired loans that we will be able to recover will be similar to our and ICICI's past experience of recoveries of impaired loans. In the event of any further deterioration in our impaired loan portfolio, there could be an adverse impact on our business, our future financial performance, our stockholders' equity and the price of our equity shares and ADSs.

The value of our collateral may decrease or we may experience delays in enforcing our collateral when borrowers default on their obligations to us which may result in failure to recover the expected value of collateral security exposing us to a potential loss.

A substantial portion of our loans to corporate and retail customers are secured by collateral. See "Loan Portfolio - Collateral - Completion, Perfection and Enforcement" in our annual report on Form 20-F for the fiscal year ended March 31, 2005, which is incorporated by reference in this prospectus. We may not be able to realize the full value of our collateral as a result of delays in bankruptcy and foreclosure proceedings, defects in the

perfection of collateral, fraudulent transfers by borrowers and other factors.

There can be no assurance that any legislation in this area will have a favorable impact on our efforts to resolve non-performing assets. See also "Overview of the Indian Financial Sector - Recent Structural Reforms - Legislative Framework for Recovery of Debts Due to Banks" in our annual report on Form 20-F for the fiscal year ended March 31, 2005, which is incorporated by reference in this prospectus. Failure to recover the expected value of collateral could expose us to potential losses, which could adversely affect our business, our future financial performance, our stockholders' equity and the price of our equity shares and ADSs.

We face greater credit risks than banks in developed economies.

Our credit risk is higher because most of our borrowers are based in India. Unlike several developed economies, a nationwide credit bureau has become operational in India only recently. This may affect the quality of information available to us about the credit history of our borrowers, especially individuals and small businesses. In addition, the credit risk of our borrowers, particularly small and middle market companies, is higher than borrowers in more developed economies due to the greater uncertainty in the Indian regulatory, political, economic and industrial environment and the difficulties of many of our borrowers to adapt to global technological advances. Also, several



of our borrowers suffered from low profitability because of increased competition from economic liberalization, a sharp decline in commodity prices, a high debt burden and high interest rates in the Indian economy at the time of their financing, and other factors. This may lead to an increase in the level of our impaired loans, there could be an adverse impact on our business, our future financial performance, our stockholders' equity and the price of our equity shares and ADSs.

Our funding is primarily short-term and if depositors do not roll over deposited funds upon maturity, our business could be adversely affected.

Most of our incremental funding requirements, including replacement of maturing liabilities of ICICI (which generally had longer maturities), are met through short-term funding sources, primarily in the form of deposits including inter-bank deposits. Our customer deposits generally have a maturity of less than one year. However, a large portion of our assets, primarily the assets of ICICI and our home loan portfolio, have medium or long-term maturities, creating the potential for funding mismatches. High volumes of deposit withdrawals or failure of a substantial number of our depositors to roll over deposited funds upon maturity or to replace deposited funds with fresh deposits, could have an adverse effect on our liquidity position, our business, our future financial performance, our stockholders' equity and the price of our equity shares and ADSs. See also "- Financial difficulty and other problems in certain financial institutions in India could adversely affect our business and the price of our equity shares and ADSs".

Regulatory changes or enforcement initiatives in India or any of the jurisdictions in which we operate may adversely affect our business and the price of our equity shares and ADSs.

We are subject to a wide variety of banking and financial services laws and regulations and a large number of regulatory and enforcement authorities in

each of the jurisdictions in which we operate. The laws and regulations or the regulatory or enforcement environment in any of those jurisdictions may change at any time and may have an adverse effect on the products or services we offer, the value of our assets or our business in general. Also, the laws and regulations governing the banking and financial services industry have become increasingly complex governing a wide variety of issues, including interest rates, liquidity, capital adequacy, securitization, investments, ethical issues, money laundering, privacy, record keeping, and marketing and selling practices, with sometimes overlapping jurisdictional or enforcement authorities. In its mid-term review of the annual policy statement for fiscal 2005, the Reserve Bank of India increased the risk weight for the computation of capital adequacy from 50% to 75% in the case of housing loans and from 100% to 125% in the case of consumer credit (including personal loans and credit cards) as a temporary counter-cyclical measure. This had a negative impact of 104 basis points on our capital adequacy ratio at year-end fiscal 2005. In April 2005, the Reserve Bank of India issued draft guidelines on securitization of standard assets implemented in their present form would require a significantly higher level of capital to be maintained for securitized assets and may have an adverse impact on our business, capital adequacy and financial performance. In July 2005, the Reserve Bank of India increased the risk weight for capital market exposure and exposure to commercial real estate from 100% to 125%. In October 2005, the Reserve Bank of India increased the requirement of general provisioning on standard advances from 25 basis points to 40 basis points. See "Supervision and Regulation" in our annual report on Form 20-F for the fiscal year ended March 31, 2005, which is incorporated by reference in this prospectus. Future changes in laws and regulations and failure or the apparent failure to address any regulatory changes or enforcement initiatives could have an adverse impact our business, our future financial performance and our stockholders' equity, harm our reputation, subject us to penalties, fines, disciplinary actions or suspensions of any kind, or increase our litigation risk and have an adverse effect on the price of our equity shares and ADSs.

A determination against us in respect of disputed tax assessments may adversely impact our financial performance.

We have been assessed a significant amount in additional taxes by the government of India's tax authorities in excess of our provisions. See "Business - Legal and Regulatory Proceedings" in our annual report on Form 20-F for the fiscal year ended March 31, 2005, which is incorporated by reference in this prospectus. We have appealed all of these demands. While we expect that no additional liability will arise out of these disputed demands, there can be no assurance that these matters will be settled in our favor or that no further liability will arise out of these demands.



Any additional tax liability may adversely impact our financial performance and the price of our equity shares and ADSs.

We are involved in various litigations and any final judgment awarding material damages against us could have a material adverse impact on our future financial performance, our stockholders' equity and the price of our equity shares and ADSs.

We are often involved in litigations for a variety of reasons, which generally arise because we seek to recover our dues from borrowers or because customers seek claims against us. The majority of these cases arise in the normal course and we believe, based on the facts of the cases and consultation with counsel, that these cases generally do not involve the risk of a material

adverse impact on our financial performance or stockholders' equity. Where we assess that there is a probable risk of loss, it is our policy to make provisions for the loss. However, we do not make provisions or disclosures in our financial statements where our assessment is that the risk is insignificant. See "Business - Legal and Regulatory Proceedings" in our annual report on Form 20-F for the fiscal year ended March 31, 2005, which is incorporated by reference in this prospectus. We cannot guarantee that the judgments in any of the litigation in which we are involved would be favorable to us and if our assessment of the risk changes, our view on provisions will also change.

Our inability to grow further or succeed in retail products and services may adversely affect our business.

We are a relatively new entrant in the retail loan business and have achieved significant growth in this sector since the amalgamation. See "Business - Loan Portfolio" in our annual report on Form 20-F for the fiscal year ended March 31, 2005, which is incorporated by reference in this prospectus. While we anticipate continued significant demand in this area, we cannot assure you that our retail portfolio will continue to grow as expected. Our inability to grow further or succeed in retail products and services may adversely affect our business, our future financial performance, our stockholders' equity and the price of our equity shares and ADSs. See also "- If we are not able to control or reduce the level of impaired loans in our portfolio, our business will suffer", "- There is operational risk associated with our industry which, when realized, may have an adverse impact on our results" and "- We depend on the accuracy and completeness of information about customers and counterparties".

Our inability to succeed in our new business areas or to manage the new challenges and risks that we face, may cause us to miss our projected earnings and growth targets and may have a material adverse impact on our future financial performance, our stockholders' equity and the price of our equity shares and ADSs.

We provide a wide range of insurance products and services through our subsidiaries ICICI Prudential Life Insurance Company and ICICI Lombard General Insurance Company. Recently, we have also pursued an international expansion strategy establishing subsidiaries or opening branches or representative offices in various countries, including the United Kingdom, Canada, Russia, Singapore, Bahrain and the United States. See "Business - Overview of Products and Services - Insurance" and "- Commercial Banking for International Customers" in our annual report on Form 20-F for the fiscal year ended March 31, 2005, which is incorporated by reference in this prospectus. This international expansion strategy exposes us to a new variety of regulatory and business challenges and risks, including cross-cultural risk. The skills required for this business could be different from those required for our Indian business and we may not be able to attract the required talented professionals. Our inability to manage these new challenges and risks, our failure to raise the substantial capital required for our international expansion or our insurance business or any adverse developments concerning our joint venture partners in the insurance business, may cause us to miss our projected earnings and growth targets and may have a material adverse effect on our business, our reputation, our future financial performance, our stockholders' equity and the price of our equity shares and ADSs.

We are exposed to fluctuations in foreign exchange rates.

As a financial intermediary we are exposed to exchange rate risk. See "Risk Management - Quantitative and Qualitative Disclosures About Market Risk - Exchange Rate Risk" in our annual report on Form 20-F for the fiscal year ended March 31, 2005, which is incorporated by reference in this prospectus. Adverse

movements and volatility in foreign exchange rates may adversely affect our borrowers, the quality of our exposure to our



borrowers, our business, our future financial performance, our shareholders' funds and the price of our equity shares and ADSs.

Our business is very competitive and our growth strategy depends on our ability to compete effectively.

We face intense competition from Indian and foreign commercial banks in all our products and services. Foreign banks also operate in India through non-banking finance companies. Further liberalization of the Indian financial sector, could lead to a greater presence or new entries of foreign banks offering a wider range of products and services, which would significantly toughen our competitive environment. In addition, the Indian financial sector may experience further consolidation, resulting in fewer banks and financial institutions, some of which may have greater resources than us. The Reserve Bank of India has announced a roadmap for the presence of foreign banks in India that would, after a review in 2009, allow foreign banks to acquire up to 74.0% shareholding in an Indian private sector bank. See "Competition" and "Overview of the Indian Financial Sector - Commercial Banks" in our annual report on Form 20-F for the fiscal year ended March 31, 2005, which is incorporated by reference in this prospectus. Due to competitive pressures, we may be unable to successfully execute our growth strategy and offer products and services at reasonable returns and this may adversely impact our business, our future financial performance, our stockholders' equity and the price of our equity shares and ADSs.

Fraud and significant security breaches in our computer system and network infrastructure could adversely impact our business.

Our business operations are based on a high volume of transactions. Although we take adequate measures to safeguard against system-related and other fraud, there can be no assurance that we would be able to prevent fraud. Our reputation could be adversely affected by fraud committed by employees, customers or outsiders. Physical or electronic break-ins, security breaches, other disruptive problems caused by our increased use of the Internet or power disruptions could also affect the security of information stored in and transmitted through our computer systems and network infrastructure. Although we have implemented security technology and operational procedures to prevent such occurrences, there can be no assurance that these security measures will be successful. A significant failure in security measures could have a material adverse effect on our business, our future financial performance and the price of our equity shares and ADSs.

System failures could adversely impact our business.

Given the increasing share of retail products and services and transaction banking services in our total business, the importance of systems technology to our business has increased significantly. Our principal delivery channels include ATMs, call centers and the Internet. Any failure in our systems, particularly for retail products and services and transaction banking, could significantly affect our operations and the quality of customer service and could result in business and financial losses and adversely affect the price of our equity shares and ADSs.

There is operational risk associated with our industry which, when

realized, may have an adverse impact on our results.

We, like all financial institutions, are exposed to many types of operational risk, including the risk of fraud or other misconduct by employees or outsiders, unauthorized transactions by employees or operational errors, including clerical or recordkeeping errors or errors resulting from faulty computer or telecommunications systems. We use direct marketing associates for marketing our retail credit products. We also outsource some functions to other agencies. Given our high volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. In addition, our dependence upon automated systems to record and process transactions may further increase the risk that technical system flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect. We may also be subject to disruptions of our operating systems, arising from events that are wholly or partially beyond our control (including, for example, computer viruses or electrical or telecommunication outages), which may give rise to a deterioration in customer service and to loss or liability to us. We are further exposed to the risk that external vendors may be unable to fulfill their contractual obligations to us (or will be subject to the same risk of fraud or operational errors by their respective employees as are we), and to the risk that its (or its vendors') business continuity and data security systems prove not to be sufficiently adequate. We also face the risk that the design of our controls and procedures prove



inadequate, or are circumvented, thereby causing delays in detection or errors in information. Although we maintain a system of controls designed to keep operational risk at appropriate levels, like all banks we have suffered losses from operational risk and there can be no assurance that we will not suffer losses from operational risks in the future that may be material in amount. For a discussion of how operational risk is managed see "Risk Management - Operational Risk" in our annual report on Form 20-F for the fiscal year ended March 31, 2005, which is incorporated by reference in this prospectus.

We are subject to credit, market and liquidity risk which may have an adverse effect on our credit ratings and our cost of funds.

To the extent any of the instruments and strategies we use to hedge or otherwise manage our exposure to market or credit risk are not effective, we may not be able to mitigate effectively our risk exposures in particular market environments or against particular types of risk. Our balance sheet growth will be dependent upon economic conditions, as well as upon our determination to securitize, sell, purchase or syndicate particular loans or loan portfolios. Our trading revenues and interest rate risk are dependent upon our ability to properly identify, and mark to market, changes in the value of financial instruments caused by changes in market prices or rates. Our earnings are dependent upon the effectiveness of our management of migrations in credit quality and risk concentrations, the accuracy of our valuation models and our critical accounting estimates and the adequacy of our allowances for loan losses. To the extent our assessments, assumptions or estimates prove inaccurate or not predictive of actual results, we could suffer higher than anticipated losses. See also "- Further deterioration of our impaired loan portfolio and an inability to improve our allowance for loan losses as a percentage of impaired loans, could adversely affect the price of our equity shares and ADSs". The successful management of credit, market and operational risk is an important consideration in managing our liquidity risk because it affects the evaluation of our credit ratings by rating agencies. Rating agencies may reduce or indicate their intention to reduce the ratings at any time. See also "-Any downgrading of India's debt rating by an international

rating agency could adversely affect our business and the price of our equity shares and ADSs". The rating agencies can also decide to withdraw their ratings altogether, which may have the same effect as a reduction in our ratings. Any reduction in our ratings may increase our borrowing costs, limit our access to capital markets and adversely affect our ability to sell or market our products, engage in business transactions, particularly longer-term and derivatives transactions, or retain our customers. This, in turn, could reduce our liquidity and negatively impact our operating results and financial condition. For more information relating to our ratings, see "Operating and Financial Review and Prospects - Liquidity Risk" in our annual report on Form 20-F for the fiscal year ended March 31, 2005, which is incorporated by reference in this prospectus.

We depend on the accuracy and completeness of information about customers and counterparties.

In deciding whether to extend credit or enter into other transactions with customers and counterparties, we may rely on information furnished to us by or on behalf of customers and counterparties, including financial statements and other financial information. We may also rely on certain representations as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit, we may assume that a customer's audited financial statements conform with generally accepted accounting principles and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. Our financial condition and results of operations could be negatively affected by relying on financial statements that do not comply with generally accepted accounting principles or other information that is materially misleading.

Any inability to attract and retain talented professionals may adversely impact our business.

Attracting and retaining talented professionals is a key element of our strategy and we believe it to be a significant source of competitive advantage. See "Business - Employees" in our annual report on Form 20-F for the fiscal year ended March 31, 2005, which is incorporated by reference in this prospectus. Our inability to attract and retain talented professionals or the loss of key management personnel could have an adverse impact on our business, our future financial performance and the price of our equity shares and ADSs.



Risks Relating to the ADSs and Equity Shares

You will not be able to vote your ADSs and your ability to withdraw equity shares from the depositary facility is uncertain and may be subject to delays.

Our ADS holders have no voting rights unlike holders of our equity shares who have voting rights. For certain information regarding the voting rights of the equity shares underlying your ADSs, see "Business - Shareholding Structure and Relationship with the Government of India" in our annual report on Form 20-F for the fiscal year ended March 31, 2005, which is incorporated by reference in this prospectus. If you wish, you may withdraw the equity shares underlying your ADSs and seek to vote the equity shares you obtain from the withdrawal. However, for foreign investors, this withdrawal process may be subject to delays and is subject to a cap of 49% on the total shareholding of foreign institutional investors and non-resident Indians in us. For a

discussion of the legal restrictions triggered by a withdrawal of the equity shares from the depositary facility upon surrender of ADSs, see "Restriction on Foreign Ownership of Indian Securities" in our annual report on Form 20-F for the fiscal year ended March 31, 2005, which is incorporated by reference in this prospectus.

US investors will be subject to special tax rules, including the possible imposition of interest charges, if we are considered to be a passive foreign investment company.

Based upon certain proposed US Treasury regulations which are proposed to be effective for taxable years beginning after December 31, 1994 and upon certain management estimates, we do not expect to be a Passive Foreign Investment Company (a "PFIC"). However, since there can be no assurance that such proposed Treasury regulations will be finalized in their current form, and since the composition of our income and assets will vary over time, there can be no assurance that we will not be considered a PFIC for any taxable year. If we are a PFIC for any taxable year during which a US investor holds any of our equity shares or ADSs, the US investor would be subject to special adverse tax rules, including the possible imposition of interest charges (see "Taxation - United States Tax - Passive Foreign Investment Company Rules" in our annual report on Form 20-F for the fiscal year ended March 31, 2005, which is incorporated by reference in this prospectus).

Your ability to sell in India any equity shares withdrawn from the depositary facility, the conversion of rupee proceeds from such sale into a foreign currency and the repatriation of such foreign currency may be subject to delays if specific approval of the Reserve Bank of India is required.

ADS holders seeking to sell in India any equity shares withdrawn upon surrender of ADSs, convert the rupee proceeds from such sale into a foreign currency or repatriate such foreign currency may need the Reserve Bank of India's approval for each such transaction. See "Restriction on Foreign Ownership of Indian Securities" in our annual report on Form 20-F for the fiscal year ended March 31, 2005, which is incorporated by reference in this prospectus. We cannot guarantee that any such approval will be obtained in a timely manner or at terms favorable to the investor. Because of possible delays in obtaining the requisite approvals, investors in equity shares may be prevented from realizing gains during periods of price increases or limiting losses during periods of price declines.

Restrictions on deposit of equity shares in the depositary facility could adversely affect the price of our ADSs.

Under current Indian regulations, an ADS holder who surrenders ADSs and withdraws equity shares may deposit those equity shares again in the depositary facility in exchange for ADSs. An investor who has purchased equity shares in the Indian market may also deposit those equity shares in the ADS program. However, the deposit of equity shares may be subject to securities law restrictions and the restriction that the cumulative aggregate number of equity shares that can be deposited as of any time cannot exceed the cumulative aggregate number represented by ADSs converted into underlying equity shares as of such time. These restrictions increase the risk that the market price of our ADSs will be below that of the equity shares.

Certain shareholders own a large percentage of our equity shares and their actions could adversely affect the price of our equity shares and ADSs.

Life Insurance Corporation of India and General Insurance Corporation of India, each of which is directly or indirectly controlled by the Indian government, are among our principal shareholders. Our other large shareholders

include Allamanda Investments Pte. Limited, a subsidiary of Temasek Holdings Pte. Limited, the government of Singapore, HWIC Asia Fund, an affiliate of Fairfax Financial Holdings Limited, and Bajaj Auto Limited, an Indian private sector company. See "Business – Shareholding Structure and Relationship with the Government of India" in our annual report on Form 20-F for the fiscal year ended March 31, 2005, which is incorporated by reference in this prospectus. Any substantial sale of our equity shares by these or other large shareholders could adversely affect the price of our equity shares and ADSs.

Conditions in the Indian securities market may adversely affect the price or liquidity of our equity shares and ADSs.

The Indian securities markets are smaller and more volatile than securities markets in developed economies. In the past, the Indian stock exchanges have experienced high volatility and other problems that have affected the market price and liquidity of the listed securities, including temporary exchange closures, broker defaults, settlement delays and strikes by brokers. In March 1995, the Bombay Stock Exchange (the "BSE"), was closed for three days following a default by a broker. In March 2001, the BSE dropped 667 points or 15.6% and there were also rumors of insider trading in the BSE leading to the resignation of the BSE president and several other members of the governing board. In the same month, the Kolkata Stock Exchange suffered a payment crisis when several brokers defaulted and the exchange invoked guarantees provided by various Indian banks. In April 2003, the decline in the price of the equity shares of a leading Indian software company created volatility in the Indian stock markets and created temporary concerns regarding our exposure to the equity markets. On May 17, 2004, the BSE Sensex fell by 565 points from 5,070 to 4,505, creating temporary concerns regarding our exposure to the equity markets. Both the BSE and the National Stock Exchange (the "NSE") halted trading on the exchanges on May 17, 2004 in view of the sharp fall in prices of securities. The Indian securities markets have experienced rapid appreciation over the past few months and relatively higher volatility recently. In addition, the governing bodies of the Indian stock exchanges have from time to time imposed restrictions on trading in certain securities, limitations on price movements and margin requirements. Further, from time to time, disputes have arisen between listed companies and stock exchanges and other regulatory bodies, which in some cases had a negative effect on market sentiment. In recent years, there have been changes in laws and regulations for the taxation of dividend income, which have impacted the Indian equity capital markets. See "Dividends" in our annual report on Form 20-F for the fiscal year ended March 31, 2005, which is incorporated by reference in this prospectus. Similar problems or changes in the future could adversely affect the market price and liquidity of our equity shares and ADSs.

An active or liquid trading market for our ADSs is not assured.

Although our ADSs are listed and traded on the New York Stock Exchange, we cannot be certain that an active, liquid market for our ADSs will be sustained. Indian legal restrictions may limit the supply of ADSs and a loss of liquidity could increase the price volatility of our ADSs.

Settlement of trades of equity shares on Indian stock exchanges may be subject to delays.

The equity shares represented by the ADSs are currently listed on the BSE and the NSE. Settlement on those stock exchanges may be subject to delays and

an investor in equity shares withdrawn from the depositary facility upon surrender of ADSs may not be able to settle trades on such stock exchanges in a timely manner.

Changes in Indian regulations on foreign ownership, a change in investor preferences or an increase in the number of ADSs outstanding could adversely affect the price of our ADSs.

ADSs issued by companies in certain emerging markets, including India, may trade at a discount or a premium to the underlying equity shares, in part because of the restrictions on foreign ownership of the underlying equity shares. See "Restriction on Foreign Ownership of Indian Securities" in our annual report on Form 20-F for the fiscal year ended March 31, 2005, which is incorporated by reference in this prospectus. Historically, our ADSs have generally traded at a premium to the trading price of our underlying equity shares on the Indian stock exchanges. See "Market Price Information" in our annual report on Form 20-F for the fiscal year ended March 31, 2005, which is incorporated by reference in this prospectus. We believe that this price premium resulted from the limited portion of our market capitalization represented by ADSs, restrictions imposed by Indian law on the conversion of equity shares into ADSs and an apparent preference for some investors to trade dollar-denominated securities. In fiscal



2005, we sponsored an offering of ADSs by our shareholders which increased the number of outstanding ADSs and we may conduct similar offerings in the future. Also, over time, some of the restrictions on the issuance of ADSs imposed by Indian law have been relaxed and other restrictions may also be relaxed in the future though the timing is uncertain. As a result, any premium enjoyed by the ADSs as compared to the equity shares may be reduced or eliminated as a result of offerings made or sponsored by us, changes in Indian law permitting further conversion of equity shares into ADSs or a change in investor preferences.

Your holdings may be diluted by additional issuances of equity and any dilution may adversely affect the market price of our equity shares and ADSs.

We may conduct additional equity offerings to fund the growth of our business, including our international operations, our insurance business or our other subsidiaries. Any future issuance of equity shares would dilute the positions of investors in equity shares and ADSs and could adversely affect the market price of our equity shares and ADSs.

You may be unable to exercise preemptive rights available to other shareholders.

A company incorporated in India must offer its holders of equity shares preemptive rights to subscribe and pay for a proportionate number of shares to maintain their existing ownership percentages prior to the issuance of any new equity shares, unless these rights have been waived by at least 75.0% of the company's shareholders present and voting at a shareholders' general meeting. US investors in ADSs may be unable to exercise these preemptive rights for equity shares underlying ADSs unless a registration statement under the Securities Act of 1933, as amended (the "Securities Act") is effective with respect to such rights or an exemption from the registration requirements of the Securities Act is available. Our decision to file a registration statement will depend on the costs and potential liabilities associated with any such registration as well as the perceived benefits of enabling US investors in ADSs

to exercise their preemptive rights and any other factors we consider appropriate at such time. To the extent that investors in ADSs are unable to exercise preemptive rights, their proportional ownership interests in us would be reduced.

Because the equity shares underlying the ADSs are quoted in rupees in India, you may be subject to potential losses arising out of exchange rate risk on the Indian rupee.

Investors who purchase ADSs are required to pay for the ADSs in US dollars and are subject to currency fluctuation risk and convertibility risks since the equity shares underlying the ADSs are quoted in rupees on the Indian stock exchanges on which they are listed. Dividends on the equity shares will also be paid in rupees and then converted into US dollars for distribution to ADS investors. Investors who seek to convert the rupee proceeds of a sale of equity shares withdrawn upon surrender of ADSs into foreign currency and repatriate the foreign currency may need to obtain the approval of the Reserve Bank of India for each such transaction. See also "- Your ability to sell in India any equity shares withdrawn from the depositary facility, the conversion of the rupee proceeds from such sale into a foreign currency and the repatriation of such foreign currency may be subject to delays if specific approval of the Reserve Bank of India is required" and "Exchange Rates" in our annual report on Form 20-F for the fiscal year ended March 31, 2005, which is incorporated by reference in this prospectus.

You may be subject to Indian taxes arising out of capital gains.

Generally, capital gains, whether short-term or long-term, arising on the sale of the underlying equity shares in India are subject to Indian capital gains tax. Investors are advised to consult their own tax advisers and to carefully consider the potential tax consequences of an investment in the ADSs. See "Taxation - Indian Tax" in our annual report on Form 20-F for the fiscal year ended March 31, 2005, which is incorporated by reference in this prospectus.



There may be less company information available in Indian securities markets than in securities markets in the United States.

There is a difference between India and the United States in the level of regulation and monitoring of the securities markets and the activities of investors, brokers and other market participants. The Securities and Exchange Board of India is responsible for improving disclosure and regulating insider trading and other matters for the Indian securities markets. There may, however, be less publicly available information about Indian companies than is regularly made available by public companies in the United States.



## FORWARD-LOOKING STATEMENTS

We have included statements in this prospectus or documents incorporated by reference herein which contain words or phrases such as "will", "would", "aim", "aimed", "will likely result", "is likely", "are likely", "believe", "expect", "expected to", "will continue", "will achieve", "anticipate", "estimate",

"estimating", "intend", "plan", "contemplate", "seek to", "seeking to", "trying to", "target", "propose to", "future", "objective", "goal", "project", "should", "can", "could", "may", "will pursue", "our judgment" and similar expressions or variations of such expressions, that are "forward-looking statements". These statements are intended as "Forward-Looking Statements" under the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those suggested by the forward-looking statements due to certain risks or uncertainties associated with our expectations with respect to, but not limited to, the actual growth in demand for banking and other financial products and services, our ability to successfully implement our strategy, including our use of the Internet and other technology, our ability to integrate recent or future mergers or acquisitions into our operations, future levels of impaired loans, our growth and expansion in domestic and overseas markets, the adequacy of our allowance for credit and investment losses, technological changes, investment income, our ability to market new products, cash flow projections, the outcome of any legal or regulatory proceedings we are or become a party to, the future impact of new accounting standards, our ability to implement our dividend policy, the impact of Indian banking regulations on us, which includes the assets and liabilities of ICICI, a former financial institution not subject to Indian banking regulations, our ability to roll over our short-term funding sources and our exposure to market risks. By their nature, certain of the market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains, losses or impact on net interest income and net income could materially differ from those that have been estimated.

In addition, other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this offering memorandum include, but are not limited to, the monetary and interest rate policies of India and the other markets in which we operate, natural calamities, general economic, financial or political conditions, instability or uncertainty in India, southeast Asia, or any other country which have a direct or indirect impact on our business activities or investments, caused by any factor including terrorist attacks in India, the United States or elsewhere, anti-terrorist or other attacks by the United States, a United States-led coalition or any other country, tensions between India and Pakistan related to the Kashmir region, military armament or social unrest in any part of India, inflation, deflation, unanticipated turbulence in interest rates, changes or volatility in the value of the rupee, foreign exchange rates, equity prices or other market rates or prices, the performance of the financial markets in general, changes in domestic and foreign laws, regulations and taxes, changes in the competitive and pricing environment in India, and general or regional changes in asset valuations. For a further discussion on the factors that could cause actual results to differ, see the discussion under "Risk Factors" included or incorporated by reference in this prospectus. The forward-looking statements made in this prospectus speak only as of the date of this prospectus. We do not intend to publicly update or revise these forward-looking statements to reflect events or circumstances after the date of this prospectus, and we do not assume any responsibility to do so.

## ENFORCEABILITY OF CERTAIN CIVIL LIABILITIES

ICICI Bank is a limited liability company under the laws of India. Substantially all of our directors and executive officers and certain experts named in this prospectus reside outside the United States, and a substantial portion of our assets and the assets of such persons are located outside the United States. As a result, it may be difficult for investors to effect service of process upon such persons within the United States or to enforce against us or such persons in US courts judgments obtained in US courts, including judgments predicated upon the civil liability provisions of the federal

securities laws of the United States.

India is not a party to any international treaty in relation to the recognition or enforcement of foreign judgments. We have been advised by our Indian legal counsel, Amarchand & Mangaldas & Suresh A. Shroff & Co., that in India the statutory basis for recognition of foreign judgments is found in Section 13 of the Indian Code of Civil



Procedure 1908, or the Civil Code, which provides that a foreign judgment shall be conclusive as to any matter directly adjudicated upon except: (i) where the judgment has not been pronounced by a court of competent jurisdiction; (ii) where the judgment has not been given on the merits of the case; (iii) where the judgment appears on the face of the proceedings to be founded on an incorrect view of international law or a refusal to recognize the law of India in cases where such law is applicable; (iv) where the proceedings in which the judgment was obtained were opposed to natural justice; (v) where the judgment has been obtained by fraud; or (vi) where the judgment sustains a claim founded on a breach of any law in force in India. Section 44A of the Civil Code provides that where a foreign judgment has been rendered by a court in any country or territory outside India which the government of India has by notification declared to be a reciprocating territory, it may be enforced in India by proceedings in execution as if the judgment had been rendered by the relevant court in India. The United States has not been declared by the government of India to be a reciprocating territory for purposes of Section 44A. Accordingly, a judgment of a court in the United States may be enforced in India only by a suit upon the judgment, not by proceedings in execution. The suit must be brought in India within three years from the date of the judgment in the same manner as any other suit filed to enforce a civil liability in India. It is unlikely that a court in India would award damages on the same basis as a foreign court if an action is brought in India. Furthermore, it is unlikely that an Indian court would enforce foreign judgments if it viewed the amount of damages awarded as excessive or inconsistent with Indian practice. A party seeking to enforce a foreign judgment in India is required to obtain approval from the Reserve Bank of India under the Foreign Exchange Management Act, 1999 to execute such a judgment or to repatriate any amount recovered. We have also been advised by our Indian counsel that a party may file suit in India against us, our directors or our executive officers as an original action predicated upon the provisions of the federal securities laws of the United States.

## WHERE YOU CAN FIND MORE INFORMATION ABOUT US

We will furnish to you, through the depositary, English language versions of any reports, notices and other communications that we generally transmit to holders of our equity shares. The principal executive office of Deutsche Bank Trust Company Americas, the depositary, is located at 60 Wall Street, New York, New York 10005.

We are subject to the registration requirements of the Securities Exchange Act of 1934 and, in accordance with this act, we file annual reports and other information with the SEC. You may read and copy any of this information in the SEC's Public Reference Room, 100 F Street, NE, Room 2521, Washington, D.C. 20549. You may also obtain copies of this information by mail from the Public Reference Section of the SEC, 100 F Street, NE, Room 2521, Washington, D.C. 20549, at prescribed rates. You can obtain information on the operation of the SEC's Public Reference Room in Washington, D.C. by calling the SEC at 1-800-SEC-0330.

The SEC also maintains an Internet web-site that contains reports, proxy statements and other information about issuers, like us, that file electronically with the SEC. The address of that site is http://www.sec.gov.

## INCORPORATION OF DOCUMENTS BY REFERENCE

The SEC allows us to "incorporate by reference" the information we file with them. This means that we can disclose important information to you by referring you to those documents. Each document incorporated by reference is current only as of the date of such document, and the incorporation by reference of such documents shall not create any implication that there has been no change in our affairs since the date thereof or that the information contained therein is current as of any time subsequent to its date. The information incorporated by reference is considered to be a part of this prospectus and should be read with the same care. When we update the information contained in documents that have been incorporated by reference by making future filings with the SEC, the information incorporated by reference in this prospectus is considered to be automatically updated and superseded. In other words, in the case of a conflict or inconsistency between information contained in this prospectus and information incorporated by reference into this prospectus, you should rely on the information contained in the document that was filed later.



We incorporate by reference the documents listed below:

- The sections "Description of Equity Shares" and "Description of the American Depositary Shares" of the Preliminary Prospectus contained in our registration statement on Form F-1 filed on March 27, 2000 (File No. 333-30132);
- Our annual report on Form 20-F for the fiscal year ended March 31, 2005 filed on September 30, 2005; and
- All reports on Form 20-F and any report on Form 6-K that so indicates it is being incorporated by reference, in each case, that we file with the Securities and Exchange Commission on or after the date on which the registration statement is first filed with the Securities and Exchange Commission and until the termination or completion of the offering of the offered ADSs.

Our annual report on Form 20-F for the fiscal year ended March 31, 2005 contains a description of our business and audited consolidated financial statements with a report by our independent auditors. These financial statements and our unaudited consolidated financial statements for the six months ended September 30, 2005 and September 30, 2004 are prepared in accordance with generally accepted accounting principles applicable in the United States, or US GAAP.

Copies of all documents incorporated by reference in this prospectus, other than exhibits to those documents unless such exhibits are specially incorporated by reference in this prospectus, will be provided at no cost to each person, including any beneficial owner, who receives a copy of this prospectus on the written or oral request of that person made to:

Mr. Rakesh Jha or Mr. Anindya Banerjee
ICICI Bank Limited
ICICI Bank Towers

Bandra-Kurla Complex
Mumbai 400051
India
Tel. No.: 011-91-22-2653-6157
Tel. No.: 011-91-22-2653-7131

You should rely only on the information that we incorporate by reference or provide in this prospectus. We have not authorized anyone to provide you with different information. We are not making any offer of these securities in any jurisdiction where the offer is not permitted. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front of those documents.



## USE OF PROCEEDS

We intend to use the net proceeds of this offering for future asset growth and compliance with regulatory requirements. The objects of the offering are to augment our capital base to meet the capital requirements arising out of growth in our assets, primarily our loan and investment portfolio due to the growth of the Indian economy, compliance with regulatory requirements and for other general corporate purposes including meeting the expenses of the ADS offering.

## MARKET PRICE INFORMATION

Equity Shares

Our outstanding equity shares are currently listed and traded on the Stock Exchange, Mumbai or the BSE and on the National Stock Exchange of India Limited or the NSE. For information regarding conditions in the Indian securities markets, see "Risk Factors--Risks Relating to India".

At November 4, 2005, 741 million equity shares were outstanding. The prices for equity shares as quoted in the official list of each of the Indian stock esidiaries (as defined above under Requirements for Qualification ). Except for investments included in the 75% asset class, securities in a taxable REIT subsidiary or quali and certain partnership interests and debt obligations, (1) not more than 5% of the value of our total assets may be represented by securities of any one (the 5% asset test ), (2) subject to certain exceptions, we may not hold securities that possess more than 10% of the total voting securities of a single issuer (the 10% vote test ) and (3) subject to certain exceptions, we may not hold securities that have a value of more than 10% of t outstanding securities of any one issuer (excluding certain straight debt securities) (the 10%

We believe that substantially all of our assets consist and, after the offering, will consist of (1) real properties, (2) stock or debt investments that earn qualified temporary investment income, (3) other qualified real estate assets, and (4) cash, cash items and government securities. We may also invest in securities of other entities, provided that such investments will not prevent us from satisfying the asset and income tests for REIT qualification set forth above.

After initially meeting the asset tests at the close of any quarter, we will not lose our status as a REIT for failure to satisfy the asset tests at the end of a later quarter solely by reason of changes in asset values. If we inadvertently fail one or more of the asset tests at the end of a calendar quarter because we acquire securities or other property during the quarter, we can cure this failure by disposing of sufficient nonqualifying assets within 30 days after the close of the calendar quarter in which it arose. In the event that, at the end of any calendar quarter beginning with our taxable year stating January 1, 2005, we violate the 5% asset test, the 10% vote test, or the 10% value test described above, we will not lose our REIT status if (i) the failure is de minimis (up to the

lesser of 1% of our assets or $10 million) and (ii) we dispose of assets or otherwise comply with the asset tests within six months after the last day of the quarter. In the event of a more than de minimis failure of any of the other asset tests, beginning with our taxable year starting January 1, 2005, as long as the failure was due to reasonable cause and not to willful neglect, we will not lose our REIT status if we (i) dispose of assets or otherwise comply with the asset tests within six months after the last day of the quarter and (ii) pay a tax equal to the greater of $50,000 or 35% of the net income from the nonqualifying assets during the period in which we failed to satisfy the asset tests.

***Annual Distribution Requirement.*** With respect to each taxable year, we must distribute to our shareholders as dividends (other than capital gain dividends) at least 90% of our taxable income. Specifically, we must distribute an amount equal to (1) 90% of the sum of our "REIT taxable income" (determined without regard to the deduction for dividends paid and by excluding any net capital gain) and any after-tax net income from foreclosure property, minus (2) the sum of certain items of "excess noncash income" such as income attributable to leveled stepped rents, cancellation of indebtedness and original issue discount. REIT taxable income is generally computed in the same manner as taxable income of ordinary corporations, with several adjustments, such as a deduction allowed for dividends paid, but not for dividends received.

We will be subject to tax on amounts not distributed at regular United States federal corporate income tax rates. In addition, a 4% nondeductible excise tax is imposed on the excess of (1) 85% of our ordinary income for the year plus 95% of capital gain net income for the year and the undistributed portion of the required distribution for the prior year over (2) the actual distribution to shareholders during the year (if any). Net operating losses generated by us may be carried forward (but not carried back) and used by us for 15 years (or 20 years in the case of net operating losses generated in our tax years commencing on or after

Back to Contents

January 1, 1998) to reduce REIT taxable income and the amount that we will be required to distribute in order to remain qualified as a REIT. As a REIT, our net capital losses may be carried forward for five years (but not carried back) and used to reduce capital gains.

In general, a distribution must be made during the taxable year to which it relates to satisfy the distribution test and to be deducted in computing REIT taxable income. However, we may elect to treat a dividend declared and paid after the end of the year (a "subsequent declared dividend") as paid during such year for purposes of complying with the distribution test and computing REIT taxable income, if the dividend is (1) declared before the regular or extended due date of our tax return for such year and (2) paid not later than the date of the first regular dividend payment made after the declaration, but in no case later than 12 months after the end of the year. For purposes of computing the 4% nondeductible excise tax, a subsequent declared dividend is considered paid when actually distributed. Furthermore, any dividend that is declared by us in October, November or December of a calendar year, and payable to shareholders of record as of a specified date in such quarter of such year will be deemed to have been paid by us (and received by shareholders) on December 31 of such calendar year, but only if such dividend is actually paid by us in January of the following calendar year.

For purposes of complying with the distribution test for a taxable year as a result of an adjustment in certain of our items of income, gain or deduction by the IRS, we may be permitted to remedy such failure by paying a "deficiency dividend" in a later year together with interest and a penalty. Such deficiency dividend may be included in our deduction of dividends paid for the earlier year for purposes of satisfying the distribution test. For purposes of the 4% excise tax, the deficiency dividend is taken into account when paid, and any income giving rise to the deficiency adjustment is treated as arising when the deficiency dividend is paid.

We believe that we have distributed and intend to continue to distribute to our shareholders in a timely manner such amounts sufficient to satisfy the annual distribution requirements. However, it is possible that timing differences between the accrual of income and its actual collection, and the need to make non-deductible expenditures (such as capital improvements or principal payments on debt) may cause us to recognize taxable income in excess of our net cash receipts, thus increasing the difficulty of compliance with the distribution requirement. In order to meet the distribution requirement, we might find it necessary to arrange for short-term, or possibly long-term, borrowings.

***Failure to Qualify.*** If we fail to qualify as a REIT for any taxable year, and if certain relief provisions of the Code do not apply, we would be subject to federal income tax (including applicable alternative minimum tax) on our taxable income at regular corporate rates. Distributions to shareholders in any year in which we fail to qualify will not be deductible by us nor will they be required to be made. As a result, our failure to qualify as a REIT would reduce the cash available for distribution by us to our shareholders. In addition, if we fail to qualify as a REIT, all distributions to domestic non-corporate shareholders will be taxable at capital gain rates, to the extent of our current and accumulated earnings and profits. Subject to certain limitations of the Code, corporate distributees may be eligible for the dividends-received deduction.

If our failure to qualify as a REIT is not due to reasonable cause but results from willful neglect, we would not be permitted to elect REIT status for the four taxable years after the taxable year for which such disqualification is effective. In the event we were to fail to qualify as a REIT in one year and subsequently requalify in a later year, we might be required to recognize taxable income based on the net appreciation in value of our assets as a condition to requalification. In the alternative, we may be taxed on the net appreciation in value of our assets if we sell properties within ten years of the date we requalify as a REIT under federal income tax laws. Beginning with our taxable year starting January 1, 2005, if we fail to satisfy one or more requirements for REIT qualification, other than the gross income tests and the asset tests, we could avoid disqualification if our failure is due to reasonable cause and not to willful neglect and we pay a penalty of $50,000 for each such failure. In addition, there are relief provisions for a failure of the gross income tests and asset tests, as described in "Income Tests" and "Asset Tests".

Back to Contents

**Taxation of Taxable U.S. Shareholders**

As used herein, the term "U.S. shareholder" means a holder of shares who (for United States Federal income tax purposes) (1) is a citizen or resident of the United States, (2) is a corporation, partnership, or other entity treated as a corporation or partnership for federal income tax purposes created or organized in or under the laws of the United States or of any political subdivision thereof (unless, in the case of a partnership, Treasury Regulations are adopted that provide otherwise), (3) is an estate the income of which is subject to United States federal income taxation regardless of its source or (4) is a trust whose administration is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust or a trust that has a valid election to be treated as a U.S. person in effect.

As long as we qualify as a REIT, distributions made to our U.S. shareholders out of current or accumulated earnings and profits (and not designated as capital gain dividends) will be taken into account by them as ordinary income and corporate shareholders will not be eligible for the dividends-received deduction as to such amounts. For purposes of computing our earnings and profits, depreciation for depreciable real estate will be computed on a straight-line basis over a 40-year period. REIT dividends generally will not be eligible for reduced tax rates applicable to dividends paid by regular corporations to most domestic non-corporate shareholders.

Distributions that are properly designated as capital gain dividends will be taxed as gains from the sale or exchange of a capital asset held for more than one year (to the extent they do not exceed our actual net capital gain for the taxable year) without regard to the period for which the shareholder has held its shares. However, corporate shareholders may be required to treat up to 20% of certain capital gain dividends as ordinary income under the Code. Capital gain dividends, if any, will be allocated among different classes of shares in proportion to the allocation of earnings and profits discussed above.

Distributions in excess of our current and accumulated earnings and profits will constitute a non-taxable return of capital to a shareholder to the extent that such distributions do not exceed the adjusted basis of the shareholder's shares, and will result in a corresponding reduction in the shareholder's basis in the shares. Any reduction in a shareholder's tax basis for its shares will increase the amount of taxable gain or decrease the deductible loss that will be realized upon the eventual disposition of the shares. We will notify shareholders at the end of each year as to the portions of the distributions which constitute ordinary income, capital gain or a return of capital. Any portion of such distributions that exceeds the adjusted basis of a U.S. shareholder's shares will be taxed as capital gain from the disposition of shares, provided that the shares are held as capital assets in the hands of the U.S. shareholder.

Aside from the different income tax rates applicable to ordinary income and capital gain dividends, regular and capital gain dividends from us will be treated as dividend income for most other federal income tax purposes. In particular, such dividends will be treated as "portfolio" income for purposes of the passive activity loss limitation and shareholders generally will not be able to offset any "passive losses" against such dividends. Dividends will be treated as investment income for purposes of the investment interest limitation contained in Section 163(d) of the Code, which limits the deductibility of interest expense incurred by noncorporate taxpayers with respect to indebtedness attributable to certain investment assets.

In general, dividends paid by us will be taxable to shareholders in the year in which they are received, except in the case of dividends declared at the end of the year, but paid in the following January, as discussed above.

In general, a domestic shareholder will realize capital gain or loss on the disposition of shares equal to the difference between (1) the amount of cash and the fair market value of any property received on such disposition and (2) the shareholder's adjusted basis of such shares. Such gain or loss will generally be short-term capital gain or loss if the shareholder has not held such shares for more than one year and will be long-term capital gain or loss if such shares have been held for more than one year. Loss upon the sale or exchange of shares by a shareholder who has held such shares for six months or less (after applying certain holding period rules) will be treated as long-term capital loss to the extent of distributions from us required to be treated by such shareholder as long-term capital gain.

Back to Contents

We may elect to retain and pay income tax on net long-term capital gains. If we make such an election, you, as a holder of shares, will (1) include in your income as long-term capital gains your proportionate share of such undistributed capital gains and (2) be deemed to have paid your proportionate share of the tax paid by us on such undistributed capital gains and thereby receive a credit or refund for such amount. As a holder of shares you will increase the basis in your shares by the difference between the amount of capital gain included in your income and the amount of tax you are deemed to have paid. Our earnings and profits will be adjusted appropriately.

**Backup Withholding**
We will report to our domestic shareholders and the IRS the amount of dividends paid during each calendar year, and the amount of tax withheld, if any, with respect thereto. Under the backup withholding rules, a shareholder may be subject to backup withholding with respect to dividends paid unless such holder (a) is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact, or (b) provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding and otherwise complies with the applicable requirements of the backup withholding rules.

Amounts withheld as backup withholding will be creditable against the shareholder's income tax liability. In addition, we may be required to withhold a portion of capital gain distributions made to any shareholders who fail to certify their non-foreign status to us. See "Taxation of Non-U.S. Shareholders" below. Additional issues may arise pertaining to information reporting and backup withholding with respect to non-U.S. shareholders (persons other than U.S. shareholders, also further described below). Non-U.S. shareholders should consult their tax advisors with respect to any such information and backup withholding requirements.

**Taxation of Non-U.S. Shareholders**
The following discussion is only a summary of the rules governing United States federal income taxation of non-U.S. shareholders such as nonresident alien individuals, foreign corporations, foreign partnerships or other foreign estates or trusts. Prospective non-U.S. shareholders should consult with their own tax advisors to determine the impact of federal, state and local income tax laws with regard to an investment in shares, including any reporting requirements.

Distributions that are not attributable to gain from sales or exchanges by us of United States real property interests and not designated by us as capital gains dividends will be treated as dividends of ordinary income to the extent that they are made out of our current or accumulated earnings and profits. Such distributions ordinarily will be subject to a withholding tax equal to 30% of the gross amount of the distribution unless an applicable tax treaty reduces or eliminates that tax. Certain tax treaties limit the extent to which dividends paid by a REIT can qualify for a reduction of the withholding tax on dividends. Distributions in excess of our current and accumulated earnings and profits will not be taxable to a non-U.S. shareholder to the extent that they do not exceed the adjusted basis of the shareholder's shares, but rather will reduce the adjusted basis of such shares. To the extent that such distributions exceed the adjusted basis of a non-U.S. shareholder's shares, they will give rise to tax liability if the non-U.S. shareholder would otherwise be subject to tax on any gain from the sale or disposition of his shares, as described below.

For withholding tax purposes, we are generally required to treat all distributions as if made out of our current or accumulated earnings and profits and thus intend to withhold at the rate of 30% (or a reduced treaty rate if applicable) on the amount of any distribution (other than distributions designated as capital gain dividends) made to a non-U.S. shareholder. We would not be required to withhold at the 30% rate on distributions we reasonably estimate to be in excess of our current and accumulated earnings and profits. If it cannot be determined at the time a distribution is made whether such distribution will be in excess of current and accumulated earnings and profits, the distribution will be subject to withholding at the rate applicable to ordinary dividends. However, the non-U.S. shareholder may seek from the IRS a refund of such amounts from the IRS if it is subsequently determined that such distribution was, in fact, in excess of our current or accumulated earnings and profits, and the amount withheld exceeded the non-U.S. shareholder's United States tax liability, if any, with respect to the distribution.

Back to Contents

For any year in which we qualify as a REIT, distributions that are attributable to gain from sales or exchanges by us of United States real property interests will be taxed to a non-U.S. shareholder under the provisions of the Foreign Investment in Real Property Tax Act of 1980 (FIRPTA). Under FIRPTA, a non-U.S. shareholder is taxed as if such gain were effectively connected with a United States business. Non-U.S. shareholders would thus be taxed at the normal capital gain rates applicable to U.S. shareholders (subject to applicable alternative minimum tax and a special alternative minimum tax in the case of non-resident alien individuals). Also, distributions subject to FIRPTA may be subject to a 30% branch profits tax in the hands of a corporate non-U.S. shareholder not entitled to treaty relief or exemption. We are required by applicable regulations to withhold 35% of any distribution that could be designated by us as a capital gains dividend regardless of the amount actually designated as a capital gain dividend. This amount is creditable against the non-U.S. shareholder s FIRPTA tax liability. Effective for our taxable year beginning January 1, 2005, a non-U.S. shareholder who receives a distribution with respect to a class of stock that is regularly traded on an established securities market located in the United States, and does not own more than 5% of the class of stock at any time during the taxable year, will be treated as receiving an ordinary REIT distribution subject generally to 30% withholding, even if such distribution is otherwise a capital gain dividend.

Gain recognized by a non-U.S. shareholder upon a sale of shares generally will not be taxed under FIRPTA if we are a domestically controlled REIT, defined generally as a REIT in which at all times during a specified testing period less than 50% in value of the shares was held directly or indirectly by foreign persons. It is anticipated that we will continue to be a domestically controlled REIT after the offering. Therefore, the sale of shares will not be subject to taxation under FIRPTA. However, because our common shares are publicly traded, no assurance can be given that we will continue to qualify as a domestically controlled REIT. In addition, a non-U.S. shareholder that owns, actually or constructively, 5% or less of a class of our shares through a specified testing period will not recognize taxable gain on the sale of its shares under FIRPTA if the shares are traded on an established securities market. If the gain on the sale of shares were to be subject to taxation under FIRPTA, the non-U.S. shareholder would be subject to the same treatment as U.S. shareholders with respect to such gain (subject to applicable alternative minimum tax, special alternative minimum tax in the case of nonresident alien individuals and possible application of the 30% branch profits tax in the case of foreign corporations) and the purchaser would be required to withhold and remit to the IRS 10% of the purchase price. Gain not subject to FIRPTA will be taxable to a non-U.S. shareholder if (1) investment in the shares is effectively connected with the non-U.S. shareholder s United States trade or business, in which case the non-U.S. shareholder will be subject to the same treatment as U.S. shareholders with respect to such gain, or (2) the non-U.S. shareholder is a nonresident alien individual who was present in the United States for 183 days or more during the taxable year and such nonresident alien individual has a tax home in the United States, in which case the nonresident alien individual will be subject to a 30% tax on the individual s capital gain.

**Taxation of Tax-Exempt Shareholders**

Tax-exempt entities, including qualified employee pension and profit sharing trusts and individual retirement accounts (Exempt Organizations), generally are exempt from federal income taxation. However, they are subject to taxation on their unrelated business taxable income (UBTI). While investments in real estate may generate UBTI, the IRS has issued a published ruling to the effect that dividend distributions by a REIT to an exempt employee pension trust do not constitute UBTI, provided that the shares of the REIT are not otherwise used in an unrelated trade or business of the exempt employee pension trust. Based on that ruling and on our intention to invest our assets in a manner that will avoid the recognition of UBTI, amounts distributed by us to Exempt Organizations generally should not constitute UBTI. However, if an Exempt Organization finances its acquisition of our shares with debt, a portion of its income from us, if any, will constitute UBTI pursuant to the debt-financed property rules. Furthermore, social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts, and qualified group legal services plans that are exempt from taxation under specified provisions of the Code are subject to different UBTI rules, which generally will require them to characterize distributions from us as UBTI.

Back to Contents

In addition, a pension trust that owns more than 10% of our shares is required to treat a percentage of the dividends from us as UBTI (the "UBTI Percentage") in certain circumstances. The UBTI Percentage is our gross income derived from an unrelated trade or business (determined as if we were a pension trust) divided by our total gross income for the year in which the dividends are paid. The UBTI rule applies only if (i) the UBTI Percentage is at least 5%, (ii) we qualify as a REIT by reason of the modification of the 5/50 Rule that allows the beneficiaries of the pension trust to be treated as holding our shares in proportion to their actuarial interests in the pension trust, and (iii) either (A) one pension trust owns more than 25% of the value of our shares or (B) a group of pension trusts individually holding more than 10% of the value of our capital shares collectively owns more than 50% of the value of our capital shares.

**Other Tax Considerations**

***Entity Classification.*** A significant number of our investments are held through partnerships. If any such partnerships were treated as an association, the entity would be taxable as a corporation and therefore would be subject to an entity level tax on its income. In such a situation, the character of our assets and items of gross income would change and might preclude us from qualifying as a REIT.

We believe that each partnership in which we hold a material interest (either directly or indirectly) is properly treated as a partnership for tax purposes (and not as an association taxable as a corporation).

***Tax Allocations with Respect to the Properties.*** When property is contributed to a partnership in exchange for an interest in the partnership, the partnership generally takes a carryover basis in that property for tax purposes equal to the adjusted basis of the contributing partner in the property, rather than a basis equal to the fair market value of the property at the time of contribution (this difference is referred to as "Book-Tax Difference"). Special rules under Section 704(c) of the Code and the Treasury Regulations thereunder require special allocations of income, gain, loss and deduction with respect to contributed property, which tend to eliminate the Book-Tax Difference over the depreciable lives of such property, but which may not always entirely eliminate the Book-Tax Difference on an annual basis or with respect to a specific taxable transaction such as a sale. Thus, the carryover basis of the contributed properties in the hands of the partnership could cause us (i) to be allocated lower amounts of depreciation and other deductions for tax purposes than would be allocated to us if all properties were to have a tax basis equal to their fair market value at the time the properties were contributed to the partnership, and (ii) possibly to be allocated taxable gain in the event of a sale of such contributed properties in excess of the economic or book income allocated to us as a result of such sale.

**Recent Developments**

The Jobs and Growth Tax Relief Reconciliation Act of 2003 (the "Act"), which has been enacted into law, reduces the tax rates imposed on dividends paid by C corporations to most domestic non-corporate shareholders in order to limit "double taxation" on dividends, and such reduced rates are effective from January 1, 2003 through December 31, 2008. In addition, the capital gains tax rates are also reduced, and such reduced rates are effective with respect to transactions after May 5, 2003 through December 31, 2008.

A REIT's non-corporate shareholders generally would not benefit from the Act with respect to dividends paid by a REIT because such dividends are generally not subject to taxation at the REIT level. However, there are limited circumstances in which a REIT non- corporate shareholders will be subject to tax at the reduced rate with respect to REIT dividends. The reduced tax rates would apply to an amount equal to the excess of a REIT's income subject to corporate level income taxes (less such tax liability). This could occur, for example, if a REIT did not distribute 100% of its taxable income as a dividend. The reduced rates would also apply to capital gains dividends and to dividends attributable to dividends a REIT receives from non-REIT corporations.

The Act could cause investors to view investments in common and preferred stock of REITs, including the common shares being offered by this prospectus supplement, less favorably in comparison to investments in common and preferred stock of C corporations, the dividends for which would be subject to a reduced tax rate under the Act.

The American Jobs Creation Act of 2004 was enacted on October 22, 2004. This legislation (a) allows a REIT to make certain loans without jeopardizing its status as a REIT, (b) for taxable years beginning after the date of the enactment of the legislation, modifies the treatment of capital gains distributions from a

S-17

Back to Contents

publicly traded REIT to a foreign investor who owns 5% or less of the REIT (in a manner that would treat such distributions as ordinary dividends, with the result that the foreign investor would not be required to file a U.S. tax return due to such distributions), and (c) imposes monetary penalties, rather than REIT disqualification, for some violations of REIT rules. Certain provisions of this legislation do not apply until our taxable year beginning January 1, 2005.

## UNDERWRITING

Citigroup Global Markets Inc. is acting as sole underwriter of this offering. Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus supplement, the underwriter has agreed to purchase, and we and the selling shareholders have agreed to sell to the underwriter, an aggregate of 3,000,000 common shares.

The underwriting agreement provides that the obligations of the underwriter to purchase the shares included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriter is obligated to purchase all the shares (other than those covered by the over-allotment option described below) if it purchases any of the shares.

We and two of the selling shareholders (Yale and the Yale Plan) have granted to the underwriter an option, exercisable for 30 days from the date of this prospectus supplement, to purchase up to an aggregate of 450,000 additional common shares, including 300,000 shares from us, at the public offering price less the underwriting discount. The underwriter may exercise the option solely for the purpose of covering over-allotments, if any, in connection with this offering.

For a period of 90 days from the date of this prospectus supplement, we, the Operating Partnership, our officers, our trustees and the selling shareholders have agreed that we and they will not, without the prior written consent of the underwriter, dispose of or hedge any of our common shares or any securities convertible into or exchangeable for our common shares. The underwriter in its sole discretion may release any of the securities subject to these lock-up agreements at any time without notice.

Our common shares are listed on the New York Stock Exchange under the symbol "AKR."

The following table shows the underwriting discounts that we and the selling shareholders are to pay to the underwriter in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriter's option to purchase additional common shares.

| | No Exercise | Full Exercise |
|---|---|---|
| Per Share | $ 0.27 | $ 0.27 |
| Total | $ 810,000 | $ 931,500 |

In addition to the underwriting discount, the underwriter will receive a commission equivalent from investors in the amount of $0.05 for each common share sold to those investors in the offering.

In connection with the offering, the underwriter may purchase and sell common shares in the open market. These transactions may include short sales, syndicate covering transactions and stabilizing transactions. Short sales involve syndicate sales of common shares in excess of the number of shares to be purchased by the underwriter in the offering, which creates a syndicate short position. "Covered" short sales are sales of shares made in an amount up to the number of shares represented by the underwriter's over-allotment option. In determining the source of shares to close out the covered syndicate short position, the underwriter will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which it may purchase shares through the over-allotment option. Transactions to close out the covered syndicate short position involve either purchases of the common shares in the open market after the distribution has been completed or the exercise of the over-allotment option. The underwriter may also make "naked" short sales of shares in excess of the over-allotment option. The underwriter must close out any naked short position by purchasing common shares in the open market. A naked short position is more likely to be created if the underwriter is concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the

S-18

Back to Contents

offering. Stabilizing transactions consist of bids for or purchases of common shares in the open market while the offering is in progress.

Any of these activities may have the effect of preventing or retarding a decline in the market price of the common shares. They may also cause the price of the common shares to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriter may conduct these transactions on the New York Stock Exchange or in the over-the-counter market, or otherwise. If the underwriter commences any of these transactions, it may discontinue them at any time.

We estimate that our total expenses for this offering will be approximately $151,200. The selling shareholders will each pay their proportionate share of these expenses.

The underwriter has performed commercial and investment banking and advisory services for us from time to time for which it has received customary fees and expenses. The underwriter may, from time to time, engage in transactions with and perform services for us in the ordinary course of its business.

A prospectus and prospectus supplement in electronic format may be made available on the website maintained by the underwriter.

We, the Operating Partnership and the selling shareholders have agreed to indemnify the underwriter against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriter may be required to make because of any of those liabilities.

## EXPERTS

The consolidated financial statements of Acadia Realty Trust included in the Annual Report (Form 10-K) of Acadia Realty Trust for the year ended December 31, 2003, have been audited by Ernst & Young LLP, an independent registered public accounting firm, as set forth in their report thereon included therein and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

## LEGAL MATTERS

Certain legal matters will be passed upon for us by Paul, Hastings, Janofsky & Walker LLP, New York, New York. The validity of the securities will be passed upon for us by Berliner, Corcoran & Rowe L.L.P., Washington, DC. Certain matters relating to the common shares will be passed upon for the underwriter by Hunton & Williams LLP. With respect to matters of Maryland law, Hunton & Williams may rely on the opinion of Berliner, Corcoran & Rowe L.L.P.

## INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to "incorporate by reference" into this prospectus supplement and the accompanying prospectuses the information we file with the SEC. This means that we have disclosed important information to you by referring you to those documents. Our SEC file number is 1-12002. The information we incorporate by reference is considered a part of this prospectus supplement and the accompanying prospectuses, and later information we file with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below which we have filed with the SEC under Sections 13(a), 13(c), 14 and 15(d) of the Securities Exchange Act of 1934, as amended:

- Annual Report on Form 10-K for the fiscal year ended December 31, 2003, filed with the SEC on March 15, 2004.
- Definitive Proxy Statement on Schedule 14A dated April 9, 2004 for the 2004 Annual Meeting of Shareholders held on May 6, 2004.
- Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2004, filed with the SEC on May 7, 2004.

Back to Contents

- Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2004, filed with the SEC on August 6, 2004.

- Current Reports on Form 8-K filed with the SEC on January 29, March 18, March 22, March 26, March 31, April 22, May 5, July 21 and September 2, 2004.

All documents that we file with the SEC after the date of this prospectus supplement, but before this offering of our securities is terminated or completed, shall be deemed to be incorporated by reference in this prospectus supplement and will be part of this prospectus supplement from the date we file that document; provided, however, that we are not incorporating by reference any information furnished under Item 9, Item 12, Item 2.02 or Item 7.01 of any Current Report on Form 8-K. Any information in future filings that is meant to supersede or modify any existing statement in this prospectus supplement will so supersede or modify the statement as appropriate.

## AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form S-3 (Reg. No. 333-104727), a second registration statement on Form S-3 (Reg. No. 333-31630) and a third registration statement on Form S-8 (Reg. No. 333-87993), as amended by the Post-Effective Amendment No. 2 to Form S-8, with respect to the securities being offered hereby. This prospectus supplement and the accompanying prospectuses do not contain all the information contained in these registration statements, including its exhibits and schedules. You should refer to these registration statements, including the exhibits and schedules, for further information about us and the securities being offered hereby. Statements we make in this prospectus supplement and the accompanying prospectuses about certain contracts or other documents are not necessarily complete. When we make such statements, we refer you to the copies of the contracts or documents that are filed as exhibits to the registration statements, because those statements are qualified in all respects by reference to those exhibits. The registration statements, including exhibits and schedules, are on file at the offices of the SEC and may be inspected without charge.

We are subject to the informational requirements of the Securities Exchange Act of 1934 which requires us to file reports and other information with the SEC. You can inspect and copy reports, proxy statements and other information filed by us at the public reference facility maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549. You can obtain copies of this material by mail from the Public Reference Section of the SEC at 450 West Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. You can also obtain such reports, proxy statements and other information from the web site that the SEC maintains at http://www.sec.gov.

Reports, proxy statements and other information concerning us may also be obtained electronically at our website, http://www.acadia.com and through a variety of databases, including, among others, the SEC□s Electronic Data Gathering and Retrieval (□EDGAR□) program, Knight-Ridder Information Inc., Federal Filing/Dow Jones and Lexis/Nexis. The contents of our website are not, and shall not be deemed to be, a part of this prospectus supplement or the accompanying prospectuses.

You may request a copy of any or all of the documents incorporated by reference in this prospectus supplement and the accompanying prospectuses, except the exhibits to such documents (unless such exhibits are specifically incorporated by reference in such documents), at no cost, by writing or telephoning our offices at the following address:

Acadia Realty Trust
1311 Mamaroneck Avenue, Suite 260
White Plains, New York 10605
Attention: Corporate Secretary
(914) 288-8100

Back to Contents

**PROSPECTUS**

# Acadia Realty Trust

## 26,719,319 Common Shares of Beneficial Interest

We are Acadia Realty Trust, a Maryland real estate investment trust formerly known as Mark Centers Trust. This prospectus relates to the offer and sale from time to time by the persons listed under the Selling Shareholders section of this prospectus of up to 26,719,319 of our common shares.

Our common shares trade on the New York Stock Exchange under the symbol AKR. The selling shareholders, from time to time, may offer the common shares covered by this prospectus on the New York Stock Exchange or in other markets where our common shares may trade at prices to which they agree.

We will not receive any proceeds from the sale of common shares by the selling shareholders. We have agreed to bear certain expenses of registering the common shares covered by this prospectus under federal and state securities laws.

The selling shareholders and any agents or broker-dealers that participate with them in the distribution of common shares covered by this prospectus may be deemed underwriters within the meaning of the Securities Act of 1933, as amended, and any commissions received by them on the resale of common shares may be deemed to be underwriting commissions or discounts under the Securities Act. See Plan of Distribution (p.28).

*Investing in our common shares involves various risks. In considering whether to purchase our common shares, you should carefully consider the matters discussed under Risk Factors beginning on page 4 of this prospectus.*

*Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.*

The date of this prospectus is March 29, 2000

Back to Contents

**TABLE OF CONTENTS**





Back to Contents

## WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Securities and Exchange Commission (□SEC□) a registration statement on Form S-3 under the Securities Act to register the common shares offered in this prospectus. This prospectus is part of the registration statement. This prospectus does not contain all the information contained in the registration statement because we have omitted certain parts of the registration statement in accordance with the rules and regulations of the SEC. For further information, we refer you to the registration statement, which you may read and copy at the public reference facilities maintained by the SEC at Judiciary Plaza, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549 and at the SEC□s Regional Offices at 7 World Trade Center, 13th Floor, New York, New York 10048 and Citicorp Center, 500 W. Madison Street, Suite 1400, Chicago, Illinois 60661-2511. You may obtain copies at the prescribed rates from the Public Reference Section of the SEC at its principal office in Washington, D.C. You may call the SEC at 1-800-SEC-0330 for further information about the public reference rooms. The SEC maintains a web site that contains reports, proxy and information statements and other information regarding our company. You may access the SEC□s web site at □http://www.sec.gov.□

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended. As a result, we are required to file reports, proxy statements and other information with the SEC. These materials can be copied and inspected at the locations described above. Copies of these materials can be obtained from the Public Reference Section of the SEC at 450 Judiciary Plaza, N.W., Room 1024, Washington, D.C. 20549, at prescribed rates. Our common shares are listed on the New York Stock Exchange under the symbol □AKR.□ You may read our reports, proxy and other information statements which we file at the offices of the NYSE at 20 Broad Street, New York, New York 10005.

## INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to □incorporate by reference□ the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings we will make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934:

- Our Annual Report on Form 10-K for the fiscal year ended December 31, 1998, filed with the SEC on March 31, 1999 (SEC File No. 001-12002);

- Our Quarterly Report on Form 10-Q for the quarter ended March 31, 1999, filed with the Commission on May 17, 1999;
- Our Quarterly Report on Form 10-Q for the quarter ended June 30, 1999, filed with the Commission on August 13, 1999;
- Our Quarterly Report on Form 10-Q for the quarter ended September 30, 1999, filed with the Commission on November 15, 1999;
- Our Definitive Proxy Statement on Schedule 14A prepared in connection with our Annual Meeting of Shareholders held on June 16, 1999, filed with the Commission on May 3, 1999;
- Our Report on Form 8-K filed with the Commission on January 5, 1999; and
- The description of our common shares of beneficial interest contained in our registration statement on Form 8-A together with all amendments and reports updating such description dated May 21, 1993 (SEC File No. 33-6008).

You may request a copy of these filings (not including the exhibits to such documents unless the exhibits are specifically incorporated by reference in the information contained in this prospectus), at no cost, by writing or telephoning us at the following address:

Back to Contents

Investor Relations
Acadia Realty Trust
20 Soundview Marketplace
Port Washington, New York 11050
Telephone requests may be directed to (516) 767-8830.

This prospectus is part of a registration statement we filed with the SEC. You should rely only on the information or representations provided in this prospectus. We have authorized no one to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front of the document.

Statements contained in this prospectus as to the contents of any contract or document are not necessarily complete and in each instance reference is made to the copy of that contract or document filed as an exhibit to the registration statement or as an exhibit to another filing, each such statement being qualified in all respects by such reference and the exhibits and schedules thereto.

**FORWARD-LOOKING INFORMATION**

Certain information both included and incorporated by reference in this prospectus may contain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities and Exchange Act of 1934 and as such may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of our company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations are generally identifiable by use of the words □may,□ □will,□ □should,□ □expect,□ □anticipate,□ □estimate,□ □believe,□ □intend□ or □project□ or the negative thereof or other variations thereon or comparable terminology. Factors which could have a material adverse effect on the operations and future prospects of our company include, but are not limited to, changes in: economic conditions generally and the real estate market specifically, legislative/regulatory changes (including changes to laws governing the taxation of REITs), availability of capital, interest rates, competition, supply and demand for retail space and multi-family housing in our current and proposed market areas and general accounting principles, policies and guidelines applicable to REITs. These risks and uncertainties should be considered in evaluating any forward-looking statements contained or incorporated by reference herein.

Back to Contents

## PROSPECTUS SUMMARY

*This Summary only highlights the more detailed information appearing elsewhere in this prospectus or incorporated herein by reference. As this is a summary, it may not contain all information that is important to you. You should read this entire prospectus carefully before deciding whether to purchase our common shares.*

*Throughout this Prospectus, the terms "we", "us", "our company", "the company", "the trust" and "Acadia" are all used in reference to Acadia Realty. The term "operating partnership" is used in reference to Acadia Realty Limited Partnership, a Delaware limited partnership, formerly known as Mark Centers Limited Partnership, which is our majority-owned subsidiary. Lastly, the term "OP Units" is used in reference to units of limited partnership interest in the operating partnership.*

### The Company

We are a fully-integrated and self-managed real estate investment trust. We are primarily engaged in the ownership, acquisition, redevelopment and management of neighborhood and community shopping centers, and multi-family properties. We were organized in March, 1993, and until August, 1998, our name was Mark Centers Trust. Our common shares trade on the New York Stock Exchange under the symbol "AKR."

We are formed under the laws of the State of Maryland. Our principal executive offices are located at 20 Soundview Marketplace, Port Washington, New York 11050. Our phone number is (516) 767-8830.

### Securities That May Be Offered

This prospectus relates to the offer and sale from time to time by the persons listed under the "Selling Shareholders" section of this prospectus of (i) up to 16,061,238 common shares and (ii) up to 10,658,081 common shares which may be issued upon the exchange of OP Units held by certain of the selling shareholders including 294,933 OP Units issuable upon the conversion of preferred OP units. We are registering the common shares covered by this prospectus to satisfy our obligations under registration rights agreements with the selling shareholders.

We will not receive any cash proceeds from the sale of the common shares by the selling shareholders.

### Risk Factors

Investing in our common shares involves various risks. In considering whether to purchase our common shares, you should carefully consider the matters discussed under "Risk Factors" beginning on page 6 of this prospectus.

### Tax Status of the Company

Acadia has elected to qualify as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986 in each year since 1993. As long as we qualify for taxation as a REIT, we generally will not be subject to federal income tax on that portion of our ordinary income and capital gains that is distributed to our shareholders. Even if we qualify for taxation as a REIT, we may be subject to certain state and local taxes on our income and property and to federal income and excise taxes on our undistributed income. See "Risk Factors" Risk factors relating to our business as a REIT" (p.7) and "Federal Income Tax Considerations" (p.15) for a more detailed explanation.

Back to Contents

## RISK FACTORS

*You should consider carefully the following risk factors together with all of the other information included or incorporated by reference in this prospectus before you decide to purchase our common shares. This section includes or refers to certain forward-looking statements. You should refer to the explanation of the qualifications and limitations on such forward-looking statements discussed on page 4 of this prospectus.*

**We could encounter problems as a result of our use of debt.**
We borrow money to pay for the acquisition, development and operation of properties and for other general corporate purposes. Our declaration of trust (as amended) and our bylaws do not limit the amount of indebtedness that we may incur. By borrowing money, we expose ourselves to several problems, including the following:

- inability to meet existing obligations;
- reduced access to additional debt; and
- loss of our property as a result of any default on existing debt.

As of September 30, 1999, Acadia had total mortgage debt of $308.6 million of which $249.5 million was fixed-rate and $59.1 million was variable rate based upon either LIBOR or the lender s commercial paper rate plus certain spreads. Our mortgage indebtedness is generally nonrecourse to us. However, even with respect to nonrecourse mortgage indebtedness, we could be obligated to pay our lenders deficiencies resulting from, among other things, fraud, misapplication of funds and environmental liabilities.

A downturn in the economy could make it difficult for us to borrow money on favorable terms. If we are unable to borrow, we might need to sell some of our assets at unfavorable prices in order to pay our loans. We could encounter several problems, including:

- insufficient cash flow necessary to meet required payments of principal and interest;
- an increase on variable interest rates on indebtedness; and
- the inability to refinance existing indebtedness on favorable terms or at all.

**Increase in market interest rates could have an adverse effect on the price of our common shares.**
One of the factors that may influence the prices for the common shares in public trading markets will be the annual yield from our distributions on the common shares as compared to yields on certain financial instruments. An increase in market interest rates will result in higher yields on certain financial instruments, which could adversely affect the market prices for our common shares.

**We may suffer an uninsured loss.**

We maintain comprehensive liability, fire, flood (where appropriate), extended coverage, and rental loss insurance with respect to our properties with policy specifications, limits, and deductibles customarily carried for similar properties. Certain types of losses, however, may be either uninsurable or not economically insurable, such as losses due to earthquakes, riots or acts of war. Should an uninsured loss occur, we could lose both our investments in, and anticipated cash flow from, a property.

**The loss of a key executive officer could have an adverse effect on the company.**
Although we have entered into employment agreements with our Chairman and Chief Executive Officer, Ross Dworman and our President, Kenneth F. Bernstein, the loss of any of their services could have an adverse effect on our operations.

Back to Contents

**Risk factors relating to our business as a REIT:**

***As a real estate company, our ability to generate revenues and pay distributions to our shareholders is affected by the risks inherent in owning real property investments.***

We derive most of our revenue from investments in real property. Real property investments are subject to different types and degrees of risk that may reduce the value of our assets and our ability to generate revenues. The factors that may reduce our revenues, net income and cash available for distributions to shareholders include the following:

- local conditions, such as an oversupply of space or a reduction in demand for real estate in an area;
- competition from other available space;
- the ability of the owner to provide adequate maintenance;
- insurance and variable operating costs;
- government regulations;
- changes in interest rate levels;
- the availability of financing;
- potential liability due to changes in environmental and other laws; and
- changes in the general economic climate.

***We may not be able to sell our assets if we need to do so.***

Real estate investments are relatively illiquid, and therefore we may not be able to sell one or more of our properties in order to respond promptly to changes in economic or other conditions. In addition, the Internal Revenue Code limits a REIT's ability to sell properties held for fewer than four years. Our inability to sell one or more of our properties could harm our performance and ultimately our ability to make distributions to our shareholders.

***We could have financial problems as a result of our tenants' financial difficulty.***

Our commercial and residential tenants may, from time to time, experience downturns in their businesses/personal finances which may result in their failure to make their rental payments to us when due. Missed rental payments, in the aggregate, could impair our funds from operations and, subsequently, our ability to make distributions to our shareholders. In addition, at any time, our tenants may seek the protection of the bankruptcy laws and have their leases either rejected or terminated. Our tenants' failure to affirm their leases following bankruptcy could similarly impair our funds from operations and ability to make distributions.

***Our acquisition and development of real estate could cost more than we anticipate.***

We may acquire existing retail and multi-family housing properties to the extent we can acquire these properties on acceptable terms. We could incur higher than anticipated costs for improvements to these properties to conform them to standards established for the intended market position. Once improved, the properties may not perform as expected.

We also intend to pursue retail and multi-family housing development projects. Developing properties generally carries more risk than acquiring existing properties. For example, development projects usually require governmental and other approvals, which we may not be able to obtain. Furthermore, approvals frequently require the improvement of public infrastructure or other activities to mitigate the effects of the proposed development, which may cost more than we anticipate. Our development activities will also entail other risks, including:

- that we will devote financial and management resources to projects which may not come to fruition;

- that we will not complete a development project as scheduled;

Back to Contents

- that we will incur higher construction costs than anticipated;
- that occupancy rates and rents at a completed project will be less than anticipated; and
- that expenses at a completed development will be higher than anticipated.

These risks may harm our results of operations and impair our ability to make distributions to our shareholders.

Integrating the aforementioned acquisition and development properties into our current systems and procedures presents a challenge to our management. Failure to do so could cause us financial harm and impair our ability to make distributions to our shareholders.

***We could incur unanticipated expenses if we fail to qualify as a REIT.***

We have elected to qualify as a REIT under the Internal Revenue Code. We believe that since 1993 we have satisfied the REIT qualification requirements. However, the IRS could challenge our REIT qualification for taxable years still subject to audit. Moreover, we may fail to qualify as a REIT in future years. Qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which there are only limited judicial or administrative interpretations. For example, in order to qualify as a REIT, we must derive at least 95% of our gross income in any year from qualifying sources, and we must distribute annually to shareholders 95% of our REIT taxable income, excluding net capital gains. In addition, REIT qualification involves the determination of factual matters and circumstances not entirely within our control.

If we were to operate in a manner that prevented us from qualifying as a REIT, or if we were to fail to qualify for any reason, a number of adverse consequences would result. If in any taxable year we fail to qualify as a REIT, we would not be allowed to deduct distributions to shareholders in computing our taxable income. Furthermore, we would be subject to federal income tax on our taxable income at regular corporate rates. Unless entitled to statutory relief, we would also be disqualified from treatment as a REIT for the four taxable years following the year during which qualification was lost. As a result, the funds available for distribution to our shareholders would be reduced for each of the years involved. Although we currently intend to operate as a qualified REIT, future economic, market, legal, tax or other considerations may impair our REIT qualification or may cause our board of trustees to revoke the REIT election. See Federal Income Tax Considerations (p.15).

***We could incur costs from environmental problems even though we did not cause, contribute to or know about them.***

Because we own, operate, manage and develop real estate, for liability purposes we may be considered under the law to be an owner or operator of those properties or as having arranged for the disposal or treatment of hazardous or toxic substances. As a result, we could have to pay removal or remediation costs. Federal, state and local laws often impose liability regardless of whether the owner or operator knew of, or was responsible for, the presence of the hazardous or toxic substances. The presence of those substances, or the failure to properly remediate them, may impair the owner s or operator s ability to sell or rent the property or to borrow using the property as collateral. A person who arranges for the disposal or treatment of hazardous or toxic substances may also be liable for the costs of removing or remediating the substances at a disposal or treatment facility, whether or not that person owns or operates the facility. Furthermore, environmental laws impose liability for release of asbestos-containing materials into the air. If we were ever held responsible for releasing asbestos-containing materials, third parties could seek recovery from us for personal injuries. Thus, we might have to pay other costs, including governmental fines and costs related to personal injuries and property damage, resulting from the environmental condition of our properties, regardless of whether we actually had knowledge of or contributed to those conditions.

***Rent control/stabilization legislation may reduce the rental income we receive from residential properties.***

While none of our five residential properties are located in jurisdictions which have adopted rent control/stabilization legislation, such legislation may be enacted in these jurisdictions in the future. Similarly, we may purchase additional properties in jurisdictions where such legislation is already in place. In either event, our

Back to Contents

income from residential leases could be reduced, as could our ability to recover increases in operating expenses and the costs of capital improvements.

***Laws benefitting disabled persons may result in unanticipated expenses.***

A number of Federal, state and local laws ensure that disabled persons have reasonable access to public buildings. For example, the Fair Housing Amendments Act of 1988 (the "FHAA") requires that apartment properties first occupied after March 13, 1990, be accessible to the handicapped. Noncompliance with the FHAA could result in an imposition of fines, an award of damages to private litigants, and/or an order to correct any non-complying feature (which could result in substantial capital expenditures). Although we believe that our properties are substantially in compliance with laws such as the FHAA, we may incur unanticipated expenses associated with such laws.

## OUR COMPANY

Our company (formerly known as Mark Centers Trust) is a fully integrated and self-managed REIT focused primarily on the ownership, acquisition, redevelopment and management of neighborhood and community shopping centers and multi-family properties. All of our assets are held by, and all of our operations are conducted through, the operating partnership (formerly known as Mark Centers Limited Partnership) and its majority owned partnerships. As of September 30, 1999, our company owned a 71% interest in the operating partnership and the selling shareholders owned the remaining 29% in the form of OP Units, which are exchangeable on a one-for-one basis (subject to adjustment for certain events) for common shares. Our company will at all times be the sole general partner of the operating partnership.

Our principal offices are located at 20 Soundview Marketplace, New York 11050, and our telephone number is (516) 767-8830.

Back to Contents

## DESCRIPTION OF OUR COMMON SHARES

*The following description of our common shares does not purport to be complete and is qualified in its entirety by reference to our declaration of trust and bylaws, each as amended and restated, copies of which are exhibits to the registration statement of which this prospectus is a part. See "Where you can find more information" (p.3).*

**General**
Under our declaration of trust, we have authority to issue 100,000,000 common shares, par value $0.001 per share. All common shares, when issued, are duly authorized, fully paid and nonassessable. This means that the full price for the shares has been paid at the time of issuance and consequently that any holder of such shares will not later be required to pay us any additional money for the same. As of September 30, 1999, 26,044,615 common shares were issued and outstanding, as were 10,484,143 common OP Units which are convertible into the same number of common shares. In addition, 2,212 convertible preferred OP Units were issued at a price of $1,000 per Unit to certain selling shareholders on November 18, 1999. These preferred OP Units, which are convertible into common OP Units at a conversion price of $7.50 per common Unit, have a distribution preference and entitle the holder to a 9.0% dividend yield. Any OP Units which result from the conversion of such preferred OP Units are subject to a 12-month lock-up period ending November 16, 2000, during which time they cannot be converted into common shares.

**Distributions**
Common shareholders may receive distributions out of assets that we can legally use to pay distributions, when and if they are authorized and declared by our board of trustees. Each common shareholder shares in the same proportion as other common shareholders out of the assets that we can legally use to pay distributions after we pay or make adequate provision for all of our known debts and liabilities in the event we are liquidated, dissolved or our affairs are wound up.

**Voting Rights**
Holders of common shares have the power to vote on all matters presented to our shareholders, including the election of trustees, except as otherwise provided by Maryland law. Our declaration of trust prohibits us from merging or selling all or substantially all of our assets without the approval of two-thirds of the outstanding shares that are entitled to vote on such matters. Holders of common shares are entitled to one vote per share.

There is no cumulative voting in the election of our trustees, which means that holders of more than 50% of the common shares voting for the election of trustees can elect all of the trustees if they choose to do so and the holders of the remaining shares cannot elect any trustees.

**Other Rights**
All common shares have equal dividend, liquidation and other rights, and have no preference, appraisal or exchange rights, except for any appraisal rights provided by Maryland Law. Holders of our common shares have no conversion, sinking fund or redemption rights, or preemptive rights to subscribe for any of our securities.

**Restrictions on Transfer**
To qualify as a REIT under the Internal Revenue Code of 1986, we must satisfy certain ownership requirements. Specifically, not more than 50% in value of our outstanding common shares may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code of 1986 to include certain entities) during the last half of a taxable year, and the common shares must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of twelve months or during a proportionate part of a shorter taxable year. We must also satisfy certain income requirements to maintain our REIT status. One such requirement is that at least 75% of our company's gross income for each calendar year

Back to Contents

must consist of rents from real property and income from certain other real property investments. This is complicated by the fact that the rents received by the operating partnership will not qualify as rents from real property if we own, actually or constructively, 10% or more of the ownership interests in our lessees, within the meaning of section 856(d)(2)(B) of the Internal Revenue Code of 1986, as amended. See Federal Income Tax Considerations Requirements for Qualification Income Tests (p.18).

Because our board of trustees believes it is essential for us to continue to qualify as a REIT, our declaration of trust contains provisions aimed at satisfying the requirements described above. In regard to the ownership requirements, the declaration of trust provides that subject to certain exceptions, no person may own, or be deemed to own by virtue of the attribution provisions of the Internal Revenue Code of 1986, more than 4% of our outstanding common shares. The Trustees may waive this 4% limitation if evidence satisfactory to them or our tax counsel is presented that such ownership will not jeopardize our status as a REIT. As a condition of such waiver, the Trustees may require opinions of counsel satisfactory to them and/or an undertaking from the applicant with respect to preserving our REIT status.

The trustees of Mark Centers Trust waived the 4% ownership limitation in August, 1998 when certain affiliates of RD Capital, Inc. received shares in consideration of their contribution to Mark Center Limited Partnership. On two subsequent occasions, our trustees permitted investors owing in excess of 4% of the trust s outstanding shares to acquire additional shares through open market purchases transacted during specified three-month windows.

In addition, our declaration of trust provides that any purported transfer or issuance of shares or securities transferable into shares which would (i) violate the 4% limitation described above, (ii) result in shares being owned by fewer than 100 persons for purposes of the REIT provisions of the Internal Revenue Code of 1986, (iii) result in Acadia being closely held with the meaning of Section 856(h) of the Internal Revenue Code of 1986, or (iv) otherwise jeopardize our REIT status under the Internal Revenue Code (including a transfer which would cause Acadia to own, actually or constructively, 9.8% or more of the ownership interests in one of our lessees) will be null and void ab initio (from the beginning). Moreover, common shares transferred, or proposed to be transferred, in contravention of the above will be subject to purchase by the Acadia at a price equal to the lesser of (i) the price stipulated in the challenged transaction and (ii) the fair market value of such shares (determined in accordance with the rules set forth in our declaration of trust).

All certificates representing the common shares bear a legend referring to the restrictions described above.

*The ownership limitations described above could have the effect of delaying, deferring or preventing a takeover or other transaction in which holders of some, or a majority, of common shares might receive a premium for their shares over the then prevailing market price or which such holders might believe to be otherwise in their best interest.*

**Registration Rights**

The selling shareholders and certain other holders of OP Units entered into Registration Rights and Lock-Up Agreements with Acadia whereby the selling shareholders and OP Unit holders agreed not to sell or otherwise transfer their common shares and Units during a specified lockup period in exchange for certain registration rights. We are filing the registration statement of which this prospectus is a part pursuant to the such agreements.

The Registration Rights and Lock-Up Agreements provide that we will indemnify and hold harmless the selling shareholders against losses, claims, damages, or liabilities (or actions in respect thereof) to which such individuals may become subject under Federal and state securities laws which arise out of (i) any untrue statement or alleged untrue statement of a material fact contained in a registration statement (or any amendment or supplement thereto) pursuant to which their common shares were registered under the Securities Act of 1933, as amended, (ii) the omission or alleged omission from a registration statement of a material fact required to be stated therein or necessary to make the statements therein not misleading, (iii) any untrue statement or alleged untrue statement of a material fact contained in any prospectus, or (iv) the

Back to Contents

omission or alleged omission from a registration statement of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The Registration Rights and Lock-Up Agreements also provide that we will reimburse certain of the selling shareholders (and the officers, directors or controlling persons of those selling shareholders) for any legal or any other expenses reasonably incurred by such individuals in connection with investigating or defending any such loss, claim, damage, liability or action.

However, the indemnity discussed above does not apply to a selling shareholder if the loss, claim, damage or liability arises out of (i) any untrue statement or omission made by Acadia in a registration statement, preliminary prospectus or prospectus (or any amendment or supplement thereto) in reliance upon, and in conformity with, written information furnished to Acadia by a selling shareholder specifically for use in, or the preparation of, such registration statement, preliminary prospectus or prospectus (or any amendment or supplement thereto), or (ii) such selling shareholder s failure to deliver an amended or supplemental prospectus, after having been provided copies of any such amended or supplemental prospectus by Acadia, if such loss, liability, claim, damage or expense would not have arisen had such delivery occurred.

**Transfer Agent and Registrar**
The transfer agent and registrar for our common shares is American Stock Transfer & Trust Company which has an address at 40 Wall Street, New York, NY 10005.

**Declaration of Trust and Bylaw Provisions and Certain Provisions of Maryland Law**
*Number of Trustees; Election of Trustees, Removal of Trustees, the Filling of Vacancies.* Our declaration of trust provides that the board of trustees will consist of not less than two nor more than fifteen persons, and that the number of trustees will be set by the trustees then in office. Our board currently consists of six trustees, each of whom serves until the next annual meeting of shareholders and until his successor is duly elected and qualified. Election of each trustee requires the approval of a plurality of the votes cast by the holders of common shares in person or by proxy at our annual meeting. The board of trustees does not have a nominating committee. Our bylaws provide that the shareholders may, at any time, remove any trustee, with or without cause, by the affirmative vote of a majority of all the votes entitled to be cast on the matter and may elect a successor to fill any resulting vacancy for the balance of the term of the removed trustee. Any vacancy (including a vacancy created by an increase in the number of trustees) will be filled, at any regular meeting or at any special meeting called for that purpose, by a majority of the trustees.

*Limitation of Liability and Indemnification of Trustees and Officers.* Our bylaws and declaration of trust authorize our company, to the extent permitted under Maryland law, to indemnify its trustees and officers in their capacity as such. Section 8-301(15) of the Maryland General Corporation Law ( MGCL ) permits a Maryland REIT to indemnify or advance expenses to trustees and officers to the same extent as is permitted for directors and officers of a Maryland corporation under the MGCL. The MGCL requires a Maryland corporation (unless its charter provides otherwise, which our declaration of trust does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he is made a party by reason of his service in that capacity. The MGCL permits a Maryland corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (i) was committed in bad faith or (ii) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that a personal benefit was improperly received, unless in either case a court orders indemnification and then only for expenses. In addition, the MGCL permits a corporation to advance reasonable expenses to a director or officer upon the corporation s receipt of a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and a written

Back to Contents

undertaking by such director or officer on his or her behalf to repay the amount paid or reimbursed by the corporation if it shall ultimately be determined that the standard of conduct was not met.

Our bylaws also permit the company, subject to the approval of our board of trustees, to indemnify and advance expenses to any person who served as a predecessor of the company in any of the capacities described above and to any employee or agent of the company or a predecessor of the company.

In addition to the above, our company has purchased and maintains insurance on behalf of all of its trustees and executive officers against liability asserted against or incurred by them in their official capacities with the company, whether or not the company is required or has the power to indemnify them against the same liability.

*Business Combinations.* Section 8-301(14) of the MGCL permits a Maryland REIT to enter to a business combination (including a merger, consolidation, share exchange or, in certain circumstances, an asset transfer or issuance or reclassification of equity securities) on the same terms as a Maryland corporation under the MGCL. Under the MGCL, certain business combinations between a Maryland corporation and any person who beneficially owns 10% or more of the voting power of such corporation□s shares, or an affiliate of such corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then-outstanding voting shares of such corporation (an □Interested Stockholder□) or an affiliate thereof, are prohibited for five years after the most recent date on which the Interested Stockholder becomes an Interested Stockholder. Thereafter, any such business combination must be recommended by the board of directors of such corporation and approved by the affirmative vote of at least (a) 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of such corporation and (b) two-thirds of the votes entitled to be cast by holders of shares of voting stock of such corporation other than the shares held by the Interested Stockholder with whom (or with whose affiliate) the business combination is to be affected, unless, among other conditions, the corporation□s common shareholders receive a minimum price (as defined in the MGCL) for their shares and the consideration is received in cash or in the same form as previously paid by the Interested Stockholder for its shares.

*Control Share Acquisitions.* The MGCL provides that □control shares□ of a Maryland corporation acquired in a □control share acquisition□ have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter, excluding shares owned by the acquirer, by officers or by directors who are employees of the corporation. □Control Shares□ are voting shares of stock which, if aggregated with all other such shares of stock previously acquired by the acquirer, or in respect of which the acquirer is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquirer to exercise voting power in electing directors within one of the following ranges of voting power: (i) one-fifth or more but less than one- third, (ii) one-third or more but less than a majority, or (iii) a majority or more of all voting power. Control Shares do not include shares which the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A □control share acquisition□ means the acquisition of control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition, upon satisfaction of certain conditions (including an undertaking to pay expenses), may compel the board of directors of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then, subject to certain conditions and limitations, the corporation may redeem any or all of the control shares (except those for which voting rights have previously been approved) for fair value determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquirer or of any meeting of stockholders at which the voting rights of such shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquirer becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of such appraisal rights may not be less than the highest price per share paid by the acquirer in the control

Back to Contents

share acquisition, and certain limitations and restrictions otherwise applicable to the exercise of dissenters rights do not apply in the context of a control share acquisition.

The foregoing does not apply to shares acquired in a merger, consolidation or share exchange, if the corporation is a party to the transaction, or to acquisitions approved or exempted by the charter or bylaws of the corporation. Pursuant to the MGCL, the company has exempted control share acquisitions involving trustees and employees of the company and any person approved by the trustees of the company in their sole discretion.

*Amendments to Our Declaration of Trust.* In general, the declaration of trust may be amended by the affirmative vote or written consent of the holders of not less than a majority of the common shares then outstanding and entitled to vote thereon. However, amendments with respect to certain provisions relating to the ownership requirements, reorganizations and certain mergers or consolidations or the sale of substantially all of the company s assets, which amendments require the affirmative vote or written consent of the holders of not less than two-thirds of the common shares then outstanding and entitled to vote thereon. The Trustees of our company, by a two-thirds vote, may amend the provisions of the declaration of trust from time to time to effect any change deemed necessary by the Trustees to allow Acadia to qualify and continue to qualify as a REIT.

*Dissolution of Our Company or its REIT Status.* The declaration of trust permits the termination and the discontinuation of our operations by the affirmative vote of the holders of not less than a majority of the outstanding shares entitled to vote at a meeting of shareholders called for that purpose. In addition, the declaration of trust permits the Trustees to terminate our REIT status at any time.

*Anti-Takeover Effect of Certain Provisions of Maryland Law and of the Declaration of Trust.* The limitation on ownership of common shares set forth in our declaration of trust, as well as the provisions of the MGCL dealing with business combinations and control share acquisitions could have the effect of discouraging offers to acquire Acadia or of hampering the consummation of a contemplated acquisition.

## USE OF PROCEEDS

We will not receive any proceeds from the sale of common shares by selling shareholders.

## INTERESTS OF NAMED EXPERTS AND COUNSEL

Martin L. Edelman, a trustee of the company, is counsel to the law firm of Battle Fowler LLP. Battle Fowler LLP is rendering an opinion as to certain tax matters in the registration statement of which this prospectus is a part.

## FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of material federal income tax matters relating to the operations of our company that may be relevant to prospective Acadia shareholders. It is based upon current law and is not tax advice. This discussion does not address all aspects of taxation that may be relevant to particular shareholders in light of their personal investment or tax circumstances, or to certain types of shareholders (including, without limitation, insurance companies, tax-exempt organizations, financial institutions, broker-dealers, foreign corporations and persons who are not citizens or residents of the United States) subject to special treatment under the federal income tax laws, nor does it give a detailed discussion of any state, local or foreign tax considerations. In the opinion of our tax counsel, the following discussion accurately reflects the federal income tax considerations relating to the operations of the company that are likely to be material to an Acadia shareholder.

**EACH PROSPECTIVE SHAREHOLDER OF THE COMPANY IS ENCOURAGED TO CONSULT ITS OWN TAX ADVISOR REGARDING THE SPECIFIC TAX CONSEQUENCES TO IT OF THE PURCHASE, OWNERSHIP AND SALE OF THE COMPANY S COMMON SHARES AND OF THE COMPANY S ELECTION TO BE TAXED AS A REIT, INCLUDING THE FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES OF SUCH PURCHASE,**

Back to Contents

**OWNERSHIP, SALE AND ELECTION AND OF POTENTIAL CHANGES IN APPLICABLE TAX LAWS.**

*General.* We made an election to be taxed as a REIT for federal income tax purposes commencing with our taxable year ended December 31, 1993. We believe the company is organized and operates in such a manner as to qualify for taxation as a REIT under the Internal Revenue Code of 1986. We intend to continue to operate in such a manner. However, no assurance can be given that we will operate in a manner so as to qualify or remain qualified.

The requirements relating to the federal income tax treatment of REITs and their shareholders are highly technical and complex. The following discussion sets forth only the material aspects of those requirements. This summary is qualified in its entirety by the applicable Code provisions and Treasury Regulations promulgated thereunder, and administrative and judicial interpretations thereof.

*Opinion of Our Tax Counsel.* In the opinion of our tax counsel, commencing with the taxable year ended December 31, 1999, we have been organized and have operated in conformity with the requirements for qualification as a REIT within the meaning of the Internal Revenue Code of 1986 and our proposed method of operation of the company will enable Acadia to continue to meet the requirements for qualification and taxation as a REIT under the Internal Revenue Code of 1986. It must be emphasized that the opinion of our tax counsel is based on various assumptions and is conditioned upon certain representations made by the company and others as to factual matters. Moreover, such qualification and taxation as a REIT depends upon our ability to meet, through actual annual operating results, the distribution levels, diversity of share ownership and the various other qualification tests imposed under the Internal Revenue Code of 1986 that are discussed below, the results of which have not been and will not be reviewed by our tax counsel. Accordingly, no assurance can be given that the actual results of the company□s operations for any one taxable year will satisfy such requirements.

*Taxation of Our Company.* As long as we qualify to be taxed as a REIT, we generally will not be subject to federal corporate income taxes on that portion of its ordinary income or capital gain that is distributed currently to shareholders. This is because the REIT provisions of the Internal Revenue Code of 1986 generally allow a REIT to deduct dividends paid to its shareholders. This deduction for dividends paid to shareholders substantially eliminates the federal □double taxation□ on earnings (once at the corporate level and once again at the shareholder level) that generally results from investment in a corporation.

Even if we qualify to be taxed as a REIT, we may be subject to federal income tax in the following circumstances. First, a REIT will be taxed at regular corporate rates on any undistributed REIT taxable income and undistributed net capital gains. Second, under certain circumstances, a REIT may be subject to the □alternative minimum tax□ on its items of tax preference, if any. Third, if a REIT has (i) net income from the sale or other disposition of □foreclosure property□ (generally, property acquired by reason of a default on a lease or an indebtedness held by a REIT) that is held primarily for sale to customers in the ordinary course of business or (ii) other non-qualifying net income from foreclosure property, it will be subject to tax at the highest corporate rate on such income. Fourth, if a REIT has net income from a □prohibited transaction□ (generally, a sale or other disposition of property held primarily for sale to customers in the ordinary course of business, other than foreclosure property), such income will be subject to a 100% tax. Fifth, if a REIT should fail to satisfy the 75% gross income test or the 95% gross income test (as discussed below), and has nonetheless maintained its qualification as a REIT because certain other requirements have been met, it will be subject to a 100% tax on the net income attributable to the greater of the amount by which the REIT fails the 75% or 95% test, multiplied by a fraction intended to reflect the REIT□s profitability. Sixth, if a REIT should fail to distribute with respect to each calendar year at least the sum of (i) 85% of its REIT ordinary income for such year, (ii) 95% of its REIT capital gain net income for such year, and (iii) any undistributed taxable income from prior periods, the REIT will be subject to a 4% excise tax on the excess of such required distribution over the amounts actually distributed. Seventh, if a REIT acquires any asset from a C corporation (i.e., a corporation generally subject to a full corporate-level tax) in a transaction in which the basis of the asset in the REIT□s hands is determined by reference to the basis of the asset (or any other property) in the hands of the C corporation and the REIT recognizes gain on the disposition of such asset during the ten-year period beginning on the date on which such asset was

Back to Contents

acquired by the REIT, then the excess of the fair market value of such property at the beginning of the applicable ten-year period over the REIT's adjusted basis in such asset as of the beginning of such ten-year period, or built in gain, will generally be subject to a tax at the highest regular corporate rate.

*Requirements for Qualification.* To qualify as a REIT under the Internal Revenue Code of 1986, an enterprise must elect to be so treated and must meet the requirements, discussed below, relating to its organization, sources of income, nature of assets, and distributions of income to shareholders.

*Organizational Requirements.* The Internal Revenue Code of 1986 defines a REIT as a corporation, trust or association: (i) that is managed by one or more trustees or directors; (ii) the beneficial ownership of which is evidenced by transferable shares or by transferable certificates of beneficial interest; (iii) that would be taxable as a domestic corporation but for the REIT provisions of the Internal Revenue Code of 1986; (iv) that is neither a financial institution nor an insurance company subject to certain provisions of the Internal Revenue Code of 1986; (v) the beneficial ownership of which is held by 100 or more persons; and (vi) during the last half of each taxable year not more than 50% in value of the outstanding shares owned, directly or indirectly through the application of certain attribution rules, by five or fewer individuals (as defined in the Internal Revenue Code of 1986 to include certain entities). In addition, certain other tests, described below, regarding the nature of a REIT's income and assets, also must be satisfied. The Code provides that conditions (i) through (iv), inclusive, must be met during the entire taxable year and that condition (v) must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months. Conditions (v) and (vi) will not apply until after the first taxable year for which an election is made to be taxed as a REIT.

For taxable years beginning after 1997, if a REIT complies with Treasury Regulations that provide procedures for ascertaining the actual ownership of its shares for such taxable year and the REIT did not know (and with the exercise of reasonable diligence could not have known) that it failed to meet the requirement of condition (vi) above for such taxable year, the REIT will be treated as having met the requirement of condition (vi) for such year.

We have satisfied the requirements set forth in (i) through (iv) above and believe that we have sufficient diversity of share ownership to allow it to satisfy conditions (v) and (vi) above. Our declaration of trust includes certain restrictions regarding transfers of common shares that are intended to assist the company in satisfying the share ownership requirements described in (v) and (vi) above. See "Description of our Common Shares—Restrictions on Transfer" (p.11).

In addition, an enterprise may not elect to become a REIT unless its taxable year is the calendar year. Acadia's taxable year is the calendar year.

In the case of a REIT that is a partner in a partnership, such REIT will be deemed to own its proportionate share of the assets of the partnership and will be deemed to be entitled to the income of the partnership attributable to such share. In addition, the character of the assets and gross income of the partnership will retain the same character in the hands of the REIT for purposes of the REIT requirements, including satisfying the income and asset tests described herein. Thus, Acadia's proportionate share of the assets, liabilities and items of income of the operating partnership, and of our subsidiary partnerships, limited liability companies, joint ventures and business trusts in which the company or the operating partnership have and will have an interest are and will be treated as assets, liabilities and items of income of Acadia for purposes of applying the requirements described herein, provided that the operating partnership and our subsidiary partnerships are treated as partnerships for federal income tax purposes. See "Income Taxation of the Operating Partnership, the Subsidiary Partnerships and Their Partners" (p.24).

*Income Tests.* In order for us to maintain qualification as a REIT, we must satisfy two gross income tests annually. First, at least 75% of our gross income (excluding gross income from prohibited transactions) for each taxable year must be derived directly or indirectly from investments relating to real property or mortgages on real property (including "rents from real property," dividends from qualified REITs and, in certain circumstances, interest) or from "qualified temporary investment income" (generally, income attributable to the temporary investment of new capital received by the REIT). Second, at least 95% of our gross income (excluding gross income from prohibited transactions) for each taxable year must be derived

Back to Contents

from such real property investments and from dividends, interest, and gain from the sale or disposition of stock or securities or from any combination of the foregoing. In addition, for taxable years prior to 1998, short-term gain from the sale or other disposition of stock or securities, gain from prohibited transactions and gain on the sale or other disposition of real property held for less than four years (apart from involuntary conversions and sales of foreclosure property) must have represented less than 30% of the gross income of our predecessor (including gross income from prohibited transactions) for each taxable year.

Substantially all of our income is expected to be rental income from rents. In order for such income to qualify as "rents from real property" for purposes of satisfying the 75% and 95% gross income tests, we must satisfy several conditions. First, the amount of rent must not be based in whole or in part on the income or profits of any person, although rents generally will qualify as rents from real property if they are based on a fixed percentage of receipts or sales. Second, rents received from a tenant will not qualify as "rents from real property" if the company, or an owner of 10% or more of the company, directly or constructively, owns 10% or more of such tenant (a "Related Party Tenant"). Third, if rent attributable to personal property leased in connection with a lease of real property is greater than 15% of the total rent received under the lease, the portion of rent attributable to such personal property will not qualify as "rents from real property." Finally we generally must not operate or manage the property or furnish or render services to the tenants of such property, other than through an "independent contractor" from whom we derive no income. However, the "independent contractor" requirement does not apply to the extent the services rendered by us are customarily furnished or rendered in connection with the rental of the real property in the geographic area in which the property is located. Based on our experience we believe that all services provided to tenants by us will be considered "usually or customarily rendered" in connection with the rental of retail and multi-family space, although there can be no assurance that the IRS will not contend otherwise.

We believe that our real estate investments, which include an allocable share of income from the operating partnership, will give rise to income, substantially all of which will qualify as "rents from real property" for purposes of the 75% and 95% gross income tests. We will not (i) charge rent for any property that is based in whole or in part on the income or profits of any person (other than being based on a percentage of receipts of sales); (ii) receive rents in excess of a de minimis amount from Related Party Tenants; (iii) derive more than a de minimus amount of rents attributable to personal property which constitute greater than 15% of the total rents received under the lease; or (iv) perform non-customary services considered to be rendered to the occupant of property, other than through an independent contractor from whom we derive no income.

We may receive fees in exchange for the performance of certain management activities for third parties with respect to properties in which we do not own an interest. Such fees will result in nonqualifying income under the 95% and 75% gross income tests. If the sum of the income realized by us (whether directly or through our interest in the operating partnership or our subsidiary partnerships) which does not satisfy the requirements of the 95% gross income test (collectively, "Non-Qualifying Income") exceeds 5% of our gross income for any taxable year, our status as a REIT would be jeopardized. We have represented that the amount of Non-Qualifying Income in any taxable year, including such fees, will not exceed 5% of our annual gross income for any taxable year.

If we fail to satisfy one or both of the 75% or 95% gross income tests for any taxable year, we may nevertheless qualify as a REIT for such year if we are entitled to relief under certain provisions of the Internal Revenue Code of 1986. These relief provisions generally will be available if (i) the failure to meet such tests was due to reasonable cause and not due to willful neglect, (ii) a schedule of the sources of qualifying income is attached to the federal income tax return of the company for such taxable year, and (iii) any incorrect information on the schedule was not due to fraud with intent to evade tax. It is not possible, however, to state whether in all circumstances we would be entitled to the benefit of these relief provisions. As discussed above in "Taxation of our company," even if these relief provisions apply, a tax would be imposed with respect to the excess net income. No similar relief provision would apply if the 30% income test had been failed for a taxable year prior to 1998 and, in such case, Acadia would cease to qualify as a REIT. See "Failure to Qualify" (p.20).

Back to Contents

*Asset Tests.* In order for us to qualify as a REIT, at the close of each quarter of its taxable year we must also satisfy three tests relating to the nature of the our assets. First, at least 75% of the value of its total assets must be represented by real estate assets (which for this purpose include (i) our allocable share of real estate assets held by partnerships in which the company or a "qualified REIT subsidiary" owns an interest, (ii) stock or debt instruments purchased with the proceeds of a share offering or a long-term (at least five years) debt offering and held for not more than one year from the date the company receives such proceeds, and (iii) shares in qualified REITs and cash, cash items and government securities. Second, not more than 25% of our total assets may be represented by securities other than those in the 75% asset class. Third, of the investments included in the 25% asset class, the value of any one issuer's securities may not exceed 5% of the value of our total assets, and the company may not own more than 10% of any one issuer's outstanding voting securities (excluding securities of a qualified REIT subsidiary or another REIT).

We anticipate that we will be able to comply with these asset tests. Acadia is currently deemed to, and will continue to be deemed to, hold directly its proportionate share of all real estate and other assets of the operating partnership and our subsidiary partnerships, and it should be considered to hold its proportionate share of all assets deemed owned by those partnerships through the partnerships' ownership of partnership interests in other partnerships. As a result, the company intends to hold more than 75% of its assets as real estate assets. In addition, we do not plan to hold any securities representing more than 10% of any one issuer's voting securities, other than any qualified REIT subsidiary, nor securities of any one issuer exceeding 5% of the value of our gross assets.

After initially meeting the asset tests at the close of any quarter, we will not lose our REIT status for failing to satisfy the asset tests at the end of a later quarter solely by reason of changes in asset values. If the failure to satisfy the asset tests results from an acquisition of securities or other property during a quarter, the failure can be cured by disposition of sufficient nonqualifying assets within 30 days after the close of that quarter. We intend to maintain adequate records of the value of our assets to ensure compliance with the asset tests and will take such other action within 30 days after the close of any quarter as may be required to cure any noncompliance. However, there can be no assurance that such other action always will be successful.

*Annual Distribution Requirements.* In order to be taxed as a REIT, we will be required to meet certain annual distribution requirements. We will have to distribute dividends (other than capital gain dividends) to our shareholders in an amount at least equal to (1) the sum of (a) 95% of our "REIT taxable income" (computed without regard to the dividends paid deduction and the company's net capital gain) and (b) 95% of the net income, if any, from foreclosure property in excess of the special tax on income from foreclosure property, minus (2) the sum of certain items of noncash income. Such distributions must be paid in the taxable year to which they relate, or in the following taxable year if declared before the company timely files its tax return for such year and if paid on or before the first regular dividend payment after such declaration.

To the extent that we do not distribute all of our net capital gain or distribute at least 95% (but less than 100%) of our REIT taxable income, as adjusted, we will be subject to tax on the undistributed portion, at regular ordinary and capital gains corporate tax rates. Furthermore, if we fail to distribute for each calendar year at least the sum of (a) 85% of our REIT ordinary income for such year, (b) 95% of our REIT capital gain net income for such year, and (c) any undistributed ordinary income and capital gain net income from prior periods, we will be subject to a 4% excise tax on the excess of such required distribution over the amounts actually distributed. We intend to make timely distributions sufficient to satisfy this annual distribution requirement.

We expect that our taxable income typically will be less than our cash flow, due to the allowance of depreciation and other noncash charges in computing our taxable income. Accordingly, we anticipate that we generally will have sufficient cash or liquid assets to enable it to satisfy the 95% distribution requirement.

It is possible that from time to time we may not have sufficient cash or other liquid assets to meet the 95% distribution requirement due to timing differences between the actual receipt of income and actual payment of deductible expenses and the inclusion of such income and deduction of such expenses in arriving at our taxable income if the amount of nondeductible expenses such as principal amortization or capital expenditures exceeds the amount of noncash deductions. In the event that such situation occurs, in order to

Back to Contents

meet the 95% distribution requirement, we may find it necessary to arrange for short-term, or possibly long-term, borrowings or to pay dividends in the form of consent dividends. If the amount of nondeductible expenses exceeds noncash deductions, we may refinance our indebtedness to reduce principal payments and borrow funds for capital expenditures.

Under certain circumstances in which an adjustment is made that affects the amount that should have been distributed for a prior taxable year, we may be able to rectify the failure to meet such distribution requirement by paying "deficiency dividends" to shareholders in the later year, which may be included in our deduction for dividends paid for the earlier year. Thus, we may be able to avoid being taxed on amounts distributed as deficiency dividends; however, we will be required to pay interest based upon the amount of any deduction taken for deficiency dividends.

*Failure to Qualify.* If Acadia fails to qualify for taxation as a REIT in any taxable year, and the relief provisions do not apply, we would be subject to tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. Distributions to shareholders in any year in which we fail to qualify will not be deductible by us nor will they be required to be made. In such event, to the extent of current or accumulated earnings and profits, all distributions to shareholders will be taxable as ordinary income, and subject to certain limitations of the Internal Revenue Code of 1986, corporate distributees may be eligible for the dividends-received deduction. Unless entitled to relief under specific statutory provisions, we also will be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost. It is not possible to state whether in all circumstances we would be entitled to such statutory relief.

*Taxation of U.S. Shareholders of the Company.* As used in this prospectus, the term "U.S. Shareholder" means a holder of our common shares that (for United States federal income tax purposes) (i) is a citizen or resident of the United States, (ii) is a corporation, partnership, or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, (iii) is an estate the income of which is subject to United States federal income taxation regardless of its source or (iv) is a trust if a United States court is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust. For any taxable year for which Acadia qualifies for taxation as a REIT, amounts distributed to taxable U.S. Shareholders will be taxed as follows:

*Distributions Generally.* Distributions to U.S. Shareholders, other than capital gain dividends discussed below, will be taxable as ordinary income to such holders up to the amount of the company's current or accumulated earnings and profits. Such distributions are not eligible for the dividends-received deduction for corporations. To the extent that the Acadia makes distributions in excess of its current or accumulated earnings and profits, such distributions will first be treated as a tax-free return of capital, reducing the tax basis in the U.S. Shareholders' shares, and distributions in excess of the U.S. Shareholders' tax basis in their respective shares will be taxable as an amount realized from the sale of such shares. Dividends declared by the company in October, November, or December of any year payable to a shareholder of record on a specified date in any such month will be treated as both paid by the company and received by the shareholder on December 31 of such year, provided that the dividend is actually paid by the company during January of the following calendar year. Shareholders may not include on their own income tax returns any tax losses of the company.

We will be treated as having sufficient earnings and profits to treat as a dividend any distribution by the company up to the greater of our current or accumulated earnings and profits. As a result, shareholders may be required to treat certain distributions that would otherwise result in a tax-free return of capital as taxable dividends. Moreover, any "deficiency dividend" will be treated as a "dividend" (an ordinary dividend or a capital gain dividend, as the case may be), regardless of the company's earnings and profits.

*Capital Gain Dividends.* Dividends to U.S. Shareholders that are properly designated by us as capital gain dividends will be treated as long-term capital gain (to the extent they do not exceed the company's actual net capital gain) for the taxable year without regard to the period for which the shareholder has held his shares. Shareholders, however, may be required to treat up to 20% of certain capital gain dividends as ordinary income. Capital gain dividends are not eligible for the dividends-received deduction for corporations.

Back to Contents

Individual U.S. Shareholders and U.S. Shareholders that are estates and trusts currently are subject to federal income tax on net capital gains at different tax rates depending upon the nature of the gain and the holding period of the asset disposed of. Although a REIT is taxed on its undistributed net capital gains, for taxable years beginning after 1997, a REIT may elect to include all or a portion of such undistributed net capital gains in the income of its shareholders. In such event, the shareholder will receive a credit or refund for the amount of tax paid by the REIT on such undistributed net capital gains.

*Passive Activity and Loss; Investment Interest Limitations.* Distributions by us and gain from the disposition of common shares ordinarily will not be treated as passive activity income, and therefore, U.S. Shareholders generally will not be able to apply any "passive losses" against such income. Dividends from the company (to the extent they do not constitute a return of capital) generally will be treated as investment income for purposes of the investment interest limitation. Net capital gain from the disposition of common shares and capital gain dividends generally will be excluded from investment income unless the taxpayer elects to have the gain taxed at ordinary rates.

*Dispositions of Common Shares.* A U.S. Shareholder will recognize gain or loss on the sale or exchange of common shares to the extent of the difference between the amount realized on such sale or exchange and the holder's tax basis in such shares. Such gain or loss generally will constitute long-term capital gain or loss if the holder has held such shares for more than one year and, in the case of an individual, will be taxed at a lower rate. Losses incurred on the sale or exchange of common shares held for six months or less (after applying certain holding period rules), however, generally will be deemed long-term capital loss to the extent of any long-term capital gain dividends received by the U.S. Shareholder with respect to such shares.

*Treatment of Tax-Exempt U.S. Shareholders.* The Internal Revenue Service has ruled that amounts distributed by a REIT out of its earnings and profits to a tax-exempt pension trust did not constitute unrelated business taxable income. Although rulings are merely interpretations of law by the Internal Revenue Service and may be revoked or modified, based on this analysis, indebtedness incurred by us in connection with the acquisition of an investment should not cause any income derived from the investment to be treated as unrelated business taxable income upon the distribution of such income as dividends to a tax-exempt entity. A tax-exempt entity that incurs indebtedness to finance its purchase of shares, however, will be subject to unrelated business taxable income by virtue of the debt-financed income rules.

In addition, tax-exempt pension and certain other tax-exempt trusts that hold more than 10% (by value) of the interests in a REIT may be required to treat a percentage of REIT dividends as unrelated business taxable income. The requirement applies only if (i) the qualification of the REIT depends upon the application of a "look-through" exception to the restriction on REIT shareholdings by five or fewer individuals, including such trusts and (ii) the REIT is "predominantly held" by such trusts; i.e., either (A) at least one such trust holds more than 25% (by value) of the interests in the REIT or (B) one or more such trusts (each of whom own more than 10% by value of the interests in the REIT) hold in the aggregate more than 50% (by value) of the interests in the REIT. It is not anticipated that our REIT qualification will depend upon application of the "look-through" exception or that we will be "predominantly held" by such trusts.

*Special Tax Considerations for Foreign Shareholders.* The rules governing United States federal income taxation of non-resident alien individuals, foreign corporations, foreign partnerships, and foreign trusts and estates (collectively, "Non-U.S. Shareholders") are complex, and the following discussion is intended only as a summary of such rules. Prospective Non-U.S. Shareholders should consult with their own tax advisors to determine the impact of federal, state, and local income tax laws on an investment in the company, including any reporting requirements, as well as the tax treatment of such an investment under their home country laws.

In general, Non-U.S. Shareholders will be subject to United States federal income tax with respect to their investment in the company if such investment is "effectively connected" with the Non-U.S. Shareholder's conduct of a trade or business in the United States. A corporate Non-U.S. Shareholder who receives income that is (or is treated as) effectively connected with a United States trade or business also may be subject to the branch profits tax under section 884 of the Internal Revenue Code of 1986 which is payable in addition to United States corporate income tax. The following discussion applies to Non-U.S. Shareholders whose investment in the company is not so effectively connected. We expect to withhold United States income tax, as described below, on the gross amount of any distributions paid to a Non-U.S. Shareholder

18

Back to Contents

unless (i) a lower treaty rate applies and the required form evidencing eligibility for that reduced rate is filed with the company, or (ii) the Non-U.S. Shareholder files an Internal Revenue Service Form 4224 or applicable successor form with the company, claiming that the distribution is effectively connected income.

A distribution by us that is not attributable to gain from the sale or exchange by us of a United States real property interest and that is not designated by us as a capital gain dividend will be treated as an ordinary income dividend to the extent made out of current or accumulated earnings and profits. Generally, an ordinary income dividend will be subject to a United States withholding tax equal to 30% of the gross amount of the distribution unless such tax is reduced or eliminated by an applicable tax treaty. A distribution of cash in excess of our earnings and profits will be treated first as a return of capital that will reduce a Non-U.S. Shareholder s basis in its holding of our common shares (but not below zero) and then as gain from the disposition of such shares, the tax treatment of which is described under the rules discussed below with respect to dispositions of shares.

Distributions by us that are attributable to gain from the sale or exchange of a United States real property interest will be taxed to a Non-U.S. Shareholder under the Foreign Investment in Real Property Tax Act of 1980. Under the Foreign Investment in Real Property Tax Act, such distributions are taxed to a Non-U.S. Shareholder as if such distributions were gains effectively connected with a United States trade or business. Accordingly, a Non-U.S. Shareholder will be taxed at the normal capital gain rates applicable to a U.S. Shareholder (subject to any applicable alternative minimum tax and a special alternative minimum tax in the case of non-resident alien individuals). Distributions subject to the Foreign Investment in Real Property Tax Act also may be subject to a 30% branch profits tax in the hands of a foreign corporate shareholder that is not entitled to treaty exemption.

We are required to withhold from distributions to Non-U.S. Shareholders, and remit to the Internal Revenue Service, (i) 35% of designated capital gain dividends (or, if greater, 35% of the amount of any distributions that could be designated as capital gain dividends) and (ii) 30% of ordinary dividends paid out of earnings and profits. In addition, if we designate prior distributions as capital gain dividends, subsequent distributions, up to the amount of such prior distributions not withheld against, will be treated as capital gain dividends for purposes of withholding. A distribution in excess of the company s earnings and profits may be subject to 30% dividend withholding if at the time of the distribution it cannot be determined whether the distribution will be in an amount in excess of our current or accumulated earnings and profits. Tax treaties may reduce our withholding obligations. If the amount withheld by us with respect to a distribution to a Non-U.S. Shareholder exceeds the shareholder s United States tax liability with respect to such distribution (as determined under the rules described in the two preceding paragraphs), the Non-U.S. Shareholder may file for a refund of such excess from the Internal Revenue Service. It should be noted that the 35% withholding tax rate on capital gain dividends currently corresponds to the maximum income tax rate applicable to corporations, but is higher than the 20% maximum rate on capital gains of individuals.

Unless our common shares constitute a United States real property interest within the meaning of the Foreign Investment in Real Property Tax Act or are effectively connected with a U.S. trade or business, a sale of such shares by a Non-U.S. Shareholder generally will not be subject to United States taxation. Our common shares will not constitute a United States real property interest if the company is a domestically-controlled REIT. A domestically-controlled REIT is a REIT in which at all times during a specified testing period less than 50% in value of its shares is held directly or indirectly by Non-U.S. Shareholders. It is currently believed that we are a domestically-controlled REIT, and therefore that the sale of shares in our company will not be subject to taxation under the Foreign Investment in Real Property Tax Act. However, because the common shares are publicly traded, no assurance can be given that the company will continue to be a domestically-controlled REIT. Notwithstanding the foregoing, capital gain not subject to the Foreign Investment in Real Property Tax Act will be taxable to a Non-U.S. Shareholder if the Non-U.S. Shareholder is a nonresident alien individual who is present in the United States for 183 days or more during the taxable year and certain other conditions apply, in which case the nonresident alien individual will be subject to a 30% tax on such individual s capital gains. If our company did not constitute a domestically-controlled REIT, whether a Non-U.S. Shareholder s, sale of common shares would be subject to tax under the Foreign Investment in Real Property Tax Act as a sale of a United States real property interest would depend on whether the shares were regularly traded (as defined by applicable Treasury Regulations) on an established

Back to Contents

securities market (e.g., the NYSE) and on the size of the selling shareholder's interest in the company. If the gain on the sale of the company's shares were subject to taxation under the Foreign Investment in Real Property Tax Act, the Non-U.S. Shareholder would be subject to the same treatment as a U.S. Shareholder with respect to such gain (subject to applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals). In any event, a purchaser of common shares from a Non-U.S. Shareholder will not be required under the Foreign Investment in Real Property Tax Act to withhold on the purchase price if the purchased common shares are "regularly traded" on an established securities market or if our company is a domestically-controlled REIT. Otherwise, under the Foreign Investment in Real Property Tax Act the purchaser of our common shares may be required to withhold 10% of the purchase price and remit such amount to the Internal Revenue Service.

*Income Taxation of the Operating Partnership, our Subsidiary Partnerships and Their Partners.* The following discussion summarizes certain federal income tax considerations applicable to our investment in the operating partnership and the indirect interest of our company in our subsidiary partnerships.

*Classification of the Operating Partnership and Our Subsidiary Partnerships.* We will be entitled to include in our income our distributive share of the income and to deduct our distributive share of the losses of the operating partnership (including the operating partnership's share of the income or losses of our subsidiary partnerships) only if the operating partnership (or our subsidiary partnerships) is classified for federal income tax purposes as partnerships or, in the case of certain of our subsidiary partnerships that are single-member limited liability companies, are disregarded as an entity separate from such member, rather than as associations taxable as corporations. With certain exceptions, an unincorporated domestic organization formed on or after January 1, 1997 that has two or more members will be treated as a partnership for federal income tax purposes absent an election by such organization to be treated as an association taxable as a corporation. Such an organization formed prior to January 1, 1997 was treated as a partnership for federal income tax purposes rather than as a corporation for periods prior to January 1, 1997 only if it had no more than two of the four corporate characteristics that the Treasury Regulations applicable to such organizations used to distinguish a partnership from a corporation for tax purposes. These four characteristics were continuity of life, centralization of management, limited liability, and free transferability of interests. Unless such organization elects otherwise, the classification claimed by the organization prior to January 1, 1997 will continue for periods on or after January 1, 1997, and such classification will be respected for all prior periods if the organization had a reasonable basis for such classification, the organization and all members of the organization recognized the federal tax consequences of any change in the organization's classification within the 60 months prior to January 1, 1997, and neither the organization nor any member was notified in writing on or before May 8, 1996 that the classification of the organization was under examination.

We expect that the operating partnership and all of our subsidiary partnerships formed on and after January 1, 1997 either will have two or more members at all times or, in the case of certain of our subsidiary partnerships, will have a single member, and that none of those organizations will elect to be treated as an association for federal income tax purposes. In addition, our subsidiary partnerships in existence prior to January 1, 1997 and owned, directly or indirectly, by the company and its predecessor claimed to be partnerships for all periods prior to January 1, 1997 and were not notified in writing on or before May 8, 1996 that such classification was under examination. In the opinion of our tax counsel, which is based on the provisions of the partnership agreement of the operating partnership and on certain factual assumptions and representations, the operating partnership and our subsidiary partnerships have been, continue to be and will be, treated as partnerships for federal income tax purposes or, in the case of those subsidiary partnerships that are single-member limited liability companies, will be disregarded as an entity separate from such member. However, neither the operating partnership nor any of our subsidiary partnerships have requested, nor do they intend to request, a ruling from the Internal Revenue Service that they will be treated as partnerships or disregarded, as applicable, for federal income tax purposes. Our tax counsel's opinion is not binding on the Internal Revenue Service or the courts.

A publicly-traded partnership is a partnership whose interests are traded on an established securities market or are readily tradeable on a secondary market (or the substantial equivalent thereof). A publicly traded partnership will be treated as a corporation for federal income tax purposes unless at least 90% of such partnership's gross income for each taxable year consists of "qualifying income," which generally includes

Back to Contents

any income that is qualifying income for purposes of the 95% gross income test applicable to REITs. It is unclear whether the right of unit holders in the operating partnership to exchange their units for shares of the company would be treated as the "substantial equivalent" of the units being readily tradeable. However, because it is anticipated that the operating partnership will meet the Qualifying Income Exception, it should not be treated as a corporation under the publicly-traded partnership rules. In addition, Treasury Regulations provide certain safe harbors that, if applicable, will cause partnership interests to be treated as interests that are not readily tradeable on a secondary market or the substantial equivalent thereof. If for any reason the operating partnership or one of our subsidiary partnerships were taxable as a corporation for federal income tax purposes, our company would not be able to satisfy the requirements for REIT status.

*Partners, Not Partnerships, Subject to Tax.* A partnership is not a taxable entity for federal income tax purposes. Rather, a partner is required to take into account its allocable share of a partnership's income, gains, losses, deductions, and credits for any taxable year of the partnership ending within or with the taxable year of the partner, without regard to whether the partner has received or will receive any distributions from the partnership.

*Partnership Allocations.* Although a partnership agreement will generally determine the allocation of income and losses among partners, such allocations will be disregarded for tax purposes under section 704(b) of the Internal Revenue Code of 1986 if they do not comply with the provisions of section 704(b) of the Internal Revenue Code of 1986 and the Treasury Regulations promulgated thereunder as to substantial economic effect.

If an allocation is not recognized for federal income tax purposes, the item subject to the allocation will be reallocated in accordance with the partners' interests in the partnership, which will be determined by taking into account all of the facts and circumstances relating to the economic arrangement of the partners with respect to such item. The allocations of taxable income and loss of the operating partnership and our subsidiary partnerships are intended to comply with the requirements of section 704(b) of the Internal Revenue Code of 1986 and the Treasury Regulations promulgated thereunder.

*Sale of Partnership Property.* Generally, any gain realized by a partnership on the sale of property held by the partnership for more than one year and allocated to a partner will be long-term capital gain, except for any portion of such gain that is treated as depreciation or cost recovery recapture. However, under the REIT requirements imposed by the Internal Revenue Code of 1986, our share, as a partner, of any gain realized by the operating partnership or our subsidiary partnerships on the sale of any property held as inventory or other property held primarily for sale to customers in the ordinary course of a trade or business will be treated as income from a prohibited transaction that is subject to a 100% penalty tax. See "Taxation of Our Company" (p.16).

*Information Reporting Requirements and Backup Withholding Tax.* We will report to our U.S. Shareholders and the Internal Revenue Service the amount of distributions paid during each calendar year and the amount of tax withheld, if any. Under certain circumstances, U.S. Shareholders may be subject to backup withholding at a rate of 31% with respect to distributions paid. Backup withholding will apply only if the shareholder (i) fails to furnish its taxpayer identification number (which, for an individual, would be such individual's Social Security number), (ii) furnishes an incorrect taxpayer identification number, (iii) is notified by the Internal Revenue Service that it has failed properly to report payments of interest and dividends, or (iv) under certain circumstances, fails to certify, under penalty of perjury, that it has furnished a correct taxpayer identification number and has not been notified by the Internal Revenue Service that it is subject to backup withholding for failure to report interest and dividend payments. Backup withholding will not apply with respect to payments made to certain exempt recipients, such as corporations and tax-exempt organizations. U.S. Shareholders should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedure for obtaining such an exemption. Backup withholding is not an additional tax. Rather, the amount of any backup withholding with respect to a payment to a U.S. Shareholder will be allowed as a credit against such U.S. Shareholder's United States federal income tax liability and may entitle such U.S. Shareholder to a refund, provided that the required information is furnished to the Internal Revenue Service.

Back to Contents

Additional issues may arise pertaining to information reporting and backup withholding with respect to Non-U.S. Shareholders. Non-U.S. Shareholders should consult their tax advisors with respect to any such information reporting and backup withholding requirements.

*State and Local Tax Considerations.* We are, and our shareholders may be, subject to state or local taxation in various state or local jurisdictions, including those in which the company, its shareholders, the operating partnership or our subsidiary partnerships transact business or reside. The state and local tax treatment of the company, the operating partnership, our subsidiary partnerships and our shareholders may not conform to the federal income tax consequences discussed above. Consequently, prospective shareholders should consult their own tax advisors regarding the effect of state and local tax laws on their investment in the company.

*Possible Federal Tax Developments.* The rules dealing with federal income taxation are constantly under review by the Internal Revenue Service, the Treasury Department, Congress and the courts. New federal tax legislation or other provisions may be enacted into law or new interpretations, rulings or Treasury Regulations could be adopted or judicial decisions rendered, all of which could affect the taxation of the company and its shareholders. No prediction can be made as to the likelihood of passage of any new tax legislation or other provisions either directly or indirectly affecting the company and its stockholders. Consequently, the tax treatment described herein may be modified prospectively or retroactively by such legislative, judicial or administrative action.

**SELLING SHAREHOLDERS**

As described elsewhere in this prospectus, the selling shareholders are persons who either have received our restricted common shares or may receive common shares in exchange for their OP Units. The following table sets forth, as of the date of this prospectus, the name of each selling shareholder, the number of common shares beneficially owned by each selling shareholder, and the number and percentage of our common shares to be beneficially owned by each selling shareholder following the offering to which this prospectus relates. Since selling shareholders may sell all, some or none of their shares that are to be offered by this prospectus, no estimate can be made of the aggregate number of common shares offered by this prospectus, or the aggregate number of common shares that will be owned by each selling shareholder upon completion of the offering to which this prospectus relates. Except as otherwise noted below, none of the selling shareholders has, within the past three years, had any position, office or other material relationship with Acadia.

The common shares offered by this prospectus may be offered from time to time directly by the selling shareholders named below or by pledgees, donees, transferees or other successors in interest thereto:

| Name | Shares Beneficially Owned Prior to this Offering(1) | Maximum Number of Shares Which May Be Sold Hereunder | Number of Shares to Be Beneficially Owned After this Offering(2) | Percentage to Be Beneficially Owned After the Offering(2) |
|---|---|---|---|---|
| RD New York VI, LLC | 134,661(3) | 134,661 | 0 | * |
| Yale University | 6,138,492(4) | 6,138,492 | 0 | * |
| Yale University Retirement Plan for Staff Employees | 403,994(5) | 403,994 | 0 | * |
| Vanderbilt University | 1,346,647(5) | 1,346,647 | 0 | * |
| Carnegie Corporation of New York | 942,653(5) | 942,653 | 0 | * |
| Howard Hughes Medical Institute | 2,266,667(6) | 2,266,667 | 0 | * |
| Harvard Private Capital Realty, Inc. | 2,000,000(6)(7) | 2,000,000 | 0 | * |
| The Board of Trustees of the Leland Stanford Junior University | 2,133,333(6) | 2,133,333 | 0 | * |

Back to Contents

| Name | Shares Beneficially Owned Prior to this Offering(1) | Maximum Number of Shares Which May Be Sold Hereunder | Number of Shares to Be Beneficially Owned After this Offering(2) | Percentage to Be Beneficially Owned After the Offering(2) |
|---|---|---|---|---|
| TRW Master Trust | 1,200,000(6) | 1,200,000 | 0 | * |
| Five Arrows Realty Securities LLC | 3,266,667(8)(9) | 2,266,667 | 1,000,000 | 3.84(10) |
| Chestnut Hill Trust | 76,426(11) | 76,426 | 0 | * |
| Naperville Associates (12) | 166,248(13) | 166,248 | 0 | * |
| Global Investors Corp. | 468,072(14) | 468,072 | 0 | * |
| Jack Nash | 364,393(15) | 364,393 | 0 | * |
| Brown University | 685,997(16) | 685,997 | 0 | * |
| Halil Bezmen (17) | 112,644(18) | 112,644 | 0 | * |
| Selma Bezmen (17) | 112,644(18) | 112,644 | 0 | * |
| SRRD Associates, L.P. | 731,089(18) | 731,089 | 0 | * |
| Samada Limited (as Trustee of the Forest Trust) | 1,855,974(19) | 1,855,974 | 0 | * |
| Pragusa One, Inc. | 666,742(20) | 666,742 | 0 | * |
| Pragusa Two, Inc. | 225,288(21) | 225,288 | 0 | * |
| L & J Realty Company | 2,000 | 2,000 | 0 | * |
| Ross Dworman(22) | 1,270,816(23) | 595,149 | 675,667 | 2.59(10) |
| Kenneth Bernstein (24) | 628,557(25) | 261,691 | 366,866 | 1.41(10) |
| RD Woonsocket, Inc.(26) | 7,540 | 7,540 | 0 | * |
| RD Abington, Inc.(26) | 3,684 | 3,684 | 0 | * |
| RD Missouri, Inc.(26) | 2,883 | 2,883 | 0 | * |
| RD Merrilville, Inc.(26) | 7,799 | 7,799 | 0 | * |
| RD Elmwood, Inc.(26) | 5,205 | 5,205 | 0 | * |
| RD Village, Inc.(26) | 9,545 | 9,545 | 0 | * |
| RD Marley, Inc.(26) | 6,807 | 6,807 | 0 | * |
| RD Soundview Inc.(26) | 6,323 | 6,323 | 0 | * |
| RD Bloomfield Inc.(26) | 5,399 | 5,399 | 0 | * |
| RD Hobson, Inc.(27) | 5,189 | 5,189 | 0 | * |
| RD Townline, Inc.(27) | 5,036 | 5,036 | 0 | * |
| RD Whitegate, Inc.(27) | 1,650 | 1,650 | 0 | * |
| RD Crossroads Inc.(27) | 8,443 | 8,443 | 0 | * |
| RD Smithtown Inc.(27) | 7,642 | 7,642 | 0 | * |
| RD New York, LLC(28) | 103,936 | 103,936 | 0 | * |
| Homkor Colony, L.P. | 31,333 | 31,333 | 0 | * |
| G.O. Associates Limited Partnership | 38,877(29) | 38,877 | 0 | * |
| Great Universal Capital Corp. | 220,300 | 220,300 | 0 | * |
| Cheerful Corp. | 118,391 | 118,391 | 0 | * |
| Wanda Dworman | 8,475(30) | 8,475 | 0 | * |
| David Dworman | 22,825(30) | 2,825 | 20,000 | * |
| Evan Frazier Partners(31) | 19,739 | 19,739 | 0 | * |
| Evan Frazier Realty LLC(32) | 294,434 | 294,434 | 0 | * |
| RD Greenbelt, Inc.(33) | 55,011 | 55,011 | 0 | * |
| KAL Partners, L.P. | 102,068(34) | 102,068 | 0 | * |
| Michael A. Young | 72,005(35) | 34,005 | 38,000 | * |
| Mindy White (36) | 17,029 | 17,029 | 0 | * |
| S&J Roth Revocable Trust | 25,517(37) | 25,517 | 0 | * |
| Rabinowitz Family 1991 Trust | 21,247(38) | 21,247 | 0 | * |
| Rabinowitz Family 1986 Trust | 21,247(39) | 21,247 | 0 | * |
| Perry Kamerman(40) | 154,866(41) | 50,000 | 104,866 | * |
| Joel Braun(42) | 84,334(43) | 6,667 | 77,667 | * |
| Eric Newberg | 8,000 | 8,000 | 0 | * |

Back to Contents

| Name | Shares Beneficially Owned Prior to this Offering(1) | Maximum Number of Shares Which May Be Sold Hereunder | Number of Shares to Be Beneficially Owned After this Offering(2) | Percentage to Be Beneficially Owned After the Offering(2) |
|---|---|---|---|---|
| Robert Masters(44) | 66,888(45) | 4,667 | 62,221 | * |
| Jay A. Kaiser | 38,667(46) | 38,667(47) | 0 | * |
| H. Robert Holmes | 25,067(46) | 25,067(47) | 0 | * |
| Steve Bollerman | 1,333(46) | 1,333(47) | 0 | * |
| AmCap Incorporated | 44,267(46) | 44,267(47) | 0 | * |
| Lennox Securities, Inc. | 185,600(46) | 185,600(47) | 0 | * |
| TOTALS | □ | 26,719,319 | □ | □ |

(*) Less than 1%.

(1) Beneficial ownership based upon information provided by the respective selling shareholders and is based upon a common share price of $7.50. Beneficial ownership will differ at alternate share prices due to allocations of distributions as provided in the various partnership agreements of the partnerships which are currently the record owners of these shares as noted in the applicable footnotes. Assumes that all OP Units held by or attributable to the person are exchanged for common shares.

(2) Assumes sale of all common shares registered hereunder.

(3) As of the date of this prospectus, the record owner of 134,395 of these common shares is RD Properties, L.P. VI, the record owner of 133 common shares is RD Properties, L.P. VIA, and the record owner of the remaining 133 common shares is RD Properties, L.P., VIB. All three limited partnerships are expected to distribute their shares to their partners, including the selling shareholder, in accordance with the terms of their respective partnership agreements, prior to their resale pursuant to this prospectus. The LLC is 80% owned by Dworman and 20% owned by Mr. Bernstein. All of these shares are subject to a lock-up agreement that, subject to certain limited exceptions, would prohibit the sale or other disposition of such common shares pursuant to this prospectus or otherwise until December 28, 2000.

(4) As of the date of this prospectus, the record owner of 3,366,616 of these common shares is RD Properties, L.P. VI, and the record owner of the remaining 2,771,876 common shares is RD Properties, L.P. V. Both limited partnerships are expected to distribute their shares to their partners, including the selling shareholder, in accordance with the terms of their respective partnership agreements, prior to their resale pursuant to this prospectus. The shares attributable to RD Properties, L.P. VI are subject to a lock-up agreement that, subject to certain limited exceptions, would prohibit the sale or other disposition of such common shares pursuant to this prospectus or otherwise until December 28, 2000.

(5) As of the date of this prospectus, the record owner of these common shares is RD Properties, L.P. VI, which is expected to distribute its shares to its partners, including the selling shareholder, in accordance with the terms of its partnership agreement, prior to their resale pursuant to this prospectus. All of these shares are subject to a lock-up agreement that, subject to certain limited exceptions, would prohibit the sale or other disposition of such common shares pursuant to this prospectus or otherwise until December 28, 2000.

(6) As of the date of this prospectus, the record owner of these common shares is RD Properties, L.P. VIA, which is expected to distribute its shares to its partners, including the selling shareholder, in accordance with the terms of its partnership agreement, prior to their resale pursuant to this prospectus. All of these shares are subject to a lock-up agreement that, subject to certain limited exceptions, would prohibit the sale or other disposition of such common shares pursuant to this prospectus or otherwise until December 28, 2000.

Back to Contents

(7) Charlesbank Capital Partners, LLC (Charlesbank), a Massachusetts limited liability company, pursuant to an agreement among Charlesbank, the President and Fellows of Harvard College and certain individuals, has sole power to direct the vote of these shares and may be deemed the beneficial owner of these shares.

(8) As of the date of this prospectus, the record owner of 2,266,667 of these common shares is RD Properties, L.P. VIB, which is expected to distribute its shares to its partners, including the selling shareholder, in accordance with the terms of its partnership agreement, prior to their resale pursuant to this prospectus. All of the 3,266,667 shares are subject to a lock-up agreement that, subject to certain limited exceptions, would prohibit the sale or other disposition of such common shares pursuant to this prospectus or otherwise until December 28, 2000. In a series of open market purchases between September 3, 1998 and April 20, 1999, Five Arrows Realty Securities L.L.C. (Five Arrows) acquired 1,000,000 common shares as reported in the statement on Schedule 13D filed by Five Arrows and Rothschild Realty Investors II, L.L.C., on September 15, 1998, as amended by Amendment No.1 on May 21, 1999, and Amendment No. 2 on May 24, 1999.

(9) Rothschild Realty Investors II L.L.C., a Delaware limited liability company and sole managing member of Five Arrows Realty Securities L.L.C., may be deemed the beneficial owner of these shares.

(10) Assumes the selling shareholder sold all its shares which are covered by this prospectus and no selling shareholder who holds OP Units has converted such OP Units to common shares.

(11) As of the date of this prospectus, the record owner of 60,267 of these common shares is RD Properties, L.P. II, the record owner of 4,520 common shares is Columbia VGH Investors and the record owner of the remaining 11,639 common shares is RD Bloomfield Associates Limited Partnership II. Benjamin Lambert is the trustee and beneficial owner of the record owner of these shares.

(12) Naperville Associates (Naperville) is an Illinois general partnership, the partners of which are certain trusts (the Amarillo Trusts) primarily for the benefit of certain lineal descendants of Nicholas J. Pritzker, deceased (the Pritzker Family). The trustees of the Amarillo Trusts also serve as trustees of certain other trusts primarily for the benefit of certain members of the Pritzker Family. Such other trusts beneficially own indirectly through a general partnership 907,900 common shares of Acadia Realty Trust. Naperville disclaims beneficial ownership of the common shares indirectly owned by such other trusts.

(13) As of the date of this prospectus, the record owner of 60,267 of these common shares is RD Properties, L.P. II, and the record owner of the remaining 105,981 common shares is RD Bloomfield Associates Limited Partnership II. Both limited partnerships are expected to distribute their shares to their partners, including the selling shareholder, in accordance with the terms of their respective partnership agreements, prior to their resale pursuant to this prospectus.

(14) As of the date of this prospectus, the record owner of 362,091 of these common shares is RD Properties, L.P. II and the record owner of the remaining 105,981 common shares is RD Bloomfield Associates Limited Partnership II.

(15) As of the date of this prospectus, the record owner of 60,267 of these common shares is RD Properties, L.P. II, the record owner of 48,024 common shares is Columbia VGH Investors, the record owner of 105,981 common shares is RD Bloomfield Associates Limited Partnership II and the record owner of the remaining 150,121 common shares is RD Properties, L.P. III.

(16) As of the date of this prospectus, the record owner of 120,663 of these common shares is RD Properties, L.P. II, the record owner of 300,242 common shares is RD Properties, L.P. III, the record owner of 138,603 common shares is RD Properties, L.P., V, the record owner of 31,074 common shares is Columbia VGH Investors and the record owner of the remaining 95,415 common shares is RD Bloomfield Associates, L.P. II. All five limited partnerships are expected to distribute their shares to their partners, including the selling shareholder, in accordance with the terms of their respective partnership agreements, prior to their resale pursuant to this prospectus.

Back to Contents

(17) Halil Bezmen is married to Selma Bezmen, each of whom disclaims beneficial ownership of the other□s shares.
(18) As of the date of this prospectus, the record owner of these common shares is RD Properties, L.P. III, which is expected to distribute its shares to its partners, including the selling shareholder, in accordance with the terms of its partnership agreement, prior to their resale pursuant to this prospectus.
(19) As of the date of this prospectus, the record owner of 300,242 of these common shares is RD Properties, L.P. III, and the record owner of the remaining 1,555,732 common shares is RD Properties, L.P. IV. Both limited partnerships are expected to distribute their shares to their partners, including the selling shareholder, in accordance with the terms of their respective partnership agreements, prior to their resale pursuant to this prospectus.
(20) As of the date of this prospectus, the record owner of these common shares is RD Properties, L.P. IV which is expected to distribute its shares to its partners, including the selling shareholder, in accordance with the terms of its partnership agreement, prior to their resale pursuant to this prospectus.
(21) As of the date of this prospectus, the record owner of these common shares is RD Properties, L.P. III which is expected to distribute its shares to its partners, including the selling shareholder, in accordance with the terms of its partnership agreement, prior to their resale pursuant to this prospectus.
(22) Mr. Dworman is currently Chairman and Chief Executive Officer of Acadia.
(23) Reflects the common shares beneficially owned by Mr. Dworman in his individual capacity (either directly or indirectly). The 1,209,066 common shares he directly owns in his individual capacity include: (i) 533,399 shares issuable upon the conversion of OP Units, (ii) 666,667 shares issuable upon the exercise of stock options (iii) 4,000 shares purchased on the open market and (iv) 5,000 restricted shares issued to Mr. Dworman on March 15, 2000. The 61,750 common shares he indirectly owns in his individual capacity (through his equity interests in various limited partnerships) are attributable to him as follows:

| **Partnership Name** | **Beneficial Interest** |
|---|---|
| RD Properties, L.P. II | 11,578 |
| RD Town Square Associates | 5,362 |
| Columbia VGH Investors | 1,129 |
| RD Properties, L.P. III | 21,233 |
| RD Properties, L.P. IV | 22,448 |
| | 61,750 |

In the aggregate, Mr. Dworman is deemed to beneficially own 14,558,582 common shares, which in addition to the shares held by Mr. Dworman in his individual capacity (x) as noted above (799,149) or (y) as noted in footnote (29) (3,887), include:
(i) 12,848,990 shares which represent 80% of the total common shares of RD Properties, L.P. VI, RD Properties, L.P. VIA and RD Properties, L.P. VIB (collectively the □RD Funds□) which Mr. Dworman is deemed to beneficially own as an 80% managing member of RD New York VI LLC, the general partner of the RD Funds and indirect owner of 134,661 shares. Mr. Dworman□s 80% share of the 134,661 shares is 107,728.
(ii) 55,185 common shares beneficially owned by Mr. Dworman by virtue of his 100% equity interest in those entities designated by footnote (26).
(iii) 22,368 common shares beneficially owned by Mr. Dworman by virtue of his 80% equity interest in those entities designated by footnote (27).

Back to Contents

(iv) 83,149 common shares beneficially owned by Mr. Dworman by virtue of his 80% equity interest in RD New York LLC as described in footnote (28).
(v) 15,791 common shares beneficially owned by Mr. Dworman virtue of his 80% equity interest in Evan Frazier Partners as described in footnote (31).
(vi) 214,937 common shares beneficially owned by Mr. Dworman by virtue of his 73% interest in Evan Frazier Realty LLC as described in footnote (32).
(vii) 43,459 common shares beneficially owned by Mr. Dworman by virtue of his 79% equity interest in RD Greenbelt, Inc. as described in footnote (33).
(viii) Mr. Dworman owns 3,499 common shares and 388 shares, respectively, in his own name through the partnership described in footnote (29) and through RD G.O. Properties, Inc., a wholly owned corporation.

(24) Mr. Bernstein is currently President of the trust.

(25) Reflects the common shares beneficially owned by Mr. Bernstein in his individual capacity. These shares include: (i) 261,691 shares issuable upon the conversion of OP Units, (ii) 333,334 shares issuable upon the exercise of stock options, (iii) 25,532 restricted shares issued to Mr. Bernstein on January 3, 2000 (which shares are not being registered under this registration statement) and (iv) 8,000 shares purchased on the open market. In the aggregate, Mr. Bernstein is deemed to beneficially own 3,944,516 common shares which, in addition to the shares held by Mr. Bernstein in his individual capacity, include:

(i) 3,212,248 shares which represent 20% of the total common shares of the RD Funds which Mr. Bernstein is deemed to beneficially own as a 20% managing member of RD New York VI LLC, the general partner of the RD Funds and owner of 134,661 shares. Mr. Bernstein□s 20% share of the 134,551 shares is 26,933.
(ii) 5,593 common shares beneficially owned by Mr. Bernstein by virtue of his 20% equity interest in those entities designated by footnote (27).
(iii) 20,787 common shares beneficially owned by Mr. Bernstein by virtue of his 20% equity interest in RD New York LLC as described in footnote (28).
(iv) 3,948 common shares beneficially owned by Mr. Bernstein by virtue of his 20% equity interest in Evan Frazier Partners as described in footnote (31).
(v) 61,831 common shares beneficially owned by Mr. Bernstein by virtue of his 21% interest in Evan Frazier Realty LLC as described in footnote (32).
(vi) 11,552 common shares beneficially owned by Mr. Bernstein by virtue of his 21% interest in RD Greenbelt, Inc. as described in footnote (33).

(26) Mr. Dworman is the sole shareholder of this corporation.

(27) Messrs. Dworman and Bernstein own 80% and 20%, respectively, of the issued and outstanding shares.

(28) Messrs. Dworman and Bernstein own 80% and 20%, respectively, of this limited liability corporation.

(29) Mr. Dworman owns 3,499 common shares and 388 shares, respectively, through this partnership in his own name and through RD G.O. Properties, Inc., a wholly owned corporation.

(30) As of the date of this prospectus, the record owner of 2,825 of these common shares is Columbia VGH Investors. Mr. Dworman also owns 20,000 shares in his own name, none of which are the subject of this prospectus.

(31) Messrs. Dworman and Bernstein own 80% and 20%, respectively, of this partnership.

(32) Messrs. Dworman and Bernstein own 73% and 21%, respectively, of this partnership.

Back to Contents

(33) Messrs. Dworman and Bernstein own 79% and 21%, respectively, of the issued and outstanding shares.
(34) Greg Manocherian has the power to direct the vote of these shares as well as the power to direct the disposition of these shares and, consequently, may be deemed a beneficial owner of these shares.
(35) Mr. Young also owns 38,000 shares in his own name, none of which are the subject of this prospectus.
(36) Mrs. White is married to Gregory White, a trustee of Acadia. Mr. White owns 22,000 shares, none of which are the subject of this prospectus and all of which Mrs. White disclaims ownership of.
(37) Stephen Roth is the beneficial owner of these shares.
(38) Each of Martin Rabinowitz and Elaine Appel, in his/her capacity as trustee, has the power to direct the vote of these shares as well as the power to direct the disposition of these shares and, consequently, may be deemed a beneficial owner of these shares.
(39) Each of Steven Rabinowitz and Marc Weisman, in his capacity as trustee, has the power to direct the vote of these shares as well as the power to direct the disposition of these shares and, consequently, may be deemed a beneficial owner of these shares.
(40) Mr. Kamerman is currently a Senior Vice President and Treasurer of Acadia.
(41) These shares include: (i) 50,000 shares issuable upon the conversion of OP Units, (ii) 103,334 shares issuable upon the exercise of stock options and (iii) 1,532 restricted shares issued to Mr. Kamerman on January 3, 2000 (which shares are not being registered under this registration statement).
(42) Mr. Braun is currently a Senior Vice President of Acadia.
(43) These shares include: (i) 6,667 shares issuable upon the conversion of OP Units, (ii) 76,667 shares issuable upon the exercise of stock options and (iii) 1,000 shares purchased on the open market.
(44) Mr. Masters is currently a Senior Vice President and General Counsel of Acadia.
(45) These shares include: (i) 4,667 shares issuable upon the conversion of OP Units, (ii) 56,667 shares issuable upon the exercise of stock options, (iii) 2,554 restricted shares issued to Mr. Masters on January 3, 2000 (which shares are not being registered under this registration statement) and (iv) 3,000 shares purchased on the open market.
(46) As of the date of this prospectus, this selling shareholder holds preferred OP Units which were issued pursuant to a certain Agreement of Contribution dated November 8, 1999. Preferred OP Units are convertible into regular OP Units at a rate of approximately 133.33 regular OP Units for each preferred OP Unit. Regular OP Units are convertible into common shares on a one-for-one basis. Amounts set forth in the table reflect the "as converted" number of common shares held by each selling shareholder as of the date of this prospectus.
(47) These shares are subject to a lock-up agreement that, subject to certain limited exceptions, would prohibit the sale or other disposition of such common shares pursuant to this prospectus or otherwise until November 16, 2000.

## PLAN OF DISTRIBUTION

This prospectus relates to the offer and sale from time to time by the persons listed under the "Selling Shareholders" section of this prospectus of up to 26,719,319 common shares. We have issued 16,061,238 restricted common shares to certain selling shareholders and may issue further shares to the extent certain other selling shareholders exchange their 10,658,081 OP Units, including 294,934 OP Units issuable upon the conversion of preferred OP Units, held by them in our subsidiary, the operating partnership, for an equal number of common shares. We have registered the selling shareholders' common shares for resale to provide them with freely tradeable securities. However, registration of their shares does not necessarily mean that they

Back to Contents

will offer or sell any of their shares. We will not receive any proceeds from the offering or sale of their shares.

Selling shareholders (or pledgees, donees, transferees or other successors in interest) may sell the common shares to which this prospectus relates from time to time on the New York Stock Exchange, where our common shares are listed for trading, in other markets where our common shares are traded, in negotiated transactions, through underwriters or dealers, directly to one or more purchasers, through agents or in a combination of such methods of sale. They will sell the common shares at prices which are current when the sales take place or at other prices to which they agree. All costs, expenses and fees in connection with the registration of the common shares offered hereby will be borne by us. Brokerage commissions and similar selling expenses, if any, attributable to the sale of common shares offered hereby will be borne by the selling shareholders.

The selling shareholders may effect such transactions by selling the common shares offered hereby directly to purchasers or through broker-dealers, which may act as agents or principals. Such broker-dealers may receive compensation in the form of discounts, concessions, or commissions from the selling shareholders and/or the purchasers of the common shares offered hereby for whom such broker-dealers may act as agents or to whom they sell as principal, or both (which compensation as to a particular broker-dealer might be in excess of customary commissions).

In connection with an underwritten offering, underwriters or agents may receive compensation in the form of discounts, concessions or commissions from a selling shareholder or from purchasers of the shares which are the subject of this prospectus for whom they may act as agents, and underwriters may sell the shares which are the subject of this prospectus to or through dealers, and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents. We have agreed to indemnify each selling shareholder against certain liabilities, including liabilities arising under the Securities Act. The selling shareholders may agree to indemnify any agent, dealer or broker-dealer that participates in transactions involving sales of the common shares offered hereby against certain liabilities, including liabilities arising under the Securities Act.

The shares which are the subject of this prospectus may be sold directly or through broker-dealers acting as principal or agent, or pursuant to a distribution by one or more underwriters on a firm commitment or best-efforts basis. The methods by which the shares which are the subject of this prospectus may be sold include: (a) a block trade in which the broker-dealer so engaged will attempt to sell such shares as agent but may position and resell a portion of the block as principal to facilitate the transaction; (b) purchases by a broker-dealer as principal and resale by such broker-dealer for its account pursuant to this prospectus; (c) ordinary brokerage transactions and transactions in which the broker solicits purchasers; (d) an exchange distribution in accordance with the rules of the New York Stock Exchange; (e) privately negotiated transactions; and (f) underwritten transactions. The selling shareholders and any underwriters, dealers or agents participating in the distribution of the shares which are the subject of this prospectus may be deemed to be underwriters within the meaning of the Securities Act, and any profit on the sale of such shares by the selling shareholders and any commissions received by any such broker-dealers may be deemed to be underwriting commissions under the Securities Act. None of the selling shareholders has informed us as to their plan of distribution.

Back to Contents

## EXPERTS

The financial statements and schedule included in the annual report on form 10-K for the fiscal year ended December 31, 1998 incorporated by reference in this prospectus and elsewhere in this registration statement have been audited by Ernst & Young LLP. These audited financial statements are incorporated in this prospectus by reference in reliance upon the authority of Ernst & Young LLP as experts in accounting and auditing.

## LEGAL MATTERS

Certain legal matters will be passed upon for us by Battle Fowler LLP, New York, New York. The validity of the common shares offered hereby will be passed upon for us by Berliner, Corcoran & Rowe L.L.P., Washington, D.C. In addition, the description of federal income tax matters contained in the section of this prospectus entitled Federal Income Tax Considerations is based on the opinion of Battle Fowler LLP.

No dealer, salesperson or other individual has been authorized to give any information or make any representations not contained in this prospectus in connection with the offering covered by this prospectus. If given or made, such information or representation must not be relied upon as having been authorized by Acadia or the selling shareholders. This prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, the common shares in any jurisdiction where, or to any person to whom, it is unlawful to make such offer or solicitation. Neither the delivery of this prospectus nor any sale made hereunder shall, under any circumstances, create an implication that there has not been any change in the facts set forth in this prospectus or in the affairs of our company since the date hereof.

**TABLE OF CONTENTS**

**Prospectus**



## 26,719,319 Shares

# Acadia Realty Trust

# Common Shares

**PROSPECTUS**

**March 29, 2000**

Back to Contents

**PROSPECTUS**

## $75,000,000

# Acadia Realty Trust

## Common and Preferred Shares of Beneficial Interest

We may offer, from time to time:

- common shares of beneficial interest, par value $0.001 per share; and
- preferred shares of beneficial interest.

For each type of securities listed above, the amount, price and terms will be determined at or prior to the time of sale.

The specific terms of these securities will be set forth in one or more supplements to this prospectus, which will also contain information, where appropriate, about the risk factors and federal income tax considerations relating to these securities. You should read this prospectus and any accompanying prospectus supplement carefully before you purchase our securities.

We may sell these securities directly to investors or to or through underwriters, dealers or agents. More information about the way we will distribute these securities is in the prospectus under the heading Plan of Distribution on page 7. This prospectus may not be used to sell any of these securities unless accompanied by a prospectus supplement.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

*The date of this prospectus is May 14, 2003*

Back to Contents

**TABLE OF CONTENTS**





Back to Contents

## INFORMATION ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission (□SEC□) using a □shelf□ registration process. Under this shelf process, we may sell in one or more offerings, our equity securities with an aggregate public offering price of up to $75,000,000. This prospectus provides you with a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. Before you invest, you should read both this prospectus and the applicable prospectus supplement together with the additional information described in this prospectus under the headings □Where You Can Find More Information□ on page 9 and □Incorporation of Certain Documents by Reference□ on page 9.

## FORWARD-LOOKING INFORMATION

Certain information both included and incorporated by reference in this prospectus may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities and Exchange Act of 1934 and as such may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations are generally identifiable by use of the words □may,□ □will,□ □should,□ □expect,□ □anticipate,□ □estimate,□ □believe,□ □intend□ or □project□ or the negative thereof or other variations thereon or comparable terminology. Factors which could have a material adverse effect on the operations and future prospects of our Company include, but are not limited to those set forth under the heading □Risk Factors□ in any supplement to this prospectus. These risks and uncertainties should be considered in evaluating any forward-looking statements contained or incorporated by reference herein.

Back to Contents

*You should rely only on the information incorporated by reference or provided in this prospectus and any accompanying prospectus supplement. We have not authorized anyone to provide you with additional information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this prospectus or the accompanying prospectus supplement is accurate as of any date other than the date of this prospectus or the accompanying prospectus supplement.*

*Throughout this prospectus, the terms "Company," "we," "our" and "us," are all used in reference to Acadia Realty Trust, except as the context otherwise requires.*

## OUR COMPANY

We are Acadia Realty Trust (formerly known as Mark Centers Trust), a Maryland real estate investment trust ("REIT") formed on March 4, 1993. We are a fully integrated, self-managed and self-administered equity REIT focused primarily on the ownership, acquisition, redevelopment and management of neighborhood and community shopping centers. All of our assets are held by, and all of our operations are conducted through, Acadia Realty Limited Partnership, a Delaware limited partnership formerly known as Mark Centers Limited Partnership. We refer to Acadia Realty Limited Partnership and its majority-owned subsidiaries as the "Operating Partnership" throughout this prospectus. As of the date of this prospectus, we controlled 90% of the Operating Partnership as the sole general partner. The limited partners represent entities or individuals who contributed their interests in certain properties or partnerships to the Operating Partnership in exchange for common or preferred units of limited partnership interest, which we refer to as "OP Units." The common OP Units are exchangeable for our common shares on a one-for-one basis, subject to adjustment for certain events.

We currently operate 62 properties which we own or have an ownership interest in, consisting of 58 neighborhood and community shipping centers, one enclosed mall, one mixed-use property (retail/residential) and two multifamily properties, all of which are located in the Northeast, Mid-Atlantic and Midwest United States, totaling approximately 9.0 million square feet.

Our primary business objective is to acquire and manage commercial retail properties that will provide cash for distributions to our shareholders while also creating potential for capital appreciation to enhance investor returns. Currently, the primary conduit for our acquisition program is through a newly-formed joint venture, the Acadia Strategic Opportunity Fund, LP, which we and four of our institutional shareholders formed in September 2001. Initially, the investors committed $70 million. We committed an additional $20 million of investor capital to the venture and will be entitled to receive standard management, construction and leasing fees with respect to properties acquired by the joint venture. In addition, we are entitled to an asset management fee equal to 1.5% of the capital committed as well as an incentive payment of 20% after the return of all investor capital with a 9% preferred return.

We have elected to be treated as a REIT for federal income tax purposes. This treatment permits us to deduct dividend distributions to our shareholders for federal income tax purposes, thus effectively eliminating the "double taxation" that generally results when a corporation earns income and distributes that income to its shareholders by way of dividends. In order to maintain our status as a REIT, we must comply with a number of requirements under federal income tax law. See "Risk Factors" and "Certain Federal Income Tax Considerations" in the supplement relating to this prospectus.

Investing in our securities involves various risks. In considering whether to purchase our securities, you should carefully consider the matters discussed under "Risk Factors" in the supplement relating to this prospectus.

Our principal executive offices are located at 20 Soundview Marketplace, Port Washington, New York, 10050, and our telephone number is (516) 767-8830.

Back to Contents

## DESCRIPTION OF OUR SHARES

*The following description of our shares does not purport to be complete and is qualified in its entirety by reference to applicable Maryland law, and to provisions of our declaration of trust, as amended and restated, copies of which are exhibits to the registration statement of which this prospectus is a part. See "Where You Can Find More Information," on page 9.*

**Overview**

Under our declaration of trust, our board of trustees has the authority to issue 100,000,000 shares of beneficial interest in our Company, consisting of common shares, preferred shares and other types or classes of securities (including debt securities) representing a beneficial interest in our Company.

As of the date of this prospectus, our issued and outstanding shares of beneficial interest consist of 25,561,216 common shares. There are also issued and outstanding, 2,894,033 OP Units convertible into our common shares on a one-for-one basis and 2,212 convertible preferred OP Units convertible into OP Units at a conversion price of $7.50 per share based on a stated value of $1,000 per preferred OP Unit. The convertible preferred OP Units have a distribution preference and entitle the holder thereof to a 9% dividend yield. We do not currently have any preferred shares issued and outstanding.

Subject to the New York Stock Exchange rules which require shareholder approval for certain issuances of securities, we may issue shares from time to time in one or more series, generally without shareholder approval, with such preferences, conversion and other rights, voting powers, restrictions, limitations as to distributions, qualifications and terms and conditions of redemption as are permitted by Maryland law and as established by our board of trustees.

*The following description sets forth certain general terms and provisions of our shares to which a supplement to this prospectus may relate. The particular terms of the shares being offered and the extent to which such general provisions may apply will be described in the applicable supplement to this prospectus relating to such shares. If so indicated in the applicable supplement to this prospectus, the terms of any series of shares may differ from the terms set forth below, except those terms required by our declaration of trust. The statements below describing our shares are subject to and qualified by reference to the applicable provisions of our declaration of trust.*

**General Description of our Common Shares**

*General.* Unless otherwise provided for in the applicable supplement to this prospectus, our common shares have equal dividend, liquidation and other rights, and have no preference, exchange or appraisal rights, except for any appraisal rights provided by Maryland law. Holders of our common shares have no conversion, sinking fund or redemption rights, or preemptive rights to subscribe for any of our securities.

*Distributions.* Holders of our common shares may receive distributions out of assets that we can legally use to pay distributions, when and if they are authorized and declared by our board of trustees. Each common shareholder shares in the same proportion as other common shareholders out of the assets that we can legally use to pay distributions after we pay or make adequate provision for all of our known debts and liabilities in the event we are liquidated, dissolved or our affairs are wound up.

*Voting Rights.* Holders of our common shares have the power to vote on all matters presented to our common shareholders, including the election of trustees, except as otherwise provided by Maryland law. Our declaration of trust prohibits us from merging, if we are not the surviving entity, or selling all or substantially all of our assets without the approval of two-thirds of the outstanding shares that are entitled to vote on such matters; all other mergers or consolidations require approval of a majority of the outstanding shares that are entitled to vote on such matters. Holders of our common shares are entitled to one vote per share.

There is no cumulative voting in the election of our trustees, which means that holders of more than 50% of the common shares voting for the election of trustees can elect all of the trustees if they choose to do so and the holders of the remaining shares cannot elect any trustees.

Back to Contents

*Restrictions on Transfer.* To qualify as a REIT under the Internal Revenue Code of 1986, we must satisfy certain ownership requirements. Specifically, not more than 50% in value of our outstanding common shares may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code of 1986 to include certain entities) during the last half of a taxable year, and the common shares must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of twelve months or during a proportionate part of a shorter taxable year. We must also satisfy certain income requirements to maintain our REIT status. One such requirement is that at least 75% of our Company's gross income for each calendar year must consist of rents from real property and income from certain other real property investments. This is complicated by the fact that the rents received by the Operating Partnership will not qualify as rents from real property if we own, actually or constructively, 10% or more of the ownership interests in our lessees, within the meaning of section 856(d)(2)(B) of the Internal Revenue Code of 1986, as amended. See "Federal Income Tax Considerations," in the applicable supplement to this prospectus.

Because our board of trustees believes it is essential for us to continue to qualify as a REIT, our declaration of trust contains provisions aimed at satisfying the requirements described above. In regard to the ownership requirements, our declaration of trust provides that subject to certain exceptions, no person may own, or be deemed to own by virtue of the attribution provisions of the Internal Revenue Code of 1986, more than 4% of our outstanding common shares. Our trustees may waive this 4% limitation if evidence satisfactory to them or our tax counsel is presented that such ownership will not jeopardize our status as a REIT. As a condition of such waiver, our trustees may require opinions of counsel satisfactory to them and/or an undertaking from the applicant with respect to preserving our REIT status.

The trustees of Mark Centers Trust waived the 4% ownership limitation in August 1998 when certain affiliates of RD Capital, Inc. received shares in consideration of their contribution to Mark Center Limited Partnership. Our trustees waived the 4% ownership limitation in January 2002, when they permitted Yale University to acquire 2,266,667 common shares. As a condition to allowing the acquisition, a voting trust was created whereby all shares that Yale University owns in excess of 30% of our outstanding common shares will be voted in the same proportion as all other shares voted, excluding Yale. Our trustees permitted investors owning in excess of 4% of the trust's outstanding shares to acquire additional shares on three other occasions through open market purchases transacted during specified three-month windows.

In addition, our declaration of trust provides that any purported transfer or issuance of shares or securities transferable into shares which would (i) violate the 4% limitation described above, (ii) result in shares being owned by fewer than 100 persons for purposes of the REIT provisions of the Internal Revenue Code of 1986, (iii) result in our Company being "closely held" with the meaning of Section 856(h) of the Internal Revenue Code of 1986, or (iv) otherwise jeopardize our REIT status under the Internal Revenue Code (including a transfer which would cause us to own, actually or constructively, 9.8% or more of the ownership interests in one of our lessees) will be null and void ab initio (from the beginning). Moreover, common shares transferred, or proposed to be transferred, in contravention of the above will be subject to purchase by us at a price equal to the lesser of (i) the price stipulated in the challenged transaction and (ii) the fair market value of such shares (determined in accordance with the rules set forth in our declaration of trust).

All certificates representing the common shares bear a legend referring to the restrictions described above.

The ownership limitations described above could have the effect of delaying, deferring or preventing a takeover or other transaction in which holders of some, or a majority, of common shares might receive a premium for their shares over the then prevailing market price or which such holders might believe to be otherwise in their best interest.

*Transfer Agent and Registrar.* The transfer agent and registrar for our common shares will be set forth in the applicable supplement to this prospectus.

Back to Contents

**General Description of our Preferred Shares**

*General.* Subject to limitations prescribed by Maryland law and our trust agreement, our board of trustees is authorized to issue one or more series of preferred shares from time to time and, with respect to any such series, to fix the designations, numbers, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms or conditions of redemption of such series.

Reference is made to any supplement to this prospectus relating to the preferred shares offered thereby for specific items, including:

- The title and stated value of such preferred shares;
- The number of shares of such preferred shares offered, the liquidation preference per share and the offering price of such preferred shares;
- The distribution rate(s), period(s), and/or payment date(s) or method(s) of calculation thereof applicable to such preferred shares;
- The date from which distributions on such preferred shares shall accumulate, if applicable;
- The procedures for any auction and remarketing, if any, for such preferred shares;
- The provisions for a sinking fund, if any, for such preferred shares;
- The provision for redemption, if applicable, of such preferred shares;
- Any listing of such preferred shares on any securities exchange;
- The terms and conditions, if applicable, upon which such preferred shares will be convertible into common shares, including the conversion price (or manner of calculation thereof);
- A discussion of federal income tax considerations applicable to such preferred shares;
- The relative ranking and preferences of such preferred shares as to distribution rights (including whether any liquidation preference as to the preferred shares will be treated as a liability for purposes of determining the availability of assets for distributions to holders of shares ranking junior to the preferred shares as to distribution rights) and rights upon our liquidation or winding up of our affairs;
- Any limitations on issuance of any series of preferred shares ranking senior to or on a parity with such series of preferred shares as to distribution rights and rights upon the liquidation, dissolution or winding up of our affairs; and
- Any other specific terms, preferences, rights, limitations or restrictions of such preferred shares.

*Rank.* Unless otherwise indicated in the applicable supplement to this prospectus, our preferred shares rank, with respect to payment of distributions and rights upon our liquidation, dissolution or winding up, and allocation of our earnings and losses:

- senior to all classes or series of common shares, and to all equity securities ranking junior to such preferred shares;
- on a parity with all equity securities issued by us, the terms of which specifically provide that such equity securities rank on a parity with the preferred shares; and
- junior to all equity securities issued by us, the terms of which specifically provide that such equity securities rank senior to the preferred shares.

*Distributions.* Subject to any preferential rights of any outstanding shares or series of shares, our preferred shareholders are entitled to receive distributions, when and as authorized by our board of trustees, out of legally available funds, and share pro rata based on the number of preferred shares, common shares and other parity equity securities outstanding. Distributions will be made at such rates and on such dates as will be set forth in the applicable supplement to this prospectus.

5

Back to Contents

*Voting Rights.* Unless otherwise indicated in the applicable supplement to this prospectus, holders of our preferred shares will not have any voting rights.

*Liquidation Preference.* Upon the voluntary or involuntary liquidation, dissolution or winding up of our affairs, then, before any distribution or payment shall be made to the holders of any common shares or any other class or series of shares ranking junior to the preferred shares in our distribution of assets upon any liquidation, dissolution or winding up, the holders of each series of preferred shares are entitled to receive, after payment or provision for payment of our debts and other liabilities, out of our assets legally available for distribution to shareholders, liquidating distributions in the amount of the liquidation preference per share (set forth in the applicable supplement to this prospectus), plus an amount, if applicable, equal to all distributions accrued and unpaid thereon (which shall not include any accumulation in respect of unpaid distributions for prior distribution periods if such preferred shares do not have a cumulative distribution). After payment of the full amount of the liquidating distributions to which they are entitled, the holders of preferred shares will have no right or claim to any of our remaining assets. In the event that, upon any such of our voluntary or involuntary liquidation, dissolution or winding up, the legally available assets are insufficient to pay the amount of the liquidating distributions on all of our outstanding preferred shares and the corresponding amounts payable on all of our shares of other classes or series of equity security ranking on a parity with the preferred shares in the distribution of assets upon liquidation, dissolution or winding up, then the holders of our preferred shares and all other such classes or series of equity securities shall share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

If the liquidating distributions are made in full to all holders of preferred shares, our remaining assets shall be distributed among the holders of any other classes or series of equity security ranking junior to the preferred shares upon our liquidation, dissolution or winding up, according to their respective rights and preferences and in each case according to their respective number of shares.

*Conversion Rights.* The terms and conditions, if any, upon which shares of any series of preferred shares are convertible into common shares will be set forth in the applicable supplement to this prospectus. Such terms will include the number of common shares into which the preferred shares are convertible, the conversion price (or manner of calculation thereof), the conversion period, provisions as to whether conversion will be at the option of the holders of the preferred shares or us, the events requiring an adjustment of the conversion price and provisions affecting conversion in the event of the redemption of such preferred shares.

*Redemption.* If so provided in the applicable supplement to this prospectus, our preferred shares will be subject to mandatory redemption or redemption at our option, in whole or in part, in each case upon the terms, at the times and at the redemption prices set forth in such supplement to this prospectus.

*Registrar and Transfer Agent.* The registrar and transfer agent for our preferred shares will be set forth in the applicable supplement to this prospectus.

Back to Contents

## USE OF PROCEEDS

Unless otherwise described in a supplement to this prospectus, we expect to use the net proceeds of the sale of our securities primarily to acquire, redevelop and manage commercial retail properties, as described in detail in the prospectus supplement depending upon the circumstances at the time of the related offering, and for other general Company purposes. Any specific allocation of the net proceeds of an offering of securities to a specific purpose will be determined at the time of such offering and will be described in the related supplement to this prospectus.

## INTERESTS OF NAMED EXPERTS AND COUNSEL

Martin L. Edelman, one of our trustees, is counsel to the law firm of Paul, Hastings, Janofsky & Walker LLP. Paul Hastings is rendering an opinion as to certain tax matters in the registration statement of which this prospectus is a part.

## PLAN OF DISTRIBUTION

We may sell our securities in or outside the United States to or through underwriters or dealers, through agents or directly to other purchasers. The applicable supplement to this prospectus with respect to our securities, will set forth the terms of the offering of our securities, including the name or names of any underwriters, dealers or agents, the public offering price, any underwriting discounts and other items constituting underwriter compensation, any discounts or concessions allowed or reallowed or paid to dealers, and any securities exchanges on which the securities may be listed.

Our securities may be sold directly by us or through agents designated by us from time to time at fixed prices, which may be changed. Any agent involved in the offer or sale of our securities will be named, and any commissions payable by us to such agent will be set forth, in the supplement to this prospectus relating thereto.

The distribution of our securities may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, at market prices prevailing at the time of sale, at prices related to such prevailing market prices, or at negotiated prices.

In connection with the sale of our securities, underwriters or agents may receive compensation from us or from purchasers of our securities, for whom they may act as agents, in the form of discounts, concessions or commissions. Underwriters may sell our securities to or through dealers, and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents. Underwriters, dealers and agents that participate in the distribution of our securities may be deemed to be underwriters under the Securities Act, and any discounts or commissions they receive from us and any profit on the resale of our securities they realize may be deemed to be underwriting discounts and commissions under the Securities Act. Any such underwriter or agent will be identified, and any such compensation received from us will be described, in the applicable supplement to this prospectus. Unless otherwise set forth in the supplement to this prospectus relating thereto, the obligations of the underwriters or agents to purchase our securities will be subject to conditions precedent and the underwriters will be obligated to purchase all our securities if any are purchased. The public offering price and any discounts or concessions allowed or reallowed or paid to dealers may be changed from time to time.

Any securities sold pursuant to this prospectus and applicable prospectus supplement, will be approved for trading, upon notice of issuance, on the New York Stock Exchange.

Under agreements into which we may enter, underwriters, dealers and agents who participate in the distribution of our securities may be entitled to indemnification by us against and contribution toward certain liabilities, including liabilities under the Securities Act.

Back to Contents

Underwriters, dealers and agents may engage in transactions with, or perform services for, us in the ordinary course of business.

In order to comply with the securities laws of certain states, if applicable, our securities will be sold in such jurisdictions only through registered or licensed brokers or dealers. In addition, in certain states securities may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and complied with.

## RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERENCE DIVIDENDS

The following table sets forth our historical ratio of earnings to combined fixed charges and preference dividends for the periods indicated:

| Year Ended December 31, | | | | |
|---|---|---|---|---|
| 1998 | 1999 | 2000 | 2001 | 2002 |
| 0.23 | 1.34 | 1.41 | 1.53 | 2.00 |

For the purposes of computing the ratio of earnings to fixed charges and preference dividends, earnings were calculated using income before minority interests, adding back total fixed charges less preference security dividend requirements of consolidated subsidiaries. Fixed charges consist of interest expense, minority interest in income of subsidiary, recurring fees and amortization of capitalized costs related to indebtedness and preference security dividend requirements of consolidated subsidiaries. Other than in 1998, there are no years in which earnings were insufficient to cover combined fixed charges and preference dividends. In 1998, earnings were adversely affected by certain non-recurring charges associated with the acquisition of properties and issuance of common shares and OP Units to affiliates of RD Capital, Inc., as well as expenses recognized in connection with the settlement of certain litigation.

## EXPERTS

Our consolidated financial statements incorporated in this prospectus by reference from our Annual Report on Form 10-K for the year ended December 31, 2002 have been audited by Ernst & Young LLP, independent auditors, as stated in their report which is incorporated herein by reference, and has been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

## LEGAL MATTERS

Certain legal matters will be passed upon for us by Paul, Hastings, Janofsky & Walker LLP, New York, New York. The validity of the securities will be passed upon for us by Berliner, Corcoran & Rowe L.L.P., Washington, DC.

## WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act). As a result, we file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission (SEC). You may read and copy any document we file at the SECs regional offices at Citigroup Center, 500 West Madison Street, Room 1400, Chicago, Illinois 60661-2511. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Rooms. The SEC maintains an internet site that contains reports, proxy and information statements, and other information that we file electronically with the SEC and which are available at the SECs web site at: http://www.sec.gov.

Back to Contents

We have filed with the SEC a registration statement on Form S-3 under the Securities Act to register the shares offered by this prospectus. This prospectus is part of the registration statement. This prospectus does not contain all the information contained in the registration statement because we have omitted certain parts of the registration statement in accordance with the rules and regulations of the SEC. You can obtain a copy of the registration statement from the SEC at the address listed above or from the SEC s web site listed above.

**INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE**

The SEC allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings we will make with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act:

- Our Annual Report on Form 10-K for the fiscal year ended December 31, 2002, filed with the SEC on March 28, 2003 (SEC File No. 001-12002);

- The description of our common shares of beneficial interest contained in our registration statement on Form 8-A together with all amendments and reports updating such description dated May 21, 1993 (SEC File No. 33-6008).

You may request a copy of these filings (not including the exhibits to such documents unless the exhibits are specifically incorporated by reference in the information contained in this prospectus), at no cost, by writing or telephoning us at the following address:

Acadia Realty Trust
20 Soundview Marketplace
Port Washington, New York 11050
Attn: Jon Grisham
Telephone requests may be directed to (516) 767-8830.

This prospectus is part of a registration statement we filed with the SEC. You should rely only on the information or representations provided in this prospectus. We have authorized no one to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front of the document.

Statements contained in this prospectus as to the contents of any contract or document are not necessarily complete and in each instance reference is made to the copy of that contract or document filed as an exhibit to the registration statement or as an exhibit to another filing, each such statement being qualified in all respects by such reference and the exhibits and schedules thereto.



Back to Contents

**$75,000,000**

# Acadia Realty Trust

**PROSPECTUS**

**May 14, 2003**

Back to Contents

**RE-OFFER PROSPECTUS**

# 2,328,269 Common Shares of Beneficial Interest of

# Acadia Realty Trust

We are Acadia Realty Trust (Acadia or the Company), a statutory real estate investment trust formed under the laws of the State of Maryland. Our common shares of beneficial interest which are the subject of this re-offer prospectus may be offered and sold to the public by individuals who are deemed to be affiliates under Rule 144 promulgated under the Act (the Selling Securityholders) who will be issued common shares pursuant to the terms of the Company s 1999 Share Option Plan (the Plan).

The Selling Securityholders may sell their common shares directly or indirectly in one or more transactions on any stock exchange or stock market on which the common shares may be listed at the time of the sale, in privately negotiated transactions, or through a combination of such methods. These sales may be at fixed prices (which may be changed), at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices.

Our common shares are listed on the New York Stock Exchange under the symbol AKR. On March 18, 2004, the last reported sale price for our common shares was $15.00 per share.

This re-offer prospectus has been prepared for the purpose of registering the common shares which are the subject of this re-offer prospectus under the Securities Act to allow for future sales by the Selling Securityholders to the public. The Selling Securityholders may sell common shares directly to purchasers or through brokers or dealers, which may act as agents or principals, or pursuant to a distribution by one or more underwriters on a firm commitment or best efforts basis. Such brokers, dealers may receive compensation in the form of commissions, discounts or concessions from the Selling Securityholders and/or purchasers of the common shares, or both (which compensation as to a particular broker or dealer may be in excess of customary commissions). In connection with such sales, the Selling Securityholders and any participating broker or dealer may be deemed to be underwriters within the meaning of the Securities Act, and any commissions they receive and the proceeds of any sale of common shares may be deemed to be underwriting discounts and commissions under the Securities Act. We will not receive any proceeds from the sale of the common shares by the Selling Securityholders.

*This investment involves a high degree of risk. Please see Risk Factors beginning on page 4.*

*Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined whether this re-offer prospectus is truthful or complete. Any representation to the contrary is a criminal offence.*

*This re-offer prospectus does not constitute an offer to sell securities in any state to any person to whom it is unlawful to make such offer in such state.*

**The date of this re-offer prospectus is March 19, 2004.**

Back to Contents

**TABLE OF CONTENTS**





Back to Contents

**RE-OFFER PROSPECTUS SUMMARY**

*This summary highlights information included elsewhere in or incorporated by reference in this re-offer prospectus. It may not contain all of the information that is important to you. You should read the following summary together with the more detailed information included or incorporated by reference in this re-offer prospectus, including risk factors regarding our business and the common shares being offered hereby.*

In this re-offer prospectus, we refer to Acadia together with its subsidiaries (unless the context otherwise requires) as "we," "us," "our," or "our Company."

***Our Company***

*Overview*

We are Acadia Realty Trust, a Maryland real estate investment trust ("REIT") formed on March 4, 1993. We are a fully integrated, self-managed and self-administered equity REIT focused primarily on the ownership, acquisition, redevelopment and management of neighborhood and community shopping centers. All of our assets are held by, and all of our operations are conducted through, Acadia Realty Limited Partnership, a Delaware limited partnership, and its majority-owned subsidiaries. We refer to Acadia Realty Limited Partnership and its majority-owned subsidiaries as the "Operating Partnership" throughout this re-offer prospectus.

As of the date of this re-offer prospectus, we controlled 96% of the Operating Partnership as the sole general partner. As the general partner, we are entitled to share, in proportion to our percentage interest, in the cash distributions and profits and losses of the Operating Partnership. The limited partners represent entities or individuals who contributed their interests in certain properties or partnerships to the Operating Partnership in exchange for common or preferred units of limited partnership interest, which we refer to as "OP Units." The common OP Units are exchangeable for our common shares on a one-for-one basis, subject to adjustment for certain events.

As of the date of this re-offer prospectus, we operate 62 properties which we own or have an ownership interest in, consisting of 58 neighborhood and community shipping centers, one enclosed mall, one mixed-use property (retail/residential) and two multifamily properties, all of which are located in the Northeast, Mid-Atlantic and Midwest United States, totaling approximately 9.0 million square feet.

Our primary business objective is to acquire and manage commercial retail properties that will provide cash for distributions to our shareholders while also creating the potential for capital appreciation to enhance investor

returns. Currently, the primary conduit for our acquisition program is through a joint venture, Acadia Strategic Opportunity Fund, LP, which we and four of our institutional shareholders formed in September 2001. Initially, the investors committed $70 million. We committed an additional $20 million of investor capital to the venture and will be entitled to receive standard management, construction and leasing fees with respect to properties acquired by the joint venture. In addition, we are entitled to an asset management fee equal to 1.5% of the capital committed as well as an incentive payment of 20% after the return of all investor capital with a 9% preferred return. As of the date of this re-offer prospectus, this joint venture has invested in $166 million of properties and we and the investors have contributed equity to the joint venture in the amount of $10.5 million and $36.5 million, respectively.

Our common shares are traded on the New York Stock Exchange under the symbol "AKR."

*Tax Status*

We have elected to be treated as a REIT for federal income tax purposes. This treatment permits us to deduct dividend distributions to our shareholders for federal income tax purposes, thus effectively eliminating the "double taxation" that generally results when a corporation earns income and distributes that income to its shareholders by way of dividends. In order to maintain our status as a REIT, we must comply with a number of requirements under federal income tax law. See "Risk Factors" and "Federal Income Tax Considerations" beginning on pages 4 and 12, respectively, of this re-offer prospectus.

Back to Contents

*Our Offices*

Our principal executive offices are located at 1311 Mamaroneck Avenue, Suite 260, White Plains, NY 10605, and our telephone number is (914) 288-8100.

***Recent Developments***

*Venture with Klaff Realty, L.P.*

On January 27, 2004, we entered into a venture (the "Venture") with Klaff Realty, L.P. ("Klaff") and Klaff's long time capital partner Lubert-Adler Management, Inc. ("Lubert-Adler") for the purpose of making investments in surplus or underutilized properties owned by retailers. The initial size of the Venture is expected to be approximately $300 million in equity based on anticipated investments of approximately $1 billion. The Venture is currently exploring investment opportunities, but has not yet made any commitments. Each participant in the Venture has the right to opt out of any potential investment. We and ASOF, as well as possible future joint venture funds which may be sponsored by us, anticipate investing 20% of the equity of the Venture. Cash flow is to be distributed to the partners until they have received a 10% cumulative return and a full return of all contributions. Thereafter, remaining cash flow is to be distributed 20% to Klaff ("Klaff's Promote") and 80% to the partners (including Klaff). Remaining cash flow attributable from up to $20.0 million of our contributed capital is not subject to Klaff's Promote. We will also earn, through a taxable REIT subsidiary, market-rate fees for property management, leasing and construction services on behalf of the Venture.

We have also acquired Klaff's rights to provide asset management, leasing, disposition, development and construction services for an existing portfolio of retail properties and/or leasehold interests (the "Management Rights") comprised of approximately 10 million square feet of retail space located throughout the United States (the "Klaff Properties"). These activities will be conducted through a taxable REIT subsidiary. The acquisition involves only Klaff's Management Rights associated with operating the Klaff Properties and does not include equity interests in assets owned by Klaff or Lubert-Adler. The Operating Partnership issued $4.0 million of Preferred OP Units to Klaff in consideration of the acquisition of Management Rights.

*Corporate Governance Initiatives—Board Restructuring*

On March 18, 2004, we announced the next phase of our corporate governance initiatives. In connection with our efforts to transition to a more independent board of trustees, we announced that the following four individuals will not stand for re-election at our next annual meeting of shareholders:

- Martin L. Edelman of the law firm Paul Hastings Janofsky and Walker, our outside general counsel;
- Gregory White of Prima Advisors, who is a member of the board of trustees of a competing retail REIT;
- Marvin Levine of the law firm Wachtel & Masyr, which actively represents us in transactions; and
- Lawrence J. Longua, an original member of Mark Center Trust's board of trustees who is currently with Newmark & Company.

We also announced that Ross Dworman, our former Chairman and Chief Executive Officer, has resigned as a trustee. In conjunction with his resignation, Mr. Dworman exercised all of his outstanding share options. These options to purchase one million common shares at $7.50 per share were granted pursuant to the 1998 merger with Mark Centers Trust.

At the next annual meeting of shareholders on May 6, 2004, four of our current independent trustees will stand for re-election: Lee Wielansky, Douglas Crocker II, Alan Forman and Lorrence Kellar. In addition, our only management trustee, Kenneth F. Bernstein, our President and Chief Executive Officer, will also stand for re-election. In addition, our Nominating/Corporate Governance Committee intends to select two new independent candidates to stand for election, bringing the size of our board to seven members. Assuming all expected trustees are elected to the board by shareholders, six of the seven board members will be independent under New York Stock Exchange requirements.

Back to Contents

***Securities That May Be Offered***

This re-offer prospectus relates to the offer and sale from time to time by the persons listed under the Selling Securityholder section of this re-offer prospectus of up to 2,328,269 common shares which may be issued pursuant to the terms of the Plan. We have registered the common shares covered by this re-offer prospectus.

We will not receive any cash proceeds from the sale of our common shares by the Selling Securityholders.

***Risk Factors***

Investing in our common shares involves various risks. In considering whether to purchase our common shares, you should carefully consider the matters discussed under Risk Factors beginning on page 4 of this re-offer prospectus.

Back to Contents

## RISK FACTORS

Investing in our securities involves risks that could affect us and our business as well as the real estate industry generally. Please see the risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2003, which is incorporated by reference into this re-offer prospectus. Much of the business information as well as the financial and operational data contained in our risk factors is updated in our periodic reports, which are also incorporated by reference into this re-offer prospectus. Although we have tried to discuss key factors, please be aware that other risks may prove to be important in the future. New risks may emerge at any time and we cannot predict such risks or estimate the extent to which they may affect our financial performance. Before purchasing our securities, you should carefully consider the risks discussed in our Annual Report on Form 10-K for the year ended December 31, 2003 and the other information in this re-offer prospectus, as well as the documents incorporated by reference herein. Each of the risks described could result in a decrease in the value of our securities and your investment therein.

## USE OF PROCEEDS

We will not receive any proceeds from the sale of the common shares which may be sold pursuant to this re-offer prospectus for the accounts of the Selling Securityholders. All such proceeds, net of brokerage commissions, if any, will be received by the Selling Securityholders. See Selling Securityholders, below, and Plan of Distribution, beginning on page 6 of this re-offer prospectus.

## SELLING SECURITYHOLDERS

This re-offer prospectus covers offers and sales from time to time by the Selling Securityholders of up to 2,328,269 common shares issued or to be issued to the Selling Securityholders pursuant to the terms of the Plan. Under Rule 416 of the Securities Act, the Selling Securityholders may also offer and sell common shares issued to the Selling Securityholders as a result of, among other events, stock splits, stock dividends and similar events that affect the number of common shares held by the Selling Securityholders. The Selling Securityholders are affiliates of us pursuant to Rule 144 of the Securities Act.

The following table sets forth certain information as to the beneficial ownership of our common shares as of March 19, 2004 for each Selling Securityholder:

| Name | Common Shares Beneficially Owned Before Offering(1) | Common Shares Offered | Common Shares Beneficially Owned After Offering | Percentage of Common Shares to be Owned After Offering |
|---|---|---|---|---|
| Kenneth F. Bernstein | 1,232,168(2) | 837,034 | 395,134 | 1.4% |
| Michael Nelsen | 0(3) | 0 | 0 | 0 |
| Joel L. Braun | 99,028(4) | 92,361 | 6,667 | * |
| Joseph W. Hogan | 29,925(5) | 29,925 | 0 | * |
| Robert Masters | 82,454(6) | 74,787 | 7,667 | * |
| Joseph Napolitano | 16,333(7) | 16,333 | 0 | * |
| Joseph Povinelli | 29,210(8) | 29,210 | 0 | * |
| Douglas Crocker, II | 200(9) | 200 | 0 | * |
| Ross Dworman | 1,560,914(10) | 1,010,000 | 550,914 | 1.9% |
| Martin L. Edelman | 3,000(11) | 3,000 | 0 | * |
| Alan S. Forman | 600(12) | 600 | 0 | * |
| Lorrence T. Kellar | 200(13) | 200 | 0 | * |
| Marvin Levine | 7,000(14) | 3,000 | 4,000 | * |
| Lawrence J. Longua | 4,000(15) | 3,000 | 1,000 | * |

| | | | | |
|---|---|---|---|---|
| Gregory White | 67,029(16) | 3,000 | 64,029 | * |
| Lee S. Wielansky | 7,000(17) | 2,000 | 5,000 | * |

(1) The number of shares beneficially owned is determined under rules promulgated by the Commission and includes outstanding common shares or restricted common shares and options for common shares that have vested or will vest within 60 days.

Back to Contents

(2) Reflects the common shares beneficially owned by Mr. Bernstein in his individual capacity and the common shares deemed to be beneficially owned by Mr. Bernstein. The common shares directly owned by Mr. Bernstein in his individual capacity consist of (i) 327,309 OP Units which are immediately exchangeable into a like number of common shares, (ii) 87,034 vested restricted common shares of a total of 200,418 restricted common shares issued to Mr. Bernstein in 2004, 2003, 2002, 2001 and 2000, (iii) 63,879 common shares and (iv) 750,000 vested options issued pursuant to the Plan. The common shares deemed to be beneficially owned by Mr. Bernstein consist of 3,946 OP Units which are immediately exchangeable into a like number of common shares, which OP Units are beneficially held by Mr. Bernstein through his equity interests in various corporations, limited liability companies and limited partnerships which are the record holders of such OP Units. Mr. Bernstein is Chief Executive Officer, President and a Trustee of our Company.

(3) Mr. Nelsen owns 4,549 unvested restricted common shares issued in 2004. Mr. Nelsen is Senior Vice President and Chief Financial Officer of our Company.

(4) Represents (i) 7,361 vested restricted common shares of a total of 35,867 restricted common shares issued to Mr. Braun in 2004, 2003, 2002 and 2001, (ii) 85,000 vested options issued pursuant to the Plan, and (iii) 6,667 OP Units which are immediately exchangeable into a like number of common shares. Mr. Braun is Senior Vice President and Chief Investment Officer of our Company.

(5) Represents 4,925 vested restricted common shares of a total of 19,608 restricted common shares issued to Mr. Hogan in 2004, 2003, 2002, 2001 and 2000, and 25,000 vested options issued pursuant to the Plan. Mr. Hogan is Senior Vice President and Director of Construction of our Company.

(6) Represents 7,667 common shares, 9,787 vested restricted common shares of a total of 29,471 restricted common shares issued to Mr. Masters in 2004, 2003, 2002, 2001 and 2000, and 65,000 vested options issued pursuant to the Plan. Mr. Masters is the Senior Vice President, General Counsel and Corporate Secretary of our Company.

(7) Represents 1,333 vested restricted common shares of a total of 11,874 restricted common shares issued to Mr. Napolitano in 2004 and 2003, and 15,000 vested options issued pursuant to the Plan. Mr. Napolitano is Senior Vice President and Director of Operations of our Company.

(8) Represents 25,221 common shares and 3,989 vested restricted common shares of a total of 12,316 restricted common shares issued to Mr. Povinelli in 2004, 2003, 2001 and 1999. Mr. Povinelli is Senior Vice President and Director of Leasing of our Company.

(9) Represents vested options issued pursuant to the Plan. Mr. Crocker is a Trustee of our Company.

(10) Reflects the common shares beneficially owned by Mr. Dworman in his individual capacity and the common shares deemed to be beneficially owned by Mr. Dworman. The common shares directly owned by Mr. Dworman in his individual capacity consist of 1,542,831 common shares. The common shares deemed to be beneficially owned by Mr. Dworman consist of (a) 15,783 OP Units which are immediately exchangeable into a like number of common shares, which OP Units are beneficially held by Mr. Dworman through his equity interests in various corporations, limited liability companies and limited partnerships which are the record holders of such OP Units, and (b) 2,300 OP Units which are immediately exchangeable into a like number of common shares, which OP Units are held of record by The RD Foundation Inc. Mr. Dworman is the President and a Director of The RD Foundation Inc. and its sole member. Mr. Dworman disclaims beneficial ownership of the 2,300 OP Units gifted to The RD Foundation Inc. Mr. Dworman is a former Trustee of our Company.

(11) Represents vested options issued pursuant to the Plan. Mr. Edelman is a Trustee of our Company.

(12) Represents vested options issued pursuant to the Plan. Mr. Forman is a Trustee of our Company.

(13) Represents vested options issued pursuant to the Plan. Mr. Kellar is a Trustee of our Company.

(14) Represents 4,000 common shares and 3,000 vested options issued pursuant to the Plan. Mr. Levine is a Trustee of our Company.

(15) Represents 1,000 common shares purchased by Mr. Longua on the open market and 3,000 vested options issued pursuant to the Plan. Mr. Longua is a Trustee of our Company.

(16) Represents 49,029 common shares, all of which are owned by Mr. White□s wife, 15,000 common shares held in Mr. White□s children□s names, and 3,000 vested options issued pursuant to the Plan. Mr. White is a Trustee of our Company.

(17) Represents 5,000 common shares purchased by Mr. Wielansky on the open market and 2,000 vested options issued pursuant to the Plan. Mr. Wielansky is a Trustee of our Company.

Back to Contents

## PLAN OF DISTRIBUTION

This re-offer prospectus relates to the offer and sale from time to time by the persons listed under the Selling Securityholders section of this re-offer prospectus of up to 2,328,269 common shares. As used in this section of the re-offer prospectus, the term Selling Securityholders includes the Selling Securityholders named in the table above and any of their donees, pledgees, transferees or other successors in interest who receive shares offered hereby from a Selling Securityholder as a gift, pledge, or other non-sale related transfer and who subsequently sell any of such shares after the date of this re-offer prospectus. We have registered the Selling Securityholders common shares for resale to provide the Selling Securityholders with freely tradeable common shares. However, registration of the Selling Securityholders common shares does not necessarily mean that the Selling Securityholders will offer or sell any of their shares. We will not receive any proceeds from the offering or sale of the Selling Securityholders shares.

The Selling Securityholders may sell our common shares to which this re-offer prospectus relates from time to time on the New York Stock Exchange, where our common shares are listed for trading, in other markets where our common shares may be traded, in negotiated transactions, through underwriters or dealers, directly to one or more purchasers, through agents or in a combination of such methods of sale. The Selling Securityholders may sell our common shares at prices which are current when the sales take place or at other prices to which they agree. All costs, expenses and fees in connection with the registration of the common shares offered hereby will be borne by us. Brokerage commissions and similar selling expenses, if any, attributable to the sale of common shares offered hereby will be borne by the Selling Securityholders.

The Selling Securityholders may effect such transactions by selling the common shares offered hereby directly to purchasers or through broker-dealers, which may act as agents or principals, or pursuant to a distribution by one or more underwriters on a firm commitment or best-efforts basis. The methods by which the common shares which are the subject of this re-offer prospectus may be sold include: (a) a block trade in which the broker-dealer will attempt to sell shares as agent but may position and resell a portion of the block as principal to facilitate the transaction; (b) purchases by a broker-dealer as principal and resale by the broker-dealer for its account; (c) ordinary brokerage transactions and transactions in which the broker solicits purchasers; (d) an exchange distribution in accordance with the rules of the New York Stock Exchange; (e) privately negotiated transactions; and (f) underwritten transactions.

The Selling Securityholders may enter into hedging transactions with broker-dealers or other financial institutions. In connection with those transactions, broker-dealers and other financial institutions may engage in short sales of our common shares in the course of hedging the related positions they assume. The Selling Securityholders may also sell our common shares short and redeliver the common shares covered by this re-offer prospectus to close out the short positions. In addition, the Selling Securityholders may enter into option or other transactions with broker-dealers or other financial institutions which require the delivery to the broker-dealers or other financial institutions of common shares offered by this re-offer prospectus, which shares the broker-dealers or other financial institutions may resell pursuant to this re-offer prospectus (as supplemented or amended to reflect the transaction).

Broker-dealers may receive compensation in the form of discounts, concessions, or commissions from the Selling Securityholders and/or the purchasers of the common shares offered hereby for whom such broker-dealers may act as agents or to whom they sell as principal, or both (which compensation as to a particular broker-dealer might be in excess of customary commissions). In connection with an underwritten offering, underwriters or agents may receive compensation in the form of discounts, concessions or commissions from the Selling Securityholders or from purchasers of the shares which are the subject of this re-offer prospectus for whom they may act as agents, and underwriters may sell the shares which are the subject of this re-offer prospectus to or through dealers, and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents.

We will file a supplement to this re-offer prospectus, if required, pursuant to Rule 424(b) under the Securities Act upon being notified by a Selling Securityholder that any material arrangements have been

Back to Contents

entered into with a broker-dealer for the sale of shares through a block trade, special offering, exchange or secondary distribution or a purchase by a broker-dealer.

In addition, upon receiving notice from a Selling Securityholder that a donee, pledgee or transferee or other successor in interest intends to sell more than 500 shares covered by this re-offer prospectus, we will file a supplement to this re-offer prospectus pursuant to Rule 424(b) under the Securities Act to identify the non-sale transferee who may sell the shares which are the subject of this re-offer prospectus.

The Selling Securityholders and any underwriters, dealers or agents participating in the distribution of the shares which are the subject of this re-offer prospectus may be deemed to be "underwriters" within the meaning of the Securities Act, and any profit on the sale of such shares by the Selling Securityholders and any commissions received by any such broker-dealers may be deemed to be underwriting commissions under the Securities Act.

## DESCRIPTION OF OUR COMMON SHARES

*The following description of our common shares does not purport to be complete and is qualified in its entirety by reference to our declaration of trust and bylaws, each as amended and restated, copies of which are exhibits to the registration statement of which this re- offer prospectus is a part. See "Available Information" on page 22 of this re-offer prospectus.*

***General***

Under our declaration of trust, we have authority to issue 100,000,000 common shares, par value $0.001 per share. All common shares, when issued, are duly authorized, fully paid and nonassessable. This means that the full price for the shares has been paid at the time of issuance and consequently that any holder of such shares will not later be required to pay us any additional money for the same. As of December 31, 2003, 27,449,472 common shares were issued and outstanding, as were 1,139,017 common OP Units which are convertible into the same number of common shares. In addition, 2,212 Series A Preferred OP Units were issued at a price of $1,000 per Unit to certain selling shareholders on November 18, 1999. These Series A Preferred OP Units are convertible into common OP Units at a conversion price of $7.50 per common Unit, have a distribution preference and entitle the holder to a 9.0% dividend yield. A total of 1,580 Series A Preferred OP Units were outstanding as of December 31, 2003, following the conversion of 632 Series A Preferred OP Units during 2003.

On January 27, 2004, 4,000 Series B Preferred OP Units were issued in connection with the acquisition of the rights to provide asset management, leasing, disposition, development and construction services for an existing portfolio of retail properties from Klaff. These Units have a stated value of $1,000 per Unit and are entitled to a quarterly preferred distribution of the greater of (i) $13.00 (5.2% annually) per Unit or (ii) the quarterly distribution attributable to a Preferred OP Unit if such Unit were converted into a common OP Unit. The Series B Preferred OP Units are convertible into common OP Units based on the stated value of $1,000 divided by $12.82 at any time. Additionally, the holder of the Series B Preferred OP Units may redeem them at par for either cash or common OP Units (at our option) after the earlier of the third anniversary of their issuance, or the occurrence of certain events, including a change in control of our Company. Finally, after the fifth anniversary of the issuance, we may redeem the Series B Preferred OP Units and convert them into common OP Units at market value as of the redemption date. In response to a subsequent request from Klaff, our Board of Trustees approved a waiver on February 24, 2004 which allows Klaff to redeem 1,500 Series B Preferred OP Units at any time.

Our common shares have equal dividend, liquidation and other rights, and have no preference, exchange or appraisal rights, except for any appraisal rights provided by Maryland law. Holders of our common shares have no conversion, sinking fund or redemption rights, or preemptive rights to subscribe for any of our securities.

Back to Contents

***Distributions***
Holders of our common shares may receive distributions out of assets that we can legally use to pay distributions, when and if they are authorized and declared by our board of trustees. Each common shareholder shares in the same proportion as other common shareholders out of the assets that we can legally use to pay distributions after we pay or make adequate provision for all of our known debts and liabilities in the event we are liquidated, dissolved or our affairs are wound up.

***Voting Rights***
Holders of common shares have the power to vote on all matters presented to our shareholders, including the election of trustees, except as otherwise provided by Maryland law. Our declaration of trust prohibits us from merging or selling all or substantially all of our assets without the approval of two-thirds of the outstanding shares that are entitled to vote on such matters. Holders of common shares are entitled to one vote per share.

There is no cumulative voting in the election of our trustees, which means that holders of more than 50% of the common shares voting for the election of trustees can elect all of the trustees if they choose to do so and the holders of the remaining shares cannot elect any trustees.

***Restrictions on Transfer***
To qualify as a REIT under the Internal Revenue Code of 1986, we must satisfy certain ownership requirements. Specifically, not more than 50% in value of our outstanding common shares may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code of 1986 to include certain entities) during the last half of a taxable year, and the common shares must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of twelve months or during a proportionate part of a shorter taxable year. We must also satisfy certain income requirements to maintain our REIT status. One such requirement is that at least 75% of our company s gross income for each calendar year must consist of rents from real property and income from certain other real property investments. This is complicated by the fact that the rents received by the operating partnership will not qualify as rents from real property if we own, actually or constructively, 10% or more of the ownership interests in our lessees, within the meaning of section 856(d)(2)(B) of the Internal Revenue Code of 1986, as amended. See Federal Income Tax Considerations General beginning on page 13 of this re-offer prospectus.

Because our board of trustees believes it is essential for us to continue to qualify as a REIT, our declaration of trust contains provisions aimed at satisfying the requirements described above. In regard to the ownership requirements, the declaration of trust provides that subject to certain exceptions, no person may own, or be deemed to own by virtue of the attribution provisions of the Internal Revenue Code of 1986, more than 4% of our outstanding common shares. The Trustees may waive this 4% limitation if evidence satisfactory to them or our tax counsel is presented that such ownership will not jeopardize our status as a REIT. As a condition of such waiver, the Trustees may require opinions of counsel satisfactory to them and/or an undertaking from the applicant with respect to preserving our REIT status.

The trustees of Mark Centers Trust waived the 4% ownership limitation in August, 1998 when certain affiliates of RD Capital, Inc. received shares in consideration of their contribution to Mark Center Limited Partnership. On two subsequent occasions, our trustees permitted investors owing in excess of 4% of the trust s outstanding shares to acquire additional shares through open market purchases transacted during specified three-month windows.

In addition, our declaration of trust provides that any purported transfer or issuance of shares or securities transferable into shares which would (i) violate the 4% limitation described above, (ii) result in shares being owned by fewer than 100 persons for purposes of the REIT provisions of the Internal Revenue Code of 1986, (iii) result in our Company being closely held with the meaning of Section 856(h) of the Internal Revenue Code of 1986, or (iv) otherwise jeopardize our REIT status under the Internal Revenue Code (including a transfer which would cause us to own, actually or constructively, 9.8% or more of the ownership interests in one of our lessees) will be null and void ab initio (from the beginning). Moreover,

Back to Contents

common shares transferred, or proposed to be transferred, in contravention of the above will be subject to purchase by us at a price equal to the lesser of (i) the price stipulated in the challenged transaction and (ii) the fair market value of such shares (determined in accordance with the rules set forth in our declaration of trust).

All certificates representing the common shares bear a legend referring to the restrictions described above.

*The ownership limitations described above could have the effect of delaying, deferring or preventing a takeover or other transaction in which holders of some, or a majority, of common shares might receive a premium for their shares over the then prevailing market price or which such holders might believe to be otherwise in their best interest.*

***Transfer Agent and Registrar***
The transfer agent and registrar for our common shares is American Stock Transfer & Trust Company which has an address at 40 Wall Street, New York, NY 10005.

***Declaration of Trust and Bylaw Provisions and Certain Provisions of Maryland Law***
*Number of Trustees; Election of Trustees, Removal of Trustees, the Filling of Vacancies.* Our declaration of trust provides that the board of trustees will consist of not less than two nor more than fifteen persons, and that the number of trustees will be set by the trustees then in office. Our board currently consists of ten trustees, each of whom serves until the next annual meeting of shareholders and until his successor is duly elected and qualified. Election of each trustee requires the approval of a plurality of the votes cast by the holders of common shares in person or by proxy at our annual meeting. The board of trustees does not have a nominating committee. Our bylaws provide that the shareholders may, at any time, remove any trustee, with or without cause, by the affirmative vote of a majority of all the votes entitled to be cast on the matter and may elect a successor to fill any resulting vacancy for the balance of the term of the removed trustee. Any vacancy (including a vacancy created by an increase in the number of trustees) will be filled, at any regular meeting or at any special meeting called for that purpose, by a majority of the trustees.

*Limitation of Liability and Indemnification of Trustees and Officers.* Our bylaws and declaration of trust authorize our company, to the extent permitted under Maryland law, to indemnify its trustees and officers in their capacity as such. Section 8-301(15) of the Maryland General Corporation Law (□MGCL□) permits a Maryland REIT to indemnify or advance expenses to trustees and officers to the same extent as is permitted for directors and officers of a Maryland corporation under the MGCL. The MGCL requires a Maryland corporation (unless its charter provides otherwise, which our declaration of trust does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he is made a party by reason of his service in that capacity. The MGCL permits a Maryland corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (i) was committed in bad faith or (ii) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that a personal benefit was improperly received, unless in either case a court orders indemnification and then only for expenses. In addition, the MGCL permits a corporation to advance reasonable expenses to a director or officer upon the corporation□s receipt of a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and a written undertaking by such director or officer on his or her behalf to repay the amount paid or reimbursed by the corporation if it shall ultimately be determined that the standard of conduct was not met.

Back to Contents

Our bylaws also permit us, subject to the approval of our board of trustees, to indemnify and advance expenses to any person who served as a predecessor of us in any of the capacities described above and to any employee or agent of us or a predecessor of us.

In addition to the above, we have purchased and maintains insurance on behalf of all of its trustees and executive officers against liability asserted against or incurred by them in their official capacities with us, whether or not we are required or has the power to indemnify them against the same liability.

*Business Combinations.* Section 8-301(14) of the MGCL permits a Maryland REIT to enter to a business combination (including a merger, consolidation, share exchange or, in certain circumstances, an asset transfer or issuance or reclassification of equity securities) on the same terms as a Maryland corporation under the MGCL. Under the MGCL, certain business combinations between a Maryland corporation and any person who beneficially owns 10% or more of the voting power of such corporation's shares, or an affiliate of such corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then-outstanding voting shares of such corporation (an "Interested Stockholder") or an affiliate thereof, are prohibited for five years after the most recent date on which the Interested Stockholder becomes an Interested Stockholder. Thereafter, any such business combination must be recommended by the board of directors of such corporation and approved by the affirmative vote of at least (a) 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of such corporation and (b) two-thirds of the votes entitled to be cast by holders of shares of voting stock of such corporation other than the shares held by the Interested Stockholder with whom (or with whose affiliate) the business combination is to be affected, unless, among other conditions, the corporation's common shareholders receive a minimum price (as defined in the MGCL) for their shares and the consideration is received in cash or in the same form as previously paid by the Interested Stockholder for its shares.

*Control Share Acquisitions.* The MGCL provides that "control shares" of a Maryland corporation acquired in a "control share acquisition" have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter, excluding shares owned by the acquirer, by officers or by directors who are employees of the corporation. "Control Shares" are voting shares of stock which, if aggregated with all other such shares of stock previously acquired by the acquirer, or in respect of which the acquirer is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquirer to exercise voting power in electing directors within one of the following ranges of voting power: (i) one-fifth or more but less than one- third, (ii) one-third or more but less than a majority, or (iii) a majority or more of all voting power. Control Shares do not include shares which the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A "control share acquisition" means the acquisition of control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition, upon satisfaction of certain conditions (including an undertaking to pay expenses), may compel the board of directors of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then, subject to certain conditions and limitations, the corporation may redeem any or all of the control shares (except those for which voting rights have previously been approved) for fair value determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquirer or of any meeting of stockholders at which the voting rights of such shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquirer becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of such appraisal rights may not be less than the highest price per share paid by the acquirer in the control share acquisition, and certain limitations and restrictions otherwise applicable to the exercise of dissenters' rights do not apply in the context of a control share acquisition.

Back to Contents

The foregoing does not apply to shares acquired in a merger, consolidation or share exchange, if the corporation is a party to the transaction, or to acquisitions approved or exempted by the charter or bylaws of the corporation. Pursuant to the MGCL, we have exempted control share acquisitions involving our trustees and employees and any person approved by our trustees in their sole discretion.

*Amendments to Our Declaration of Trust.* In general, the declaration of trust may be amended by the affirmative vote or written consent of the holders of not less than a majority of the common shares then outstanding and entitled to vote thereon. However, amendments with respect to certain provisions relating to the ownership requirements, reorganizations and certain mergers or consolidations or the sale of substantially all of our assets, which amendments require the affirmative vote or written consent of the holders of not less than two- thirds of the common shares then outstanding and entitled to vote thereon. The Trustees of our company, by a two-thirds vote, may amend the provisions of the declaration of trust from time to time to effect any change deemed necessary by the Trustees to allow us to qualify and continue to qualify as a REIT.

*Dissolution of Our Company or its REIT Status.* The declaration of trust permits the termination and the discontinuation of our operations by the affirmative vote of the holders of not less than a majority of the outstanding shares entitled to vote at a meeting of shareholders called for that purpose. In addition, the declaration of trust permits the Trustees to terminate our REIT status at any time.

*Anti-Takeover Effect of Certain Provisions of Maryland Law and of the Declaration of Trust.* The limitation on ownership of common shares set forth in our declaration of trust, as well as the provisions of the MGCL dealing with business combinations and control share acquisitions could have the effect of discouraging offers to acquire our Company or of hampering the consummation of a contemplated acquisition.

## RESTRICTIONS ON TRANSFERS OF CAPITAL SHARES AND ANTI-TAKEOVER PROVISIONS

***Maryland Law***

Maryland law includes certain other provisions which may also discourage a change in control of management. Maryland law provides that, unless an exemption applies, we may not engage in any "business combination" with an "interested shareholder" or any affiliate of an interested shareholder for a period of five years after the interested shareholder became an interested shareholder, and thereafter may not engage in a business combination with such interested shareholder unless the combination is recommended by our board of trustees and approved by the affirmative vote of at least (i) 80% of the votes entitled to be cast by the holders of all of our outstanding voting shares, and (ii) 66 2/3% of the votes entitled to be cast by all holders of outstanding voting shares other than voting shares held by the interested shareholder. An "interested shareholder" is defined, in essence, as any person owning beneficially, directly or indirectly, 10% or more of the outstanding voting shares of a Maryland real estate investment trust. The voting requirements do not apply at any time to business combinations with an interested shareholder or its affiliates if approved by our board of trustees prior to the time the interested shareholder first became an interested shareholder. Additionally, if the business combination involves the receipt of consideration by our shareholders in exchange for common shares that satisfies certain "fair price" conditions, such supermajority voting requirements do not apply

As an additional anti-takeover defense, Maryland law permits publicly-held Maryland statutory real estate investment trusts ("REITs") to elect to be governed by all or any part of Maryland law provisions relating to unsolicited takeovers. The election to be governed by one or more of these provisions can be made by a publicly held Maryland REIT in its declaration of trust or bylaws ("charter documents") or by resolution adopted by its board of trustees so long as the REIT has at least three trustees who, at the time of electing to be subject to the provisions, are not officers or employees of the REIT, are not persons seeking to acquire control of the REIT, are not trustees, officers, affiliates or associates of any person seeking to acquire control, and were not nominated or designated as trustees by a person seeking to acquire control.

Back to Contents

If the charter documents do not already contain these provisions, the REIT may adopt one or more by a board resolution or a bylaw amendment, following which it must file articles supplementary to its declaration of trust with the Maryland State Department of Assessments and Taxation. Shareholder approval is not required for the filing of these articles supplementary. We have not filed such articles supplementary.

Maryland law permits a REIT to elect to be subject to all or any portion of the following provisions, notwithstanding any contrary provisions in the REIT□s charter documents:

*Classified Board:* The REIT may divide its board into three classes which, to the extent possible, will have the same number of trustees, the terms of which will expire at the third annual meeting of shareholders after the election of each class, with the first class term expiring one year after adoption, the second class term expiring two years later, and the third class term expiring three years later;

*Two-thirds Shareholder Vote to Remove Trustees Only for Cause:* The shareholders may remove any trustee only by the affirmative vote of at least two-thirds of all votes entitled to be cast by the shareholders generally in the election of trustees, but a trustee may not be removed without cause;

*Size of Board Fixed by Vote of Board:* The number of trustees will be fixed only by resolution of the board, but the number cannot be less than three trustees;

*Board Vacancies Filled by the Board for the Remaining Term:* Vacancies that result from an increase in the size of the board, or the death, resignation, or removal of a trustee, may be filled only by the affirmative vote of a majority of the remaining trustees even if they do not constitute a quorum. Trustees elected to fill vacancies will hold office for the remainder of the full term of the class of trustees in which the vacancy occurred, as opposed to until the next annual meeting of shareholders, and until a successor is elected and qualified; and

*Shareholder Calls of Special Meetings:* Special meetings of shareholders may be called by the secretary of the REIT only upon the written request of shareholders entitled to cast at least a majority of all votes entitled to be cast at the meeting and only in accordance with procedures set out in the Maryland General Corporation Law.

## FEDERAL INCOME TAX CONSIDERATIONS

You are advised to assume that the information in this re-offer prospectus is accurate only as of their respective dates.

The following discussion summarizes the material federal income tax considerations to you as a prospective holder of our shares. Paul, Hastings, Janofsky & Walker LLP has acted as our tax counsel, has reviewed this summary, and is of the opinion that the discussion contained herein fairly summarizes the federal income tax considerations that are likely to be material to a holder of our common shares. However, the following discussion is for general information purposes only, is not exhaustive of all possible tax considerations and is not intended to be and should not be construed as tax advice. For example, this summary does not give a detailed discussion of any state, local or foreign tax considerations. In addition, this discussion is intended to address only those federal income tax considerations that are generally applicable to all our security holders. It does not discuss all of the aspects of federal income taxation that may be relevant to you in light of your particular circumstances or to certain types of security holders who are subject to special treatment under the federal income tax laws including, without limitation, insurance companies, tax-exempt entities (except as discussed in □□Taxation of Tax-Exempt Shareholders□), financial institutions or broker-dealers, foreign corporations and persons who are not citizens or residents of the United States (except as discussed in □□Taxation of Non-U.S. Shareholders□.

The information in this section is based on the Internal Revenue Code of 1986, as amended, which is referred to as the Code, existing, temporary and proposed regulations under the Code, the legislative history of the Code, current administrative rulings and practices of the IRS and court decisions, all as of the date hereof. No assurance can be given that future legislation, regulations, administrative interpretations and court decisions will not significantly change current law or adversely affect existing interpretations of current law.

Back to Contents

Any such change could apply retroactively to transactions preceding the date of the change. In addition, we have not received, and do not plan to request, any rulings from the IRS concerning our tax treatment. Thus no assurance can be provided that the statements set forth herein (which do not bind the IRS or the courts) will not be challenged by the IRS or that such statements will be sustained by a court if so challenged.

**EACH PROSPECTIVE PURCHASER OF SHARES IS ADVISED TO CONSULT WITH HIS OR HER OWN TAX ADVISOR REGARDING THE SPECIFIC TAX CONSEQUENCES TO HIM OR HER OF THE PURCHASE, OWNERSHIP AND SALE OF SHARES OF AN ENTITY ELECTING TO BE TAXED AS A REIT, INCLUDING THE FEDERAL, STATE, LOCAL AND FOREIGN AND OTHER TAX CONSEQUENCES OF SUCH PURCHASE, OWNERSHIP, SALE AND ELECTION AND OF POTENTIAL CHANGES IN APPLICABLE TAX LAWS.**

***Taxation of our Company***

***General.*** We elected to be taxed as a REIT under Sections 856 through 860 of the Code, commencing with our taxable year ended December 31, 1993. We believe that we have been organized, and have operated, in such a manner so as to qualify for taxation as a REIT under the Code and intend to conduct our operations so as to continue to qualify for taxation as a REIT. No assurance, however, can be given that we have operated in a manner so as to qualify or will be able to operate in such a manner so as to remain qualified as a REIT. Qualification and taxation as a REIT depend upon our ability to meet on a continuing basis, through actual annual operating results, the required distribution levels, diversity of share ownership and the various qualification tests imposed under the Code discussed below, the results of which will not be reviewed by counsel. Given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations, and the possibility of future changes in our circumstances, no assurance can be given that the actual results of our operations for any one taxable year have satisfied or will continue to satisfy such requirements.

In the opinion of Paul, Hastings, Janofsky & Walker LLP, based on certain assumptions and our factual representations that are described in this section and in an officer's certificate, commencing with our taxable year ended December 31, 1996, we have been organized and operated in conformity with the requirements for qualification as a REIT and our current and proposed method of operation will enable us to continue to meet the requirements for qualification and taxation as a REIT. It must be emphasized that this opinion is based on various assumptions and is conditioned upon certain representations made by us as to factual matters including, but not limited to, those set forth herein, and those concerning our business and properties as set forth in this re-offer prospectus. An opinion of counsel is not binding on the IRS or the courts.

The following is a general summary of the Code provisions that govern the federal income tax treatment of a REIT and its shareholders. These provisions of the Code are highly technical and complex. This summary is qualified in its entirety by the applicable Code provisions, Treasury Regulations and administrative and judicial interpretations thereof, all of which are subject to change prospectively or retroactively.

If we qualify for taxation as a REIT, we generally will not be subject to federal corporate income taxes on our net income that is currently distributed to shareholders. This treatment substantially eliminates the "double taxation" (at the corporate and shareholder levels) that generally results from investment in a corporation. However, we will be subject to federal income tax as follows:

- First, we will be taxed at regular corporate rates on any undistributed REIT taxable income, including undistributed net capital gains.

- Second, under certain circumstances, we may be subject to the "alternative minimum tax" on our items of tax preference.

- Third, if we have (a) net income from the sale or other disposition of "foreclosure property", which is, in general, property acquired on foreclosure or otherwise on default on a loan secured by such real property or a lease of such property, which is held primarily for sale to customers in the ordinary course of business or (b) other nonqualifying income from foreclosure property, we will be subject to tax at the highest corporate rate on such income.

Back to Contents

- Fourth, if we have net income from prohibited transactions such income will be subject to a 100% tax. Prohibited transactions are, in general, certain sales or other dispositions of property held primarily for sale to customers in the ordinary course of business other than foreclosure property.

- Fifth, if we should fail to satisfy the 75% gross income test or the 95% gross income test (as discussed below), but nonetheless maintain our qualification as a REIT because certain other requirements have been met, we will be subject to a 100% tax on an amount equal to (a) the gross income attributable to the greater of (1) the amount by which we fail the 75% gross income test or (2) the amount by which 90% of our gross income exceeds the amount of income qualifying under the 95% gross income test multiplied, in each case, by (b) a fraction intended to reflect our profitability.

- Sixth, if we should fail to distribute during each calendar year at least the sum of (a) 85% of our REIT ordinary income for such year, (b) 95% of our REIT capital gain net income for such year, and (c) any undistributed taxable income from prior periods, we would be subject to a 4% nondeductible excise tax on the excess of such required distribution over the amounts actually distributed.

- Seventh, assuming we do not elect to instead be taxed at the time of the acquisition, if we acquire any asset from a C corporation (i.e., a corporation generally subject to full corporate level tax) in a transaction in which the basis of the asset in our hands is determined by reference to the basis of the asset (or any other property) in the hands of the C corporation, we would be subject to tax at the highest corporate rate if we dispose of such asset during the 10-year period beginning on the date that we acquired that asset, to the extent of such property s built-in gain (the excess of the fair market value of such property at the time of our acquisition over the adjusted basis of such property at such time).

- Eighth, we will incur a 100% excise tax on transactions with a taxable REIT subsidiary that are not conducted on an arm s-length basis.

***Requirements for Qualification.*** A REIT is a corporation, trust or association (1) that is managed by one or more trustees or directors, (2) the beneficial ownership of which is evidenced by transferable shares, or by transferable certificates of beneficial interest, (3) that would be taxable as a domestic corporation, but for Sections 856 through 859 of the Code, (4) that is neither a financial institution nor an insurance company subject to certain provisions of the Code, (5) that has the calendar year as its taxable year, (6) the beneficial ownership of which is held by 100 or more persons, (7) during the last half of each taxable year (after the first REIT taxable year) not more than 50% in value of the outstanding shares of which is owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities), and (8) that meets certain other tests, described below, regarding the nature of its income and assets. The Code provides that conditions (1) through (5), inclusive, must be met during the entire taxable year and that condition (6) must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months (other than the first year of a REIT).

We may redeem, at our option, a sufficient number of shares or restrict the transfer thereof to bring or maintain the ownership of the shares in conformity with the requirements of the Code. In addition, our declaration of trust includes restrictions regarding the transfer of our shares that are intended to assist us in continuing to satisfy requirements (6) and (7). Moreover, if we comply with regulatory rules pursuant to which we are required to send annual letters to our shareholders requesting information regarding the actual ownership of our shares, and we do not know, or exercising reasonable diligence would not have known, whether we failed to meet requirement (7) above, we will be treated as having met the requirement. See See Description of Our Common Shares and Restrictions on Transfers of Capital Shares and Anti-Takeover Provisions beginning on pages 7 and 11, respectively, of this re-offer prospectus.

The Code allows a REIT to own wholly-owned subsidiaries which are qualified REIT subsidiaries. The Code provides that a qualified REIT subsidiary is not treated as a separate corporation, and all of its assets, liabilities and items of income, deduction and credit are treated as assets, liabilities and items of income, deduction and credit of the REIT. Thus, in applying the requirements described herein, our qualified

Back to Contents

REIT subsidiaries will be ignored, and all assets, liabilities and items of income, deduction and credit of such subsidiaries will be treated as our assets, liabilities and items of income, deduction and credit.

A REIT may also hold any direct or indirect interest in a corporation that qualifies as a taxable REIT subsidiary, as long as the REIT s aggregate holdings of taxable REIT subsidiary securities do not exceed 20% of the value of the REIT s total assets. A taxable REIT subsidiary is a fully taxable corporation that generally is permitted to engage in businesses, own assets, and earn income that, if engaged in, owned, or earned by the REIT, might jeopardize REIT status or result in the imposition of penalty taxes on the REIT. To qualify as a taxable REIT subsidiary, the subsidiary and the REIT must make a joint election to treat the subsidiary as a taxable REIT subsidiary. A taxable REIT subsidiary also includes any corporation (other than a REIT) in which a taxable REIT subsidiary directly or indirectly owns more than 35% of the total voting power or value. See Asset Tests below. A taxable REIT subsidiary will pay tax at regular corporate income rates on any taxable income it earns. Moreover, the Code contains rules, including rules requiring the imposition of taxes on a REIT at the rate of 100% on certain reallocated income and expenses, to ensure that contractual arrangements between a taxable REIT subsidiary and its parent REIT are at arm s-length.

In the case of a REIT which is a partner in a partnership, Treasury Regulations provide that the REIT will be deemed to own its proportionate share of each of the assets of the partnership and will be deemed to be entitled to the income of the partnership attributable to such share. In addition, the character of the assets and items of gross income of the partnership will retain the same character in the hands of the REIT for purposes of Section 856 of the Code, including satisfying the gross income and assets tests (as discussed below). Thus, our proportionate share of the assets, liabilities, and items of gross income of the partnerships in which we own an interest are treated as our assets, liabilities and items of gross income for purposes of applying the requirements described herein.

***Income Tests.*** In order to maintain qualification as a REIT, we must satisfy annually certain gross income requirements. First, at least 75% of our gross income (excluding gross income from prohibited transactions) for each taxable year must be derived directly or indirectly from investments relating to real property or mortgages on real property (including rents from real property and, in certain circumstances, interest) or from certain types of qualified temporary investments. Second, at least 95% of our gross income (excluding gross income from prohibited transactions) for each taxable year must be derived from such real property investments, dividends, interest and gain from the sale or disposition of stock or securities.

Rents received by us will qualify as rents from real property in satisfying the gross income requirements for a REIT described above only if the following conditions are met:

- First, the amount of rent must not be based in whole or in part on the income or profits of any person. However, an amount received or accrued generally will not be excluded from the term rents from real property solely by reason of being based on a fixed percentage or percentages of receipts or sales.

- Second, the Code provides that rents received from a tenant will not qualify as rents from real property in satisfying the gross income tests if we, or an owner of 10% or more of our shares, actually or constructively own 10% or more of such tenant.

- Third, if rent attributable to personal property, leased in connection with a lease of real property, is greater than 15% of the total rent received under the lease, then the portion of rent attributable to such personal property will not qualify as rents from real property.

- Finally, in order for rents received to qualify as rents from real property, we generally must not operate or manage the property (subject to a de minimis exception as described below) or furnish or render services to the tenants of such property, other than through an independent contractor from whom we derive no revenue or through a taxable REIT subsidiary. We may, however, directly perform certain services that are usually or customarily rendered in connection with the rental of space for occupancy only and are not otherwise considered rendered to the occupant of the property (Permissible Services).

Back to Contents

Rents received generally will qualify as rents from real property notwithstanding the fact that we provide services that are not Permissible Services so long as the amount received for such services meets a de minimis standard. The amount received for "impermissible services" with respect to a property (or, if services are available only to certain tenants, possibly with respect to such tenants) cannot exceed one percent of all amounts received, directly or indirectly, by us with respect to such property (or, if services are available only to certain tenants, possibly with respect to such tenants). The amount that we will be deemed to have received for performing "impermissible services" will be the greater of the actual amounts so received or 150% of the direct cost to us of providing those services.

We believe that substantially all of our rental income will be qualifying income under the gross income tests, and that our provision of services will not cause the rental income to fail to be qualifying income under those tests.

If we fail to satisfy one or both of the 75% or 95% gross income tests for any taxable year, we may nevertheless qualify as a REIT for such year if such failure was due to reasonable cause and not willful neglect, we disclosed the nature and amounts of our items of gross income in a schedule attached to our Federal income tax return, and any incorrect information on the schedule was not due to fraud with intent to evade tax. It is not possible, however, to state whether in all circumstances we would be entitled to the benefit of this relief provision. Even if this relief provision applied, a 100% penalty tax would be imposed on the greater of (1) the amount by we fail the 75% gross income test or (2) the amount by which 90% of our gross income exceeds the amount of income qualifying under the 95% gross income test multiplied, in each case, by a fraction intended to reflect our profitability.

Subject to certain safe harbor exceptions, any gain realized by us on the sale of any property held as inventory or other property held primarily for sale to customers in the ordinary course of business will be treated as income from a prohibited transaction that is subject to a 100% penalty tax. Such prohibited transaction income may also have an adverse effect upon our ability to satisfy the income tests for qualification as a REIT. Under existing law, whether property is held as inventory or primarily for sale to customers in the ordinary course of a trade or business is a question of fact that depends on all the facts and circumstances with respect to the particular transaction.

***Asset Tests.*** At the close of each quarter of our taxable year, we must also satisfy the following tests relating to the nature of our assets. At least 75% of the value of our total assets must be represented by real estate assets, including (1) our allocable share of real estate assets held by partnerships in which we own an interest or held by our qualified REIT subsidiaries and (2) stock or debt instruments held for not more than one year purchased with the proceeds of an offering of equity securities or a long-term (at least five years) debt offering by us, cash, cash items and government securities. In addition, not more than 25% of our total assets may be represented by securities other than those in the 75% asset class. Not more than 20% of the value of our total assets may be represented by securities of one or more taxable REIT subsidiaries (as defined above under "Requirements for Qualification"). Except for investments included in the 75% asset class, securities in a taxable REIT subsidiary or qualified REIT subsidiary and certain partnership interests and debt obligations, (1) not more than 5% of the value of our total assets may be represented by securities of any one issuer, (2) we may not hold securities that possess more than 10% of the total voting power of the outstanding securities of a single issuer and (3) we may not hold securities that have a value of more than 10% of the total value of the outstanding securities of any one issuer (excluding certain "straight debt" securities).

We believe that substantially all of our assets consist and, after the offering, will consist of (1) real properties, (2) stock or debt investments that earn qualified temporary investment income, (3) other qualified real estate assets, and (4) cash, cash items and government securities. We may also invest in securities of other entities, provided that such investments will not prevent us from satisfying the asset and income tests for REIT qualification set forth above.

After initially meeting the asset tests at the close of any quarter, we will not lose our status as a REIT for failure to satisfy the asset tests at the end of a later quarter solely by reason of changes in asset values. If we inadvertently fail one or more of the asset tests at the end of a calendar quarter because we acquire

Back to Contents

securities or other property during the quarter, we can cure this failure by disposing of sufficient nonqualifying assets within 30 days after the close of the calendar quarter in which it arose.

***Annual Distribution Requirement.*** With respect to each taxable year, we must distribute to our shareholders as dividends (other than capital gain dividends) at least 90% of our taxable income. Specifically, we must distribute an amount equal to (1) 90% of the sum of our REIT taxable income (determined without regard to the deduction for dividends paid and by excluding any net capital gain) and any after-tax net income from foreclosure property, minus (2) the sum of certain items of excess noncash income such as income attributable to leveled stepped rents, cancellation of indebtedness and original issue discount. REIT taxable income is generally computed in the same manner as taxable income of ordinary corporations, with several adjustments, such as a deduction allowed for dividends paid, but not for dividends received.

We will be subject to tax on amounts not distributed at regular United States federal corporate income tax rates. In addition, a 4% nondeductible excise tax is imposed on the excess of (1) 85% of our ordinary income for the year plus 95% of capital gain net income for the year and the undistributed portion of the required distribution for the prior year over (2) the actual distribution to shareholders during the year (if any). Net operating losses generated by us may be carried forward (but not carried back) and used by us for 15 years (or 20 years in the case of net operating losses generated in our tax years commencing on or after January 1, 1998) to reduce REIT taxable income and the amount that we will be required to distribute in order to remain qualified as a REIT. As a REIT, our net capital losses may be carried forward for five years (but not carried back) and used to reduce capital gains.

In general, a distribution must be made during the taxable year to which it relates to satisfy the distribution test and to be deducted in computing REIT taxable income. However, we may elect to treat a dividend declared and paid after the end of the year (a subsequent declared dividend) as paid during such year for purposes of complying with the distribution test and computing REIT taxable income, if the dividend is (1) declared before the regular or extended due date of our tax return for such year and (2) paid not later than the date of the first regular dividend payment made after the declaration, but in no case later than 12 months after the end of the year. For purposes of computing the 4% nondeductible excise tax, a subsequent declared dividend is considered paid when actually distributed. Furthermore, any dividend that is declared by us in October, November or December of a calendar year, and payable to shareholders of record as of a specified date in such quarter of such year will be deemed to have been paid by us (and received by shareholders) on December 31 of such calendar year, but only if such dividend is actually paid by us in January of the following calendar year.

For purposes of complying with the distribution test for a taxable year as a result of an adjustment in certain of our items of income, gain or deduction by the IRS, we may be permitted to remedy such failure by paying a deficiency dividend in a later year together with interest and a penalty. Such deficiency dividend may be included in our deduction of dividends paid for the earlier year for purposes of satisfying the distribution test. For purposes of the 4% excise tax, the deficiency dividend is taken into account when paid, and any income giving rise to the deficiency adjustment is treated as arising when the deficiency dividend is paid.

We believe that we have distributed and intend to continue to distribute to our shareholders in a timely manner such amounts sufficient to satisfy the annual distribution requirements. However, it is possible that timing differences between the accrual of income and its actual collection, and the need to make non-deductible expenditures (such as capital improvements or principal payments on debt) may cause us to recognize taxable income in excess of our net cash receipts, thus increasing the difficulty of compliance with the distribution requirement. In order to meet the distribution requirement, we might find it necessary to arrange for short-term, or possibly long-term, borrowings.

***Failure to Qualify.*** If we fail to qualify as a REIT for any taxable year, and if certain relief provisions of the Code do not apply, we would be subject to federal income tax (including applicable alternative minimum tax) on our taxable income at regular corporate rates. Distributions to shareholders in any year in which we fail to qualify will not be deductible by us nor will they be required to be made. As a result, our failure to qualify as a REIT would reduce the cash available for distribution by us to our shareholders. In addition, if we fail to qualify as a REIT, all distributions to domestic non-corporate shareholders will be

Back to Contents

taxable at capital gain rates, to the extent of our current and accumulated earnings and profits. Subject to certain limitations of the Code, corporate distributees may be eligible for the dividends- received deduction.

If our failure to qualify as a REIT is not due to reasonable cause but results from willful neglect, we would not be permitted to elect REIT status for the four taxable years after the taxable year for which such disqualification is effective. In the event we were to fail to qualify as a REIT in one year and subsequently requalify in a later year, we might be required to recognize taxable income based on the net appreciation in value of our assets as a condition to requalification. In the alternative, we may be taxed on the net appreciation in value of our assets if we sell properties within ten years of the date we requalify as a REIT under federal income tax laws.

***Taxation of Taxable U.S. Shareholders***

As used herein, the term "U.S. shareholder" means a holder of shares who (for United States federal income tax purposes) (1) is a citizen or resident of the United States, (2) is a corporation, partnership, or other entity treated as a corporation or partnership for federal income tax purposes created or organized in or under the laws of the United States or of any political subdivision thereof (unless, in the case of a partnership, Treasury Regulations are adopted that provide otherwise), (3) is an estate the income of which is subject to United States federal income taxation regardless of its source or (4) is a trust whose administration is subject to the primary supervision of a United States court and which has one or more United States persons who have the authority to control all substantial decisions of the trust or a trust that has a valid election to be treated as a U.S. person in effect.

As long as we qualify as a REIT, distributions made to our U.S. shareholders out of current or accumulated earnings and profits (and not designated as capital gain dividends) will be taken into account by them as ordinary income and corporate shareholders will not be eligible for the dividends-received deduction as to such amounts. For purposes of computing our earnings and profits, depreciation for depreciable real estate will be computed on a straight-line basis over a 40-year period. REIT dividends generally will not be eligible for reduced tax rates applicable to dividends paid by regular corporations to most domestic non-corporate shareholders. See "Recent Developments."

Distributions that are properly designated as capital gain dividends will be taxed as gains from the sale or exchange of a capital asset held for more than one year (to the extent they do not exceed our actual net capital gain for the taxable year) without regard to the period for which the shareholder has held its shares. However, corporate shareholders may be required to treat up to 20% of certain capital gain dividends as ordinary income under the Code. Capital gain dividends, if any, will be allocated among different classes of shares in proportion to the allocation of earnings and profits discussed above.

Distributions in excess of our current and accumulated earnings and profits will constitute a non-taxable return of capital to a shareholder to the extent that such distributions do not exceed the adjusted basis of the shareholder's shares, and will result in a corresponding reduction in the shareholder's basis in the shares. Any reduction in a shareholder's tax basis for its shares will increase the amount of taxable gain or decrease the deductible loss that will be realized upon the eventual disposition of the shares. We will notify shareholders at the end of each year as to the portions of the distributions which constitute ordinary income, capital gain or a return of capital. Any portion of such distributions that exceeds the adjusted basis of a U.S. shareholder's shares will be taxed as capital gain from the disposition of shares, provided that the shares are held as capital assets in the hands of the U.S. shareholder.

Aside from the different income tax rates applicable to ordinary income and capital gain dividends, regular and capital gain dividends from us will be treated as dividend income for most other federal income tax purposes. In particular, such dividends will be treated as "portfolio" income for purposes of the passive activity loss limitation and shareholders generally will not be able to offset any "passive losses" against such dividends. Dividends will be treated as investment income for purposes of the investment interest limitation contained in Section 163(d) of the Code, which limits the deductibility of interest expense incurred by noncorporate taxpayers with respect to indebtedness attributable to certain investment assets.

Back to Contents

In general, dividends paid by us will be taxable to shareholders in the year in which they are received, except in the case of dividends declared at the end of the year, but paid in the following January, as discussed above.

In general, a domestic shareholder will realize capital gain or loss on the disposition of shares equal to the difference between (1) the amount of cash and the fair market value of any property received on such disposition and (2) the shareholder's adjusted basis of such shares. Such gain or loss will generally be short-term capital gain or loss if the shareholder has not held such shares for more than one year and will be long-term capital gain or loss if such shares have been held for more than one year. Loss upon the sale or exchange of shares by a shareholder who has held such shares for six months or less (after applying certain holding period rules) will be treated as long-term capital loss to the extent of distributions from us required to be treated by such shareholder as long-term capital gain.

We may elect to retain and pay income tax on net long-term capital gains. If we make such an election, you, as a holder of shares, will (1) include in your income as long-term capital gains your proportionate share of such undistributed capital gains and (2) be deemed to have paid your proportionate share of the tax paid by us on such undistributed capital gains and thereby receive a credit or refund for such amount. As a holder of shares you will increase the basis in your shares by the difference between the amount of capital gain included in your income and the amount of tax you are deemed to have paid. Our earnings and profits will be adjusted appropriately.

***Backup Withholding***

We will report to our domestic shareholders and the IRS the amount of dividends paid during each calendar year, and the amount of tax withheld, if any, with respect thereto. Under the backup withholding rules, a shareholder may be subject to backup withholding with respect to dividends paid unless such holder (a) is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact, or (b) provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding and otherwise complies with the applicable requirements of the backup withholding rules. Amounts withheld as backup withholding will be creditable against the shareholder's income tax liability. In addition, we may be required to withhold a portion of capital gain distributions made to any shareholders who fail to certify their non-foreign status to us. See "Taxation of Non-U.S. Shareholders" below. Additional issues may arise pertaining to information reporting and backup withholding with respect to non-U.S. shareholders (persons other than U.S. shareholders, also further described below). Non-U.S. shareholders should consult their tax advisors with respect to any such information and backup withholding requirements.

***Taxation of Non-U.S. Shareholders***

The following discussion is only a summary of the rules governing United States federal income taxation of non-U.S. shareholders such as nonresident alien individuals, foreign corporations, foreign partnerships or other foreign estates or trusts. Prospective non-U.S. shareholders should consult with their own tax advisors to determine the impact of federal, state and local income tax laws with regard to an investment in shares, including any reporting requirements.

Distributions that are not attributable to gain from sales or exchanges by us of United States real property interests and not designated by us as capital gains dividends will be treated as dividends of ordinary income to the extent that they are made out of our current or accumulated earnings and profits. Such distributions ordinarily will be subject to a withholding tax equal to 30% of the gross amount of the distribution unless an applicable tax treaty reduces or eliminates that tax. Certain tax treaties limit the extent to which dividends paid by a REIT can qualify for a reduction of the withholding tax on dividends. Distributions in excess of our current and accumulated earnings and profits will not be taxable to a non-U.S. shareholder to the extent that they do not exceed the adjusted basis of the shareholder's shares, but rather will reduce the adjusted basis of such shares. To the extent that such distributions exceed the adjusted basis of a non-U.S. shareholder's shares, they will give rise to tax liability if the non-U.S. shareholder would otherwise be subject to tax on any gain from the sale or disposition of his shares, as described below.

Back to Contents

For withholding tax purposes, we are generally required to treat all distributions as if made out of our current or accumulated earnings and profits and thus intend to withhold at the rate of 30% (or a reduced treaty rate if applicable) on the amount of any distribution (other than distributions designated as capital gain dividends) made to a non-U.S. shareholder. We would not be required to withhold at the 30% rate on distributions we reasonably estimate to be in excess of our current and accumulated earnings and profits. If it cannot be determined at the time a distribution is made whether such distribution will be in excess of current and accumulated earnings and profits, the distribution will be subject to withholding at the rate applicable to ordinary dividends. However, the non-U.S. shareholder may seek from the IRS a refund of such amounts from the IRS if it is subsequently determined that such distribution was, in fact, in excess of our current or accumulated earnings and profits, and the amount withheld exceeded the non-U.S. shareholder's United States tax liability, if any, with respect to the distribution.

For any year in which we qualify as a REIT, distributions that are attributable to gain from sales or exchanges by us of United States real property interests will be taxed to a non-U.S. shareholder under the provisions of the Foreign Investment in Real Property Tax Act of 1980 ("FIRPTA"). Under FIRPTA, a non-U.S. shareholder is taxed as if such gain were effectively connected with a United States business. Non-U.S. shareholders would thus be taxed at the normal capital gain rates applicable to U.S. shareholders (subject to applicable alternative minimum tax and a special alternative minimum tax in the case of non-resident alien individuals). Also, distributions subject to FIRPTA may be subject to a 30% branch profits tax in the hands of a corporate non-U.S. shareholder not entitled to treaty relief or exemption. We are required by applicable regulations to withhold 35% of any distribution that could be designated by us as a capital gains dividend regardless of the amount actually designated as a capital gain dividend. This amount is creditable against the non-U.S. shareholder's FIRPTA tax liability.

Gain recognized by a non-U.S. shareholder upon a sale of shares generally will not be taxed under FIRPTA if we are a "domestically controlled REIT," defined generally as a REIT in which at all times during a specified testing period less than 50% in value of the shares was held directly or indirectly by foreign persons. It is anticipated that we will continue to be a "domestically controlled REIT" after the offering. Therefore, the sale of shares will not be subject to taxation under FIRPTA. However, because our common shares are publicly traded, no assurance can be given that we will continue to qualify as a "domestically controlled REIT." In addition, a non-U.S. shareholder that owns, actually or constructively, 5% or less of a class of our shares through a specified testing period will not recognize taxable gain on the sale of its shares under FIRPTA if the shares are traded on an established securities market. If the gain on the sale of shares were to be subject to taxation under FIRPTA, the non-U.S. shareholder would be subject to the same treatment as U.S. shareholders with respect to such gain (subject to applicable alternative minimum tax, special alternative minimum tax in the case of nonresident alien individuals and possible application of the 30% branch profits tax in the case of foreign corporations) and the purchaser would be required to withhold and remit to the IRS 10% of the purchase price. Gain not subject to FIRPTA will be taxable to a non-U.S. shareholder if (1) investment in the shares is effectively connected with the non-U.S. shareholder's United States trade or business, in which case the non-U.S. shareholder will be subject to the same treatment as U.S. shareholders with respect to such gain, or (2) the non-U.S. shareholder is a nonresident alien individual who was present in the United States for 183 days or more during the taxable year and such nonresident alien individual has a "tax home" in the United States, in which case the nonresident alien individual will be subject to a 30% tax on the individual's capital gain.

***Taxation of Tax-Exempt Shareholders***

Tax-exempt entities, including qualified employee pension and profit sharing trusts and individual retirement accounts ("Exempt Organizations"), generally are exempt from federal income taxation. However, they are subject to taxation on their unrelated business taxable income ("UBTI"). While investments in real estate may generate UBTI, the IRS has issued a published ruling to the effect that dividend distributions by a REIT to an exempt employee pension trust do not constitute UBTI, provided that the shares of the REIT are not otherwise used in an unrelated trade or business of the exempt employee pension trust. Based on that ruling and on our intention to invest our assets in a manner that will avoid the recognition of UBTI, amounts distributed by us to Exempt Organizations generally should not constitute UBTI. However, if an Exempt

Back to Contents

Organization finances its acquisition of our shares with debt, a portion of its income from us, if any, will constitute UBTI pursuant to the "debt-financed property" rules. Furthermore, social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts, and qualified group legal services plans that are exempt from taxation under specified provisions of the Code are subject to different UBTI rules, which generally will require them to characterize distributions from us as UBTI.

In addition, a pension trust that owns more than 10% of our shares is required to treat a percentage of the dividends from us as UBTI (the "UBTI Percentage") in certain circumstances. The UBTI Percentage is our gross income derived from an unrelated trade or business (determined as if we were a pension trust) divided by our total gross income for the year in which the dividends are paid. The UBTI rule applies only if (i) the UBTI Percentage is at least 5%, (ii) we qualify as a REIT by reason of the modification of the 5/50 Rule that allows the beneficiaries of the pension trust to be treated as holding our shares in proportion to their actuarial interests in the pension trust, and (iii) either (A) one pension trust owns more than 25% of the value of our shares or (B) a group of pension trusts individually holding more than 10% of the value of our capital shares collectively owns more than 50% of the value of our capital shares.

***Other Tax Considerations***

***Entity Classification.*** A significant number of our investments are held through partnerships. If any such partnerships were treated as an association, the entity would be taxable as a corporation and therefore would be subject to an entity level tax on its income. In such a situation, the character of our assets and items of gross income would change and might preclude us from qualifying as a REIT.

We believe that each partnership in which we hold a material interest (either directly or indirectly) is properly treated as a partnership for tax purposes (and not as an association taxable as a corporation).

***Tax Allocations with Respect to the Properties.*** When property is contributed to a partnership in exchange for an interest in the partnership, the partnership generally takes a carryover basis in that property for tax purposes equal to the adjusted basis of the contributing partner in the property, rather than a basis equal to the fair market value of the property at the time of contribution (this difference is referred to as "Book-Tax Difference"). Special rules under Section 704(c) of the Code and the Treasury Regulations thereunder require special allocations of income, gain, loss and deduction with respect to contributed property, which tend to eliminate the Book-Tax Difference over the depreciable lives of such property, but which may not always entirely eliminate the Book-Tax Difference on an annual basis or with respect to a specific taxable transaction such as a sale. Thus, the carryover basis of the contributed properties in the hands of the partnership could cause us (i) to be allocated lower amounts of depreciation and other deductions for tax purposes than would be allocated to us if all properties were to have a tax basis equal to their fair market value at the time the properties were contributed to the partnership, and (ii) possibly to be allocated taxable gain in the event of a sale of such contributed properties in excess of the economic or book income allocated to us as a result of such sale.

***Recent Developments***

The Jobs and Growth Tax Relief Reconciliation Act of 2003 (the "Act"), which has been enacted into law, reduces the tax rates imposed on dividends paid by C corporations to most domestic non-corporate shareholders in order to limit "double taxation" on dividends, and such reduced rates are effective from January 1, 2003 through December 31, 2008. In addition, the capital gains tax rates are also reduced, and such reduced rates are effective with respect to transactions after May 5, 2003 through December 31, 2008.

A REIT's non-corporate shareholders generally would not benefit from the Act with respect to dividends paid by a REIT because such dividends are generally not subject to taxation at the REIT level. However, there are limited circumstances in which a REIT non-corporate shareholders will be subject to tax at the reduced rate with respect to REIT dividends. The reduced tax rates would apply to an amount equal to the excess of a REIT's income subject to corporate level income taxes (less such tax liability). This could occur, for example, if a REIT did not distribute 100% of its taxable income as a dividend. The reduced rates would also apply to capital gains dividends and to dividends attributable to dividends a REIT receives from non-REIT corporations.

Back to Contents

The Act could cause investors to view investments in common and preferred stock of REITs, including the common shares being offered by this re-offer prospectus, less favorably in comparison to investments in common and preferred stock of C corporations, the dividends for which would be subject to a reduced tax rate under the Act.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This re-offer prospectus and the information incorporated herein by reference contain certain statements and other written material and oral statements made from time to time by us do not relate strictly to historical or current facts. As such, they are considered "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are not historical facts, but rather are based on our current expectations, estimates and projections about our industry, beliefs and assumptions. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates" and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. These risks and uncertainties are described in "Risk Factors" and elsewhere in this re-offer prospectus. We caution you not to place undue reliance on these forward-looking statements, which reflect our view only as of the respective date of this re-offer prospectus or other dates which are specified herein.

## LEGAL MATTERS

The validity of the securities has been passed upon for us by Berliner, Corcoran & Rowe L.L.P., Washington, D.C.

## EXPERTS

Our consolidated financial statements included in our Annual Report (Form 10-K) for the year ended December 31, 2003, have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon included therein and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

## AVAILABLE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934 which requires us to file reports and other information with the Securities and Exchange Commission. You can inspect and copy reports, proxy statements and other information filed by us at the public reference facility maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549. You can obtain copies of this material by mail from the Public Reference Section of the SEC at 450 West Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. You can also obtain such reports, proxy statements and other information from the web site that the SEC maintains at http://www.sec.gov.

Reports, proxy statements and other information concerning us may also be obtained electronically at our website, http://www.acadia.com and through a variety of databases, including, among others, the SEC's Electronic Data Gathering and Retrieval ("EDGAR") program, Knight-Ridder Information Inc., Federal Filing/Dow Jones and Lexis/Nexis.

Back to Contents

**INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE**

The Commission allows us to "incorporate by reference" the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this re-offer prospectus, and information that we file later with the Commission will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings we will make with the Commission under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934:

- Our Annual Report on Form 10-K for the fiscal year ended December 31, 2003, filed with the Commission on March 15, 2002 (Commission File No. 001-12002);

- Our Definitive Proxy Statement dated April 24, 2004 on Schedule 14A prepared in connection with our Annual Meeting of Shareholders held on June 25, 2003; and

- Our Current Reports on Form 8-K filed with the Commission on January 29 and March 19, 2004.

You may request a copy of these filings (not including the exhibits to such documents unless the exhibits are specifically incorporated by reference in the information contained in this re-offer prospectus), at no cost, by writing or telephoning us at the following address:

Acadia Realty Trust
1311 Mamaroneck Avenue, Suite 260
White Plains, New York 10605
Attn: Robert Masters
Telephone requests may be directed to (914) 288-8100.

This re-offer prospectus is part of a registration statement we filed with the Commission. You should rely only on the information or representations provided in this re-offer prospectus. We have authorized no one to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this re-offer prospectus is accurate as of any date other than the date on the front of the document.

Statements contained in this re-offer prospectus as to the contents of any contract or document are not necessarily complete and in each instance reference is made to the copy of that contract or document filed as an exhibit to the registration statement or as an exhibit to another filing, each such statement being qualified in all respects by such reference and the exhibits and schedules thereto.



Back to Contents

3,000,000 Shares

# Acadia Realty Trust

**Common Shares**

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**PROSPECTUS SUPPLEMENT**

**November 4, 2004**

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**Citigroup**