ACADIA REALTY TRUST
Form 10-Q
November 08, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2010

or

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

For the transition period from _______ to _______

Commission File Number 1-12002

ACADIA REALTY TRUST

(Exact name of registrant in its charter)

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

(914) 288-8100
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YESx NO o

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

YES o NO o

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

Large Accelerated Filer o	Accelerated Filer x
Non-accelerated Filer o	Smaller Reporting Company o

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act) Yes oNo x

As of November 8, 2010 there were 40,253,877 common shares of beneficial interest, par value $.001 per share, outstanding.

ACADIA REALTY TRUST AND SUBSIDIARIES

FORM 10-Q

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Part I. Financial Information

Item 1. Financial Statements.

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)	September 30, 2010 (unaudited)	December 31, 2009
ASSETS		
Operating real estate		
Land	$ 200,354	$ 221,740
Building and improvements	855,333	845,751
Construction in progress	2,842	2,575
	1,058,529	1,070,066
Less: accumulated depreciation	214,909	193,745
Net operating real estate	843,620	876,321
Real estate under development	314,565	137,340
Notes receivable and preferred equity investment, net	87,600	125,221
Investments in and advances to unconsolidated affiliates	16,095	51,712
Cash and cash equivalents	110,703	93,808
Cash in escrow	29,559	8,582
Rents receivable, net	17,956	16,782
Deferred charges, net of amortization	28,098	28,311
Acquired lease intangibles, net of amortization	19,527	22,382
Prepaid expenses and other assets	23,025	22,005
Total assets	$ 1,490,748	$ 1,382,464
LIABILITIES		
Mortgages payable	$ 783,467	$ 732,287
Notes payable, net of unamortized discount of $1,331 and $2,105, respectively	48,684	47,910
Distributions in excess of income from, and investments in, unconsolidated affiliates	20,802	20,589
Accounts payable and accrued expenses	31,102	17,548
Dividends and distributions payable	7,427	7,377
Acquired lease and other intangibles, net of amortization	5,992	6,753
Other liabilities	19,434	17,523
Total liabilities	916,908	849,987
SHAREHOLDERS’ EQUITY		
Common shares, $.001 par value, authorized 100,000,000 shares; issued and outstanding 40,247,415 and 39,787,018 shares, respectively	40	40
Additional paid-in capital	303,192	299,014
Accumulated other comprehensive loss	(3,366)	(2,994)

Retained earnings		17,449		16,125
Total shareholders’ equity		317,315		312,185
Noncontrolling interests		256,525		220,292
Total equity		573,840		532,477
Total liabilities and equity	$	1,490,748	$	1,382,464

See accompanying notes

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ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

(unaudited)

(dollars in thousands, except per share amounts)	Three months ended September 30, 2010	2009	Nine months ended September 30, 2010	2009
Revenues				
Rental income	$28,041	$25,941	$79,734	$71,314
Mortgage interest income	5,206	4,908	15,437	14,867
Expense reimbursements	4,939	4,868	15,839	15,252
Lease termination income		2,500	65	2,726
Management fee income	346	316	1,182	1,517
Other	729	362	1,663	3,250
Total revenues	39,261	38,895	113,920	108,926
Operating Expenses				
Property operating	7,255	6,419	21,671	20,965
Real estate taxes	4,771	4,552	13,644	12,305
General and administrative	5,317	5,226	15,852	16,575
Depreciation and amortization	10,341	10,377	28,546	27,412
Other expense		53	3	4,218
Total operating expenses	27,684	26,627	79,716	81,475
Operating income	11,577	12,268	34,204	27,451
Other interest income	175	161	462	373
Equity in earnings (losses) of unconsolidated affiliates	143	(193)	610	(3,451)
Impairment of investment in unconsolidated affiliate		(3,655)		(3,655)
Interest and other finance expense	(8,829)	(8,329)	(25,927)	(23,782)
Gain on bargain purchase			33,805	
Gain on debt extinguishment		11		7,057
Income from continuing operations before income taxes	3,066	263	43,154	3,993
Income tax provision	(785)	273	(1,869)	(1,349)
Income from continuing operations	2,281	536	41,285	2,644
Discontinued Operations				
Operating income from discontinued operations		32		225
Gain on sale of property				5,637
Income from discontinued operations		32		5,862
Net income	2,281	568	41,285	8,506
Loss (income) attributable to noncontrolling interests:				
Continuing operations	2,836	6,740	(18,240)	21,101
Discontinued operations		(1)		(4,866)

Net loss (income) attributable to noncontrolling interests	2,836	6,739	(18,240)	16,235
Net income attributable to Common Shareholders	$5,117	$7,307	$23,045	$24,741
Basic Earnings per Share				
Income from continuing operations	$0.13	$0.18	$0.57	$0.63
Income from discontinued operations				0.03
Basic earnings per share	$0.13	$0.18	$0.57	$0.66
Diluted Earnings per Share				
Income from continuing operations	$0.13	$0.18	$0.57	$0.63
Income from discontinued operations				0.03
Diluted earnings per share	$0.13	$0.18	$0.57	$0.66

See accompanying notes

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

(unaudited)

(dollars in thousands, except per share amounts)	Common Shares Shares	Common Shares Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2009	39,787	$40	$299,014	$(2,994)	$16,125	$312,185	$220,292	$532,477
Conversion of 358,967 OP Units to Common Shares by limited partners of the Operating Partnership	359	-	3,179	-	-	3,179	(3,179)	-
Dividends declared ($0.54 per Common Share)	-	-	-	-	(21,721)	(21,721)	(553)	(22,274)
Employee Restricted Share awards	133	-	1,561	-	-	1,561	1,333	2,894
Common Shares issued under Employee Share Purchase Plan	5	-	75	-	-	75	-	75
Issuance of Common Shares to Trustees	13	-	228	-	-	228	-	228
Exercise of Trustees options	7	-	101	-	-	101	-	101
	(57)	-	(966)	-	-	(966)	-	(966)

Employee Restricted Shares cancelled								
Noncontrolling interest distributions	-	-	-	-	-	-	(856)	(856)
Noncontrolling interest contributions	-	-	-	-	-	-	21,076	21,076
	40,247	40	303,192	(2,994)	(5,596)	294,642	238,113	532,755
Comprehensive income:								
Net income	-	-	-	-	23,045	23,045	18,240	41,285
Unrealized loss on valuation of swap agreements	-	-	-	(2,263)	-	(2,263)	(73)	(2,336)
Reclassification of realized interest on swap agreements	-	-	-	1,891	-	1,891	245	2,136
Total comprehensive income	-	-	-	(372)	23,045	22,673	18,412	41,085
Balance at September 30, 2010	40,247	$40	$303,192	$(3,366)	$17,449	$317,315	$256,525	$573,840

Balance at December 31, 2008	32,357	$32	$218,527	$(4,508)	$13,671	$227,722	$214,506	$442,228
Dividends declared ($0.57 per Common Share)	-	-	-	-	(21,491)	(21,491)	(607)	(22,098)
Issuance of Common Shares	5,750	6	65,216	-	-	65,222	-	65,222
Issuance of Common Shares through special dividend	1,287	2	16,190	-	-	16,192	-	16,192
Employee Restricted Share awards	443	-	2,289	-	-	2,289	667	2,956
Common Shares issued under Employee Share Purchase Plan	7	-	80	-	-	80	-	80
Issuance of Common Shares to Trustees	25	-	603	-	-	603	-	603
Employee exercise of options to purchase common shares	8	-	69	-	-	69	-	69
Employee Restricted Shares cancelled	(191)		(2,715)	-	-	(2,715)	-	(2,715)
Conversion options on Convertible Notes purchased	-	-	(840)	-	-	(840)	-	(840)

Noncontrolling interest distributions	-	-	-	-	-	-	(915)	(915)
Noncontrolling interest contributions	-	-	-	-	-	-	7,200	7,200
	39,686	40	299,419	(4,508)	(7,820)	287,131	220,851	507,982
Comprehensive income (loss):								
Net income (loss)	-	-	-	-	24,741	24,741	(16,235)	8,506
Unrealized loss on valuation of swap agreements	-	-	-	(815)	-	(815)	(108)	(923)
Reclassification of realized interest on swap agreements	-	-	-	1,905	-	1,905	222	2,127
Total comprehensive income (loss)	-	-	-	1,090	24,741	25,831	(16,121)	9,710
Balance at September 30, 2009	39,686	$40	$299,419	$(3,418)	$16,921	$312,962	$204,730	$517,692

See accompanying notes

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ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

(unaudited)

(dollars in thousands)	Nine months ended September 30, 2010	Nine months ended September 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 41,285	$ 8,506
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,546	27,437
Gain on bargain purchase	(33,805)	-
Gain on sale of property	-	(5,637)
Gain on debt extinguishment	-	(7,057)
Non-cash accretion of notes receivable	(4,513)	(3,914)
Share compensation expense	3,121	3,045
Equity in (earnings) losses of unconsolidated affiliates	(610)	3,451
Impairment of investment in unconsolidated affiliate	-	3,655
Other, net	3,995	12,951
Changes in assets and liabilities		
Cash in escrow	(20,977)	(2,103)
Rents receivable, net	(2,891)	(5,818)
Prepaid expenses and other assets, net	1,443	8,507
Accounts payable and accrued expenses	5,285	(4,971)
Other liabilities	1,713	1,062
Net cash provided by operating activities	22,592	39,114
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in real estate	(60,552)	(112,913)
Deferred acquisition and leasing costs	(2,442)	(11,654)
Investments in and advances to unconsolidated affiliates	(2,915)	(5,137)
Return of capital from unconsolidated affiliates	753	1,798
Repayments of notes receivable	42,011	8,831
Increase in notes receivable	-	(756)
Proceeds from sale of property	-	9,481
Net cash used in investing activities	(23,145)	(110,350)

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ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

(unaudited)

(dollars in thousands)	Nine months ended September 30, 2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on mortgage notes	(33,698)	(150,357)
Proceeds received on mortgage notes	58,914	255,065
Redemption of notes payable	-	(46,736)
Increase in deferred financing and other costs	(4,973)	(480)
Capital contributions from noncontrolling interests	21,076	7,200
Distributions to noncontrolling interests	(1,426)	(1,979)
Dividends paid to Common Shareholders	(21,655)	(22,993)
Proceeds from issuance of Common Shares, net of issuance costs	-	65,222
Repurchase and cancellation of Common Shares	(966)	(2,715)
Common Shares issued under Employee Share Purchase Plan	75	80
Exercise of options to purchase Common Shares	101	69
Net cash provided by financing activities	17,448	102,376
Increase in cash and cash equivalents	16,895	31,140
Cash and cash equivalents, beginning of period	93,808	86,691
Cash and cash equivalents, end of period	$110,703	$117,831
Supplemental disclosure of cash flow information		
Cash paid during the period for interest, including capitalized interest of $1,592 and $3,005, respectively	$24,981	$24,597
Cash paid for income taxes	$1,184	$496
Dividends paid through the issuance of Common Shares	$-	$16,192
Acquisition of interest in unconsolidated affiliate:		
Real estate, net	$(108,000)	$-
Assumption of mortgage debt	25,990	-
Gain on bargain purchase	33,805	-
Other assets and liabilities	7,532	-
Investment in unconsolidated affiliates	37,824	-
Cash included in investment in real estate	$(2,849)	$-

See accompanying notes

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ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION

Business and Organization

Acadia Realty Trust (the "Trust") and subsidiaries (collectively, the "Company") is a fully-integrated, self-managed and self-administered equity real estate investment trust ("REIT") focused primarily on the ownership, acquisition, redevelopment and management of retail properties, including neighborhood and community shopping centers and mixed-use properties with retail components.

All of the Company's assets are held by, and all of its operations are conducted through, Acadia Realty Limited Partnership (the "Operating Partnership") and entities in which the Operating Partnership owns a controlling interest. As of September 30, 2010, the Trust controlled approximately 99% of the Operating Partnership as the sole general partner. As the general partner, the Trust is entitled to share, in proportion to its percentage interest, in the cash distributions and profits and losses of the Operating Partnership. The limited partners primarily represent entities or individuals that contributed their interests in certain properties or entities to the Operating Partnership in exchange for common or preferred units of limited partnership interest ("Common or Preferred OP Units"). Limited partners holding Common OP Units are generally entitled to exchange their units on a one-for-one basis for common shares of beneficial interest of the Trust ("Common Shares").

As of September 30, 2010, the Company has ownership interests in 34 properties within its core portfolio ("Core Portfolio") and 44 properties within its three opportunity funds, Acadia Strategic Opportunity Fund I, L.P. ("Fund I"), Acadia Strategic Opportunity Fund II, LLC ("Fund II") and Acadia Strategic Opportunity Fund III, LLC ("Fund III" and together with Fund I and Fund II, the "Opportunity Funds"). The 78 properties consist of commercial properties, primarily neighborhood and community shopping centers, self-storage and mixed-use properties with a retail component. In addition, the Company also invests in operating companies through Acadia Mervyn Investors I, LLC ("Mervyns I") and Acadia Mervyn Investors II, LLC ("Mervyns II") or Fund II, all on a non-recourse basis. These investments comprise and are referred to as the Company's Retailer Controlled Property initiative ("RCP Venture"). The Operating Partnership has the following equity interests in the Opportunity Funds, Mervyns I and Mervyns II:

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

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

Basis of Presentation

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

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates. The information furnished in the accompanying consolidated financial statements reflects all adjustments that, in the opinion of management, are necessary for a fair presentation of the aforementioned consolidated financial statements for the interim periods. These consolidated financial statements should be read in conjunction with the Company's 2009 Annual Report on Form 10-K, as filed with the SEC on March 1, 2010.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION (continued)

Recent Accounting Pronouncements

In June 2009, the FASB issued a new accounting standard, which provided certain changes to the evaluation of a variable interest entity ("VIE") including requiring a qualitative rather than a quantitative analysis to determine the primary beneficiary of a VIE, continuous assessments of whether an enterprise is the primary beneficiary of a VIE and enhanced disclosures about an enterprise's involvement with a VIE. Under the new standard, the primary beneficiary has both the power to direct the activities that most significantly impact economic performance of the VIE and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. The adoption of the standard on January 1, 2010 did not have a material impact on the Company's consolidated financial statements.

In January 2010, the FASB issued Accounting Standards Update ("ASU") No. 2010-06 "Improving Disclosures about Fair Value Measurements," which provides for new disclosures, as well as clarification of existing disclosures on fair value measurements. The adoption of the standard on January 1, 2010 did not have an impact on the Company's financial position and results of operations.

In February 2010, the FASB issued ASU No. 2010-09 "Subsequent Events (ASC Topic 855) Amendments to Certain Recognition and Disclosure Requirements," which requires an entity that is an SEC filer to evaluate subsequent events through the date that the financial statements are issued and removes the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated. The adoption did not have an impact on the Company's financial position and results of operations.

2. EARNINGS PER COMMON SHARE

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

	Three months ended September 30,		Nine months ended September 30,	
(dollars in thousands, except per share amounts)	2010	2009	2010	2009
Numerator:				
Income from continuing operations attributable to Common Shareholders	$5,117	$7,276	$23,045	$23,745
Effect of dilutive securities:				
Preferred OP Unit distributions		5	14	14
Numerator for diluted earnings per Common Share	$5,117	$7,281	$23,059	$23,759
Denominator:				
Weighted average shares for basic earnings per share	40,169	39,686	40,096	37,415
Effect of dilutive securities:				

Employee share options	262	257	214	189
Convertible Preferred OP Units		25	25	25
Dilutive potential Common Shares	262	282	239	214
Denominator for diluted earnings per share	40,431	39,968	40,335	37,629
Basic earnings per Common Share from continuing operations attributable to Common Shareholders	$0.13	$0.18	$0.57	$0.63
Diluted earnings per Common Share from continuing operations attributable to Common Shareholders	$0.13	$0.18	$0.57	$0.63

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

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. EARNINGS PER COMMON SHARE, continued

The effect of the assumed conversion of 188 Series A Preferred OP Units into 25,067 Series A Preferred OP Units to Common Shares would be anti-dilutive for the three months ended September 30, 2010 and they are not included in the table. The effect of the assumed conversion of 188 Series A Preferred OP Units into 25,067 Common Shares is dilutive for the three months ended September 30, 2009 and nine months ended September 30, 2010 and September 30, 2009 and, accordingly, they are included in the table.

3. NONCONTROLLING INTERESTS

Noncontrolling interests represent the portion of equity that the Company does not own in entities that it consolidates. Such noncontrolling interests are reported on the Consolidated Balance Sheets within equity, separately from the Company's equity.

Noncontrolling interests include third party interests in the Company's Opportunity Funds and other entities. It also include interests in the Operating Partnership which represent (i) the limited partners' 281,942 and 626,606 Common OP Units at September 30, 2010 and December 31, 2009, respectively, (ii) 188 Series A Preferred OP Units at September 30, 2010 and December 31, 2009, respectively, and (iii) 646,534 and 393,909 LTIP Units at September 30, 2010 and December 31, 2009, respectively.

4. ACQUISITIONS AND DISPOSITION OF PROPERTIES AND DISCONTINUED OPERATIONS

Acquisitions

Prior to June 30, 2010, the Company, through Fund II, and an unaffiliated joint venture partner, California Urban Investment Partners, LLC ("CUIP") owned a leasehold interest in CityPoint, a mixed-use, redevelopment project located in downtown Brooklyn, New York. Fund II owned a 75% interest in the retail component, a 50% interest in the office component and no interest in the residential component of CityPoint. CUIP owned the remaining interests in the retail and office components and 100% of the residential component of the project. Accordingly, Fund II's investment represented 24.75% of the overall original acquisition cost and subsequent carry and pre-development costs and was accounted for using the equity method.

On June 30, 2010, Fund II acquired all of CUIP's interest in CityPoint for $9.2 million (the "Transaction"), consisting of a current payment of $2.0 million and deferred payments, potentially through 2020, aggregating $7.2 million. Fund II also assumed CUIP's share of the first mortgage debt, $19.6 million.

The Transaction was a business combination achieved in stages, and as a result, Fund II was required to report its entire investment in CityPoint at fair market value. A June 30, 2010 third-party appraisal valued CityPoint at $108 million which resulted in Fund II recording a non-cash gain on bargain purchase of approximately $33.8 million. The Operating Partnership's share of this gain, net of the noncontrolling interests' share, totaled $6.3 million.

As a result of the Transaction, the Company changed its method of accounting for CityPoint from the equity method and now consolidates CityPoint in its consolidated financial statements. As CityPoint is currently in the redevelopment stage, there are no revenues or earnings from CityPoint included in the Company's Consolidated Statements of Income for the three and nine months ended September 30, 2010 and 2009.

Discontinued Operations

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

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. ACQUISITIONS AND DISPOSITION OF PROPERTIES AND DISCONTINUED OPERATIONS, continued

Discontinued Operations, continued

There were no properties sold during the nine months ended September 30, 2010. During 2009, the Company sold Blackman Plaza and six of the remaining Fund I investments in 24 Kroger and Safeway supermarket locations. The combined results of operations of the properties classified as discontinued operations are summarized as follows:

Statements Of Operations (dollars in thousands)	Three months ended September 30, 2009	Nine months ended September 30, 2009
Total revenues	$ 120	$ 494
Total expenses	88	269
Operating income	32	225
Gain on sale of property		5,637
Income from discontinued operations	32	5,862
Income from discontinued operations attributable to noncontrolling interests in subsidiaries	(1)	(4,866)
Income from discontinued operations attributable to Common Shareholders	$ 31	$ 996

5. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED AFFILIATES

Core Portfolio

Brandywine Portfolio

The Company owns a 22.2% interest in an approximately one million square foot retail portfolio (the “Brandywine Portfolio”) located in Wilmington, Delaware that is accounted for under the equity method.

Crossroads

The Company owns a 49% interest in the Crossroads Joint Venture and Crossroads II (collectively, “Crossroads”), which own a 311,000 square foot shopping center located in White Plains, New York that is accounted for under the equity method.

Opportunity Funds

RCP Venture

During January of 2004, the Company along with Klaff Realty, LP (“Klaff”) and Lubert-Adler Management, Inc., formed an investment group, the RCP Venture, for the purpose of making investments in surplus or underutilized properties owned by retailers. The RCP Venture is neither a single entity nor a specific investment. Any member of this group has the option of participating, or not, in any individual investment and each individual investment has been made on a stand-alone basis through a separate limited liability company (“LLC”). These investments have been made through different investment vehicles with different affiliated and unaffiliated investors and different economics to the Company. The Company has made these investments through its subsidiaries, Mervyns I, Mervyns II and Fund II, (together the “Acadia Investors”), all on a non-recourse basis. Through September 30, 2010, the Acadia Investors have made investments in Mervyns Department Stores (“Mervyns”) and Albertson’s including additional investments in locations that are separate from these original investments (“Add-On Investments”). Additionally, they have invested in Shopko, Marsh and Rex Stores Corporation (collectively “Other RCP Investments”).

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED AFFILIATES, continued

RCP Venture, continued

The Acadia Investors have non-controlling interests in the individual investee LLC's as follows:

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

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

The Company accounts for the Add-On Investments and Other RCP Investments under the cost method. Due to its minor ownership interest based on the size of the investments as well as the terms of the underlying operating agreements, the Company has no influence over such entities operating and financial policies.

The following table summarizes activity related to the RCP Venture investments from inception through September 30, 2010:

Investment	Year Acquired	Invested Capital and Advances	Distributions	Operating Partnership Share Invested Capital and Advances	Operating Partnership Share Distributions
Mervyns	2004	$ 26,058	$ 45,966	$ 4,901	$ 11,251
Mervyns Add-On investments	2005/2008	6,517	1,703	1,046	283
Albertson's	2006	20,717	65,969	4,239	13,193
Albertson's Add-On investments	2006/2007	2,412	1,215	387	243
Shopko	2006	1,108	1,475	222	295
Marsh and Add-on investments	2006/2008	2,667	2,639	533	528
Rex Stores	2007	2,701	840	535	168
		$ 62,180	$ 119,807	$ 11,863	$ 25,961

Other Opportunity Fund Investments

Fund I Investments

Fund I owned a 50% interest in the Sterling Heights Shopping Center, which was accounted for under the equity method of accounting. During the three months ended September 30, 2009, Fund I recorded an impairment reserve of $3.7 million related to this investment. On March 25, 2010, the Sterling Heights Shopping Center was sold for $2.3 million. The proceeds from this sale together with the balance of Fund I's recourse obligation of $0.6 million were used to fully liquidate the outstanding mortgage loan obligation.

Fund II Investments

Fund II had a 24.75% interest in CityPoint, a redevelopment project located in downtown Brooklyn, NY, which was accounted for under the equity method. On June 30, 2010, Fund II acquired the remaining interests in the project from its unaffiliated partner, as discussed in Note 4 and, as a result, now consolidates the CityPoint investment.

Fund III Investments

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

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Other Opportunity Fund Investments, continued

Summary of Investments in Unconsolidated Affiliates

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

(dollars in thousands)	September 30, 2010	December 31, 2009
Combined/Condensed Balance Sheets		
Assets:		
Rental property, net	$133,461	$142,690
Real estate under development		100,346
Investment in unconsolidated affiliates	193,421	209,407
Other assets	17,385	20,951
Total assets	$344,267	$473,394
Liabilities and partners' equity		
Mortgage note payable	$227,805	$258,685
Other liabilities	8,215	12,085
Partners' equity	108,247	202,624
Total liabilities and partners' equity	$344,267	$473,394
Company's investment in and advances to unconsolidated affiliates	$16,095	$51,712
Share of distributions in excess of share of income and investments in unconsolidated affiliates	$20,802	$20,589

(dollars in thousands)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Combined/Condensed Statements of Operations				
Total revenues	$7,317	$7,130	$21,787	$22,075
Operating and other expenses	2,550	2,019	7,158	6,883
Interest expense	3,392	3,480	10,107	10,332
Equity in (losses) earnings of unconsolidated affiliates	(681)	(2,263)	2,083	(36,527)
Depreciation and amortization	1,057	1,732	3,745	3,964
Loss on sale of property, net			(2,957)	(390)
Net loss	$(363)	$(2,364)	$(97)	$(36,021)

Company's share of net income (loss)	$241	$(96)	$904	$(3,160)
Impairment Reserve		(3,655)	–	(3,655)
Amortization of excess investment	(98)	(97)	(294)	(291)
Company's share of net income (loss)	$143	$(3,848)	$610	$(7,106)

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ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. NOTES RECEIVABLE

At September 30, 2010, the Company's notes receivable, net, consisted of the following:

Description	Effective interest rate	Maturity date	First Priority liens	Net carrying amount of notes receivable	Extension options
(dollars in thousands)					
72nd Street	20.9%	7/2011	$ 185,000	$ 45,196	1 x 1 year
Georgetown	10.2%	11/2010	9,596	8,000	2 x 1 year
Mezzanine Loan	14.5%	12/2010		8,585	1 x 6 months
Zero coupon Loan	24.0%	1/2016	166,200	3,153	
Mezzanine Loan	13.0%	9/2011		2,980	
First Mortgage Loan	10.8%	9/2011		10,000	
Individually less	10% to	Demand note			
than 3%	17.5%	to 1/2017	106,089	9,686	
Total				$ 87,600	

During September 2010, one of the Company's Georgetown, Washington D.C. mezzanine investments, which was secured by a portfolio of 18 properties, was fully liquidated. The Company received $40.0 million of principal along with $9.4 million of accrued interest.

7. DERIVATIVE FINANCIAL INSTRUMENTS

As of September 30, 2010, the Company's derivative financial instruments consisted of seven interest rate swaps with an aggregate notional value of $77.3 million, which fix interest at rates ranging from 0.5% to 5.1% and mature between October 2010 and November 2012. The Company also has one derivative financial instrument with a notional value of $28.9 million which caps LIBOR at 6% and matures in April 2013. The fair value of the net derivative liability of these instruments, which is included in other liabilities in the Consolidated Balance Sheets, totals $3.4 million and $3.3 million at September 30, 2010 and December 31, 2009, respectively. The notional value does not represent exposure to credit, interest rate or market risks.

These derivative instruments have been designated as cash flow hedges and hedge the future cash outflows on variable rate mortgage debt. Such instruments are reported at the fair value reflected above. As of September 30, 2010 and 2009, unrealized losses totaling $3.4 million, respectively, were reflected in accumulated other comprehensive loss.

As of September 30, 2010 and 2009, no derivatives were designated as fair value hedges, hedges of net investments in foreign operations or considered to be ineffective. Additionally, the Company does not use derivatives for trading or speculative purposes.

8. MORTGAGE LOANS

The Company completed the following transactions related to mortgage loans and credit facilities during the nine months ended September 30, 2010:

i) During January 2010, the Company closed on a $48.0 million construction loan that bears interest at the greater of (a) LIBOR plus 400 basis points or (b) an interest rate floor of 6.50% which matures on January 12, 2012. As of September 30, 2010, $19.9 million was drawn on this facility.

ii) Extended the Fund II subscription line of credit, which is collateralized by a pledge of investors' unfunded capital commitments, which matured on March 1, 2010, to March 1, 2011 and adjusted the interest rate from LIBOR plus 250 basis points to LIBOR plus 325 basis points. In connection with the extension, the Company made an $8.2 million payment on the outstanding $48.2 million line of credit. The line of credit's maximum capacity was reduced to $40.0 million.

iii) During February of 2010, the Company paid off an outstanding line of credit balance of $2.0 million, which was collateralized by a property and scheduled to mature on March 29, 2010 and terminated the line of credit.

iv) Also during February of 2010, the Company made a $15.0 million payment on an outstanding $30.0 million credit facility collateralized by six properties.

v) During May of 2010, the Company made a $17.0 million draw on the Fund III subscription line of credit. As of September 30, 2010, the total outstanding amount on this line of credit was $156.5 million.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. MORTGAGE LOANS, continued

vi) Also during May of 2010, the Company borrowed an additional $2.0 million on an existing mortgage loan collateralized by a property.

vii) During July 2010, the Company amended and extended a $30.0 million loan, collateralized by a Fund II property located on 161st Street in the Bronx, NY. The agreement required a $1.1 million payment on the outstanding principal balance and extended the maturity date to April 1, 2013. The interest rate has been adjusted retroactively to LIBOR plus 400 basis points for the period April 1, 2010 through March 31, 2011, LIBOR plus 550 basis points for the period April 1, 2011 through March 31, 2012, and LIBOR plus 600 basis points for the period April 1, 2012 through March 31, 2013.

viii) During July of 2010, the Company closed on a $20.0 million bond financing that bears interest at a fixed rate of 7.25% that is due November 1, 2042 and has a mandatory put date of November 1, 2014.

ix) During August of 2010, the Company amended and extended the maturity date of a $25.9 million loan that was scheduled to mature during August of 2010. In connection with the release of a portion of the collateral for this loan, the Company was required to pay down the principal by $5.3 million. The amendment provided for a three year extension of the loan maturity date to August 12, 2013 with two one-year extension options.

x) Also during August of 2010, the Company completed an amendment of a $31.7 million construction loan. The servicer of this loan had previously alleged that non-monetary defaults had occurred. The amendment provides for premium-free pre-payment of the loan to the extent that the lender is not in the process of selling the loan. The servicer on behalf of the lender has agreed to dismiss all allegations of default. The loan continues to bear interest at 7.38% and has a maturity date of January 1, 2020.

xi) During September of 2010, the Company amended and extended the maturity date of a $10.5 million loan that was scheduled to mature during September 2010. The amendment required a $0.5 million principal pay down and provided for a one year extension of the loan maturity date to September 1, 2011 with one twelve month extension option and bears interest at LIBOR plus 325 basis points.

xii) During June 2009, the servicer of one of the Company's loans alleged that a non-monetary default had occurred on a construction loan for $11.5 million collateralized by Atlantic Avenue. The servicer contends that the Company did not substantially complete the improvements in accordance with the required completion date as defined in the loan agreement and, accordingly, did not meet the requirements for the final draw. Subsequent to September 30, 2010, the Company and the servicer on behalf of the lender have reached an agreement to amend the loan. As part of the agreement, the servicer on behalf of the lender has agreed to waive all alleged events of default. The loan continues to bear interest at 7.34% and has a maturity date of January 1, 2020.

9. CONVERTIBLE NOTES PAYABLE

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

The carrying amount of the equity component included in additional paid-in capital totaled $1.3 million at September 30, 2010 and $2.1 million at December 31, 2009. The additional non-cash interest expense recognized in the Consolidated Statements of Income was $0.3 million and $0.2 million for the three months ended September 30, 2010 and 2009, respectively and $0.8 million and $1.0 million for the nine months ended September 30, 2010 and 2009, respectively. The Convertible Notes if-converted value does not exceed its principal amount as of September 30, 2010 and there are no derivative transactions that were entered into in connection with the issuance of the Convertible Notes.

Through September 30, 2010, the Company has purchased $65.0 million in face amount of its Convertible Notes at an average discount of approximately 19%. The outstanding Convertible Notes face amount as of September 30, 2010 was $50.0 million.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. FAIR VALUE MEASUREMENTS

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

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2010:

(dollars in thousands)	Level 1	Level 2	Level 3
Liabilities			
Derivative financial instruments (Note 7)	$—	$3,427	$—

Financial Instruments

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

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

	September 30, 2010		December 31, 2009	
(dollars in thousands)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Notes Receivable and Preferred Equity Investments	$87,600	$87,592	$125,221	$126,403
Mortgage Notes Payable and Convertible Notes Payable	$832,151	$844,718	$780,197	$751,043

11. RELATED PARTY TRANSACTIONS

During February 2010, Klaff converted all 250,000 of its Restricted Common OP Units into 250,000 Common Shares.

The Company earns asset management, leasing, disposition, development and construction fees for providing services to an existing portfolio of retail properties and/or leasehold interests in which Klaff has an interest. Fees earned by the Company in connection with this portfolio were $0.1 million and $0.04 million for the three months ended September 30, 2010 and 2009, respectively, and $0.2 million and $0.3 million for the nine months ended September 30, 2010 and 2009, respectively.

The Company earned property management fees, legal and leasing fees from the Brandywine portfolio totaling $0.2 million and $0.1 million for the three months ended September 30, 2010 and September 30, 2009, respectively, and $0.6 million and $0.5 million for the nine months ended September 30, 2010 and 2009, respectively.

Lee Wielansky, the Lead Trustee of the Company, was paid a consulting fee of $25,000 for each of the three months ended September 30, 2010 and 2009, and $75,000 for each of the nine months ended September 30, 2010 and 2009.

12. SEGMENT REPORTING

The Company has five reportable segments: Core Portfolio, Opportunity Funds, Self-Storage Portfolio, Notes Receivable and Other. "Notes Receivable" consists of the Company's notes receivable and preferred equity investment and related interest income. "Other" consists primarily of management fees and interest income. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates property performance primarily based on net operating income before depreciation, amortization and certain nonrecurring items. Investments in the Core Portfolio are typically held long-term. Given the contemplated finite life of the Opportunity Funds, these investments are typically held for shorter terms. Fees earned by the Company as the general partner/member of the Opportunity Funds are eliminated in the Company's consolidated financial statements. The following tables set forth certain segment information for the Company, reclassified for discontinued operations, as of and for the three and nine months ended September 30, 2010 and 2009 (does not include unconsolidated affiliates):

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. SEGMENT REPORTING (continued)

Three Months Ended September 30, 2010

(dollars in thousands)	Core Portfolio	Opportunity Funds	Self-Storage Portfolio	Notes Receivable	Other	Amounts Eliminated in Consolidation	Total
Revenues	$ 15,243	$ 11,782	$ 6,703	$ 5,206	$ 5,441	$ (5,114)	$ 39,261
Property operating expenses and real estate taxes	4,617	3,841	3,942			(374)	12,026
Other expenses	5,910	3,266	19			(3,878)	5,317
Income before depreciation and amortization	$ 4,716	$ 4,675	$ 2,742	$ 5,206	$ 5,441	$ (862)	$ 21,918
Depreciation and amortization	$ 4,342	$ 4,547	$ 1,591	$	$	$ (139)	$ 10,341
Interest and other finance expense	$ 4,307	$ 3,381	$ 1,141	$	$	$	$ 8,829
Real estate at cost	$ 480,137	$ 695,870	$ 209,956	$	$	$ (12,869)	$ 1,373,094
Total assets	$ 593,151	$ 736,523	$ 195,044	$ 87,600	$	$ (121,570)	$ 1,490,748
Investment in real estate	$ 1,194	$ 23,090	$ 187	$	$	$ (853)	$ 23,618

Reconciliation to net income and net income attributable to Common Shareholders	
Net property income before depreciation and amortization	$ 21,918
Other interest income	175
Depreciation and amortization	(10,341)
Equity in earnings of unconsolidated affiliates	143
Interest and other finance expense	(8,829)
Income tax provision	(785)
Net income	2,281
Net loss attributable to noncontrolling interests	2,836
Net income attributable to Common Shareholders	$ 5,117

Three Months Ended September 30, 2009

(dollars in thousands)	Core Portfolio	Opportunity Funds	Self-Storage Portfolio	Notes Receivable	Other	Amounts Eliminated in Consolidation	Total
Revenues	$ 19,449	$ 11,697	$ 2,581	$ 4,908	$ 5,218	$ (4,958)	$ 38,895
Property operating expenses and real estate taxes	4,640	4,047	2,585			(301)	10,971
Other expenses	5,875	2,551				(3,147)	5,279

Income (loss) before depreciation and amortization	$ 8,934	$ 5,099	$ (4)	$ 4,908	$ 5,218	$ (1,510)	$ 22,645
Depreciation and amortization	$ 4,975	$ 4,509	$ 1,110	$	$	$ (217)	$ 10,377
Interest and other finance expense	$ 4,505	$ 2,022	$ 1,802	$	$	$	$ 8,329
Real estate at cost	$ 473,667	$ 521,380	$ 208,219	$	$	$ (10,760)	$ 1,192,506
Total assets	$ 566,669	$ 612,775	$ 199,194	$ 120,001	$	$ (101,272)	$ 1,397,367
Investment in real estate	$ 1,101	$ 5,393	$ 1,566	$	$	$ (2,951)	$ 5,109

Reconciliation to net income and net income attributable to Common Shareholders		
Net property income before depreciation and amortization	$	22,645
Other interest income		161
Depreciation and amortization		(10,377)
Equity in (losses) of unconsolidated affiliates		(193)
Impairment of investment in unconsolidated affiliate		(3,655)
Interest and other finance expense		(8,329)
Gain on debt extinguishment		11
Income tax provision		273
Income from discontinued operations		32
Net income		568
Net loss attributable to noncontrolling interests		6,739
Net income attributable to Common Shareholders	$	7,307

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ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. SEGMENT REPORTING (continued)

Nine Months Ended September 30, 2010

(dollars in thousands)	Core Portfolio	Opportunity Funds	Self-Storage Portfolio	Notes Receivable	Other	Amounts Eliminated in Consolidation	Total
Revenues	$ 46,038	$ 35,266	$ 16,016	$ 15,437	$ 15,431	$ (14,268)	$ 113,920
Property operating expenses and real estate taxes	13,890	12,412	10,101			(1,088)	35,315
Other expenses	16,972	10,159	53			(11,329)	15,855
Income before depreciation and amortization	$ 15,176	$ 12,695	$ 5,862	$ 15,437	$ 15,431	$ (1,851)	$ 62,750
Depreciation and amortization	$ 12,217	$ 12,808	$ 3,904	$	$	$ (383)	$ 28,546
Interest and other finance expense	$ 12,900	$ 9,770	$ 3,257	$	$	$	$ 25,927
Real estate at cost	$ 480,137	$ 695,870	$ 209,956	$	$	$ (12,869)	$ 1,373,094
Total assets	$ 593,151	$ 736,523	$ 195,044	$ 87,600	$	$ (121,570)	$ 1,490,748
Investment in real estate	$ 2,756	$ 58,318	$ 1,300	$	$	$ (1,822)	$ 60,552

Reconciliation to net income and net income attributable to Common Shareholders	
Net property income before depreciation and amortization	$ 62,750
Other interest income	462
Depreciation and amortization	(28,546)
Equity in earnings of unconsolidated affiliates	610
Interest and other finance expense	(25,927)
Income tax provision	(1,869)
Gain on bargain purchase	33,805
Net income	41,285
Net (income) attributable to noncontrolling interests	(18,240)
Net income attributable to Common Shareholders	$ 23,045

Nine Months Ended September 30, 2009

(dollars in thousands)	Core Portfolio	Opportunity Funds	Self-Storage Portfolio	Notes Receivable	Other	Amounts Eliminated in Consolidation	Total
Revenues	$ 53,863	$ 31,986	$ 6,696	$ 14,867	$ 18,651	$ (17,137)	$ 108,926
Property operating expenses and real estate taxes	15,526	11,191	7,342			(789)	33,270
Other expenses	18,327	12,609		1,734		(11,877)	20,793
Income (loss) before depreciation	$ 20,010	$ 8,186	$ (646)	$ 13,133	$ 18,651	$ (4,471)	$ 54,863

and amortization							
Depreciation and amortization	$ 13,191	$ 12,202	$ 3,257	$	$	$ (1,238)	$ 27,412
Interest and other finance expense	$ 14,387	$ 5,304	$ 4,091	$	$	$	$ 23,782
Real estate at cost	$ 473,667	$ 521,380	$ 208,219	$	$	$ (10,760)	$ 1,192,506
Total assets	$ 566,669	$ 612,775	$ 199,194	$ 120,001	$	$ (101,272)	$ 1,397,367
Investment in real estate	$ 2,303	$ 103,435	$ 10,457	$	$	$ (3,282)	$ 112,913
Reconciliation to net income and net income attributable to Common Shareholders							
Net property income before depreciation and amortization							$ 54,863
Other interest income							373
Depreciation and amortization							(27,412)
Equity in (losses) of unconsolidated affiliates							(3,451)
Impairment of investment in unconsolidated affiliate							(3,655)
Interest and other finance expense							(23,782)
Gain on debt extinguishment							7,057
Income tax provision							(1,349)
Gain on sale of property							5,637
Income from discontinued operations							225
Net income							8,506
Net loss attributable to noncontrolling interests							16,235
Net income attributable to Common Shareholders							$ 24,741

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. LONG-TERM INCENTIVE COMPENSATION

LONG-TERM INCENTIVE COMPENSATION

The Company maintains two share incentive plans, the 2003 Share Incentive Plan and the 2006 Share Incentive Plan (collectively the “Share Incentive Plans”).

On March 1, 2010 and March 10, 2010, the Company issued 265,517 LTIP Units and 1,462 Restricted Shares to officers of the Company and 15,011 Restricted Shares and 1,411 LTIP Units to employees of the Company. Vesting with respect to these awards is recognized ratably over the five annual anniversaries following the issuance date. Vesting on 23% of the awards issued to officers are also generally subject to achieving certain Company performance measures.

These awards were measured at their fair value as if they were vested on the grant date. Fair value was established as the market price of the Company’s Common Shares as of the close of trading on the day preceding the grant date.

The total value of the above Restricted Shares and LTIP Units as of the grant date was $4.7 million. Compensation expense of $0.2 million and $0.7 million has been recognized in the accompanying financial statements related to these awards for the three month and nine months ended September 30, 2010, respectively.

Total long-term incentive compensation expense, including the expense related to the above-mentioned plans, was $0.9 million and $0.8 million for the three months ended September 30, 2010 and 2009, respectively and $2.9 million for each nine month period ended September 30, 2010 and 2009.

On May 10, 2010, the Company issued 4,180 unrestricted Common Shares to Trustees of the Company in connection with Trustee fees. The Company also issued 8,000 Restricted Shares to Trustees, which vest over three years with 33% vesting on each of the three anniversaries following the issuance date. The Restricted Shares do not carry voting rights or other rights of Common Shares until vesting and may not be transferred, assigned or pledged until the recipients have a vested non-forfeitable right to such shares. Dividends are not paid currently on unvested Restricted Shares, but are paid cumulatively, from the issuance date through the applicable vesting date of such Restricted Shares vesting. Trustee fee expense of $0.1 million has been recognized for the nine months ended September 30, 2010 related to these unrestricted Common Shares and Restricted Shares.

In 2009, the Company adopted the Long Term Investment Alignment Program (the “Program”) pursuant to which the Company may award units primarily to senior executives which would entitle them to receive up to 25% of any future Fund III Promote when and if such Promote is ultimately realized. As of September 30, 2010, the Company has awarded units representing 61% of the Program, which were determined to have no value at issuance or as of September 30, 2010. In accordance with ASC Topic 718, “Compensation - Stock Compensation,” compensation relating to these awards will be recorded based on the change in the estimated fair value at each reporting period.

14. SUBSEQUENT EVENTS

During October 2010, the Company paid down $14.0 million on an outstanding line of credit secured by six Core Portfolio properties. The outstanding balance after the payment is $1.0 million.

During October 2010, the Company closed on a $50.0 million loan collateralized by the Cortlandt Town Center. The loan bears interest at LIBOR plus 190 basis points and matures on October 26, 2015. There is an additional $25.0 million available on this loan which bears interest at LIBOR plus 230 basis points. The proceeds were used to repay the existing $46.6 million mortgage note payable.

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

The following discussion is based on the consolidated financial statements of the Company as of September 30, 2010 and 2009 and for the three and nine months then ended. This information should be read in conjunction with the accompanying consolidated financial statements and notes thereto.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this report constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results performance or achievements expressed or implied by such forward-looking statements. Such factors are set forth under the heading "Item 1A. Risk Factors" in our Form 10-K for the year ended December 31, 2009 (our "2009 Form 10-K") and include, among others, the following: general economic and business conditions, including the current post-recessionary period, which will, among other things, affect demand for rental space, the availability and creditworthiness of prospective tenants, lease rents and the availability of financing; adverse changes in our real estate markets, including, among other things, competition with other companies; risks of real estate development, acquisition and investment; risks related to our use of leverage; demands placed on our resources due to the growth of our business; risks related to operating through a partnership structure; our limited control over joint venture investments; the risk of loss of key members of management; uninsured losses; REIT distribution requirements and ownership limitations; concentration of ownership by certain institutional investors; governmental actions and initiatives; and environmental/safety requirements. Except as required by law, we do not undertake any obligation to update or revise any forward-looking statements contained in this Form 10-Q.

OVERVIEW

As of September 30, 2010, we operated 78 properties, which we own or have an ownership interest in, within our Core Portfolio or within our three Opportunity Funds. These 78 properties consist of commercial properties, primarily neighborhood and community shopping centers, self-storage and mixed-use properties with a retail component. The properties we operate are located primarily in the Northeast, Mid-Atlantic and Midwestern regions of the United States. Our Core Portfolio consists of those properties either 100% owned, or partially owned through joint venture interests, by the Operating Partnership, or subsidiaries thereof, not including those properties owned through our Opportunity Funds. Excluding two properties under redevelopment, there are 32 properties in our Core Portfolio totaling approximately 4.8 million square feet. Fund I has 20 properties comprising approximately 0.9 million square feet. Fund II has 10 properties, seven of which (representing 1.2 million square feet) are currently operating, one is under construction, and two are in the design phase. Three of the properties also include self-storage facilities. We expect the Fund II portfolio will have approximately 2.0 million square feet upon completion of all current construction and anticipated redevelopment activities. Fund III has 14 properties totaling approximately 1.8 million square feet, of which 11 locations representing 0.9 million net rentable square feet are self-storage facilities. The majority of our operating income is derived from rental revenues from these 78 properties, including recoveries from tenants, offset by operating and overhead expenses. As our RCP Venture invests in operating companies, we consider these investments to be private-equity style, as opposed to real estate, investments. Since these are not generally traditional investments in operating rental real estate but investments in operating businesses, the Operating Partnership principally invests in these through a taxable REIT subsidiary ("TRS").

Our primary business objective is to acquire and manage commercial retail properties that will provide cash for distributions to shareholders while also creating the potential for capital appreciation to enhance investor returns. We focus on the following fundamentals to achieve this objective:

- Own and operate a Core Portfolio of community and neighborhood shopping centers and main street retail located in markets with strong demographics and generate internal growth within the Core Portfolio through aggressive redevelopment, re-anchoring and/or leasing activities
- Maintain a strong and flexible balance sheet through conservative financial practices while ensuring access to sufficient capital to fund future growth
- Generate external growth through an opportunistic yet disciplined acquisition program. We target transactions with high inherent opportunity for the creation of additional value through redevelopment and leasing and/or transactions requiring creative capital structuring to facilitate the transactions. These transactions may include other types of commercial real estate besides those which we invest in through our Core Portfolio. These may also include joint ventures with private equity investors for the purpose of making investments in operating retailers with significant embedded value in their real estate assets

CRITICAL ACCOUNTING POLICIES

Management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Management bases its estimates on historical experience and assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe there have been no material changes to the items that we disclosed as our critical accounting policies under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in our 2009 Form 10-K.

RESULTS OF OPERATIONS

Comparison of the three months ended September 30, 2010 ("2010") to the three months ended September 30, 2009 ("2009")

Revenues	2010				2009			
(dollars in millions)	Core Portfolio	Opportunity Funds	Storage Portfolio	Notes Receivable and Other	Core Portfolio	Opportunity Funds	Storage Portfolio	Notes Receivable and Other
Rental income	$12.2	$ 9.7	$6.2	$ —	$13.8	$ 9.9	$2.2	$ —
Mortgage interest income	—	—	—	5.2	—	—	—	4.9
Expense reimbursements	3.0	1.9	—	—	3.1	1.8	—	—
Lease termination income	—	—	—	—	2.5	—	—	—
Management fee income (1)	—	—	—	0.4	—	—	—	0.3
Other	0.1	—	0.6	—	—	—	0.3	—
Total revenues	$15.3	$ 11.6	$6.8	$ 5.6	$19.4	$ 11.7	$2.5	$ 5.2

(1) Includes fees earned by us as general partner/managing member of the Opportunity Funds that are eliminated in consolidation and adjusts the loss (income) attributable to noncontrolling interests. The balance reflected in the table represents third party fees that are not eliminated in consolidation. Reference is made to Note 12 to the Notes to Consolidated Financial Statements in Part 1, Item 1 of this Form 10-Q for an overview of our five reportable segments.

The decrease in rental income in the Core Portfolio is primarily attributable to the write-off of a lease intangible liability in connection with a lease terminated during 2009 at 3rd Avenue. The increase in rental income in the Storage Portfolio relates to the full amortization of acquired lease intangible costs during 2009, increased occupancy in the Storage Portfolio as well as the Company's discontinued practice of reporting the Storage Portfolio one month in arrears which was based on the historical unavailability of timely financial information. Based on improvements in the Storage Portfolio accounting systems, the Company reports this activity on a current basis. Accordingly, the three months ended September 30, 2010 reflects four months of storage activity while the three months ended September 30, 2009 reflects three months of storage activity ("Storage Portfolio Activity").

Lease termination income of $2.5 million in the Core Portfolio for 2009 related to termination fee income received from a former tenant at Absecon Marketplace.

Operating Expenses	2010				2009			
(dollars in millions)	Core Portfolio	Opportunity Funds	Storage Portfolio	Notes Receivable and Other	Core Portfolio	Opportunity Funds	Storage Portfolio	Notes Receivable and Other
Property operating	$2.3	$ 2.3	$3.0	$ (0.4)	$2.1	$ 2.5	$2.1	$ (0.3)
Real estate taxes	2.4	1.5	0.9	—	2.5	1.5	0.6	—
	5.9	3.3	—	(3.9)	5.9	2.5	—	(3.2)

General and administrative								
Depreciation and amortization	4.3	4.4	1.6	—	5.0	4.3	1.1	—
Other expense	—	—	—	—	—	0.1	—	—
Total operating expenses	$14.9	$ 11.5	$5.5	$ (4.3)	$15.5	$ 10.9	$3.8	$ (3.5)

The increase in operating expenses in the Storage Portfolio primarily related to the Storage Portfolio Activity.

The increase in general and administrative expense in the Opportunity Funds related to a 2010 increase in Promote expense for Fund I and Mervyns I. The decrease in general and administrative expense in Other related to the elimination of this Promote expense for consolidated financial statement presentation purposes.

Depreciation and amortization expense in the Core Portfolio decreased as a result of the write-off of lease intangible costs in connection with a terminated lease.

Other	2010				2009			
(dollars in millions)	Core Portfolio	Opportunity Funds	Storage Portfolio	Notes Receivable and Other	Core Portfolio	Opportunity Funds	Storage Portfolio	Notes Receivable and Other
Other interest income	$—	$ —	$—	$ 0.2	$—	$ —	$—	$ 0.2
Equity in earnings (losses) of unconsolidated affiliates	0.2	0.4	(0.4)	—	—	(0.2)	—	—
Impairment of investment in unconsolidated affiliate	—	—	—	—	—	(3.7)	—	—
Interest and other finance expense	(4.3)	(3.4)	(1.1)	—	(4.5)	(2.0)	(1.8)	—
Income tax provision	(0.9)	—	0.2	—	0.3	—	—	—
(Income) loss attributable to noncontrolling interests in subsidiaries - Continuing operations	(0.1)	2.3	—	0.6	(0.1)	6.2	0.2	0.4

The $3.7 million impairment of investment in unconsolidated affiliate in 2009 related to a Fund I unconsolidated investment.

Interest expense in the Opportunity Funds increased $1.4 million in 2010. This was the result of an increase of $0.7 million due to higher average interest rates in 2010, $0.3 million increase attributable to higher outstanding borrowings in 2010 and $0.4 million of lower capitalized interest in 2010. Interest expense in the Storage Portfolio decreased $0.7 million in 2010 as a result of lower average interest rates in 2010.

The variance in the income tax provision in the Core Portfolio primarily related to income taxes at the TRS level.

(Income) loss attributable to noncontrolling interests in subsidiaries – Continuing operations primarily represents the noncontrolling interests’ share of all the Opportunity Funds variances discussed above.

Comparison of the nine months ended September 30, 2010 (“2010”) to the nine months ended September 30, 2009 (“2009”)

Revenues	2010				2009			
(dollars in millions)	Core Portfolio	Opportunity Funds	Storage Portfolio	Notes Receivable and Other	Core Portfolio	Opportunity Funds	Storage Portfolio	Notes Receivable and Other
Rental income	$36.3	$ 28.7	$14.7	$ —	$39.0	$ 26.5	$5.8	$ —
Mortgage interest income	—	—	—	15.4	—	—	—	14.9
Expense reimbursements	9.5	6.3	—	—	10.3	5.0	—	—
Lease termination income	0.1	—	—	—	2.7	—	—	—
Management fee income (1)	—	—	—	1.2	—	—	—	1.5
Other	0.2	0.2	1.3	—	1.8	0.5	0.9	—
Total revenues	$46.1	$ 35.2	$16.0	$ 16.6	$53.8	$ 32.0	$6.7	$ 16.4

(1) Includes fees earned by us as general partner/managing member of the Opportunity Funds that are eliminated in consolidation and adjusts the loss (income) attributable to noncontrolling interests. The balance reflected in the table represents third party fees that are not eliminated in consolidation. Reference is made to Note 12 to the Notes to Consolidated Financial Statements in Part 1, Item 1 of this Form 10-Q for an overview of our five reportable segments.

The decrease in rental income in the Core Portfolio was primarily attributable to tenant vacancies and the write-off of a lease intangible liability in connection with a lease terminated during 2009 at Third Avenue. The increase in rental income in the Opportunity Funds primarily related to additional rents following the acquisition of Cortlandt Towne Center (“2009 Fund Acquisition”) of $0.9 million and additional rents at Fordham Place and Pelham Manor for leases that commenced in 2009 (“Fordham and Pelham”). The increase in rental income in the Storage Portfolio relates to the full amortization of acquired lease intangible costs during 2009, increased occupancy in the Storage Portfolio as well as the Storage Portfolio Activity.

Expense reimbursements in the Opportunity Funds increased for both real estate taxes and common area maintenance as a result of the 2009 Fund Acquisition and Fordham and Pelham.

Lease termination income in the Core Portfolio for 2009 related to a termination fee income received from a former tenant at Absecon Marketplace.

Other in the Core Portfolio in 2009 included $1.7 million resulting from a forfeited sales contract deposit in 2009.

Operating Expenses	2010				2009			
(dollars in millions)	Core Portfolio	Opportunity Funds	Storage Portfolio	Notes Receivable and Other	Core Portfolio	Opportunity Funds	Storage Portfolio	Notes Receivable and Other
Property operating	$7.1	$ 7.7	$8.0	$ (1.1)	$8.5	$ 7.4	$5.9	$ (0.8)

Real estate taxes	6.8	4.6	2.2	—	7.0	3.8	1.5	—
General and administrative	17.0	10.2	—	(11.3)	18.3	10.1	—	(11.9)
Depreciation and amortization	12.2	12.4	3.9	—	13.2	11.0	3.2	—
Other expense	—	—	—	—	—	2.5		