

ACADIA REALTY TRUST  
Form 10-Q  
November 08, 2012

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 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, 2012

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.

YES ☒

NO ☐

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 ☒

NO ☐

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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 ☒

Accelerated Filer ☐

Non-accelerated Filer ☐

Smaller Reporting Company ☐

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

As of November 8, 2012 there were 50,669,019 common shares of beneficial interest, par value \$.001 per share, outstanding.

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ACADIA REALTY TRUST AND SUBSIDIARIES

FORM 10-Q

INDEX

	Page
Part I: Financial Information	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets as of September 30, 2012 (unaudited) and December 31, 2011</u>	<u>1</u>
<u>Consolidated Statements of Income for the three and nine months ended September 30, 2012 and 2011 (unaudited)</u>	<u>2</u>
<u>Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2012 and 2011 (unaudited)</u>	<u>3</u>
<u>Consolidated Statements of Shareholders' Equity for the nine months ended September 30, 2012 and 2011 (unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2012 and 2011 (unaudited)</u>	<u>6</u>
<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>27</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>42</u>
<u>Item 4. Controls and Procedures</u>	<u>43</u>
Part II: Other Information	
<u>Item 1. Legal Proceedings</u>	<u>45</u>
<u>Item 1A. Risk Factors</u>	<u>45</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>45</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>45</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>45</u>
<u>Item 5. Other Information</u>	<u>45</u>

<u>Item 6.</u>	<u>Exhibits</u>	<u>45</u>
	<u>Signatures</u>	<u>45</u>
	<u>Exhibit Index</u>	<u>46</u>

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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, 2012 (unaudited)	December 31, 2011
<b>ASSETS</b>		
Operating real estate		
Land	\$355,586	\$270,305
Building and improvements	1,107,680	938,652
Construction in progress	10,244	7,321
	1,473,510	1,216,278
Less: accumulated depreciation	203,404	178,791
Net operating real estate	1,270,106	1,037,487
Real estate under development	229,808	219,645
Notes receivable, net	78,826	59,989
Investments in and advances to unconsolidated affiliates	88,572	84,568
Cash and cash equivalents	85,297	89,812
Cash in escrow	19,030	20,969
Rents receivable, net	30,549	25,585
Deferred charges, net	30,326	24,371
Acquired lease intangibles, net	29,066	26,721
Prepaid expenses and other assets	38,003	26,571
Accounts receivable from related party	—	1,375
Assets of discontinued operations	—	36,226
Total assets	\$1,899,583	\$1,653,319
<b>LIABILITIES</b>		
Mortgage notes payable	\$871,243	\$767,150
Convertible notes payable	930	930
Distributions in excess of income from, and investments in, unconsolidated affiliates	22,409	21,710
Accounts payable and accrued expenses	34,691	38,937
Dividends and distributions payable	8,757	7,914
Acquired lease and other intangibles, net	9,420	5,462
Other liabilities	23,514	19,735
Liabilities of discontinued operations	—	22,172
Total liabilities	970,964	884,010
<b>EQUITY</b>		
Shareholders' Equity		
Common shares, \$.001 par value, authorized 100,000,000 shares; issued and outstanding 47,138,544 and 42,586,376 shares, respectively	47	43
Additional paid-in capital	450,163	348,667
Accumulated other comprehensive loss	(4,763)	(3,913)
Retained earnings	33,269	39,317
Total shareholders' equity	478,716	384,114
Noncontrolling interests	449,903	385,195
Total equity	928,619	769,309

Total liabilities and equity	\$1,899,583	\$1,653,319
See accompanying notes		

1

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## ACADIA REALTY TRUST AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands, except per share amounts)	2012	2011	2012	2011
Revenues				
Rental income	\$35,028	\$28,075	\$97,237	\$81,741
Interest income	1,866	1,585	5,996	9,493
Expense reimbursements	6,007	5,291	17,973	16,049
Other	1,240	918	3,536	3,018
Total revenues	44,141	35,869	124,742	110,301
Operating Expenses				
Property operating	7,712	6,397	21,462	20,888
Other operating	613	568	2,929	665
Real estate taxes	5,861	4,900	15,903	13,683
General and administrative	7,004	5,758	18,154	17,149
Depreciation and amortization	10,365	8,183	29,326	23,960
Total operating expenses	31,555	25,806	87,774	76,345
Operating income	12,586	10,063	36,968	33,956
Equity in (losses) earnings of unconsolidated affiliates	(2,538)	) 3,110	1,997	3,025
Other interest income	55	105	131	219
(Loss) gain on debt extinguishment	—	(303)	) —	1,268
Interest and other finance expense	(9,563)	) (9,692)	) (26,675)	) (27,450)
Income from continuing operations before income taxes	540	3,283	12,421	11,018
Income tax (benefit) provision	(97)	) (488)	) 1,137	(4)
Income from continuing operations	637	3,771	11,284	11,022
Discontinued Operations				
Operating income from discontinued operations	101	876	783	2,745
Impairment of asset	—	—	—	(6,925)
Gain on sale of property	5,917	—	8,585	32,498
Income from discontinued operations	6,018	876	9,368	28,318
Net income	6,655	4,647	20,652	39,340
Noncontrolling interests				
Continuing operations	5,628	(2)	) 5,381	5,035
Discontinued operations	(4,702)	) (634)	) (7,604)	) (707)
Net loss (income) attributable to noncontrolling interests	926	(636)	) (2,223)	) 4,328
Net income attributable to Common Shareholders	\$7,581	\$4,011	\$18,429	\$43,668
Basic Earnings per Share				
Income from continuing operations	\$0.13	\$0.09	\$0.37	\$0.40
Income from discontinued operations	0.03	0.01	0.04	0.68
Basic earnings per share	\$0.16	\$0.10	\$0.41	\$1.08
Diluted Earnings per Share				

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Income from continuing operations	\$0.13	\$0.09	\$0.37	\$0.40
Income from discontinued operations	0.03	0.01	0.04	0.68
Diluted earnings per share	\$0.16	\$0.10	\$0.41	\$1.08
See accompanying notes				

2

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ACADIA REALTY TRUST AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(unaudited)

(dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	\$6,655	\$4,647	\$20,652	\$39,340
Other Comprehensive income				
Unrealized loss on valuation of swap agreements	(1,315	) (3,652	) (3,870	) (5,209
Reclassification of realized interest on swap agreements	681	761	1,964	2,398
Other comprehensive loss	(634	) (2,891	) (1,906	) (2,811
Comprehensive income	6,021	1,756	18,746	36,529
Comprehensive loss (income) attributable to noncontrolling interests	1,282	374	(1,167	) 5,765
Comprehensive income attributable to Common Shareholders	\$7,303	\$2,130	\$17,579	\$42,294

See accompanying notes

## ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(unaudited)

(amounts 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, 2011	42,586	\$43	\$348,667	\$ (3,913 )	\$39,317	\$384,114	\$ 385,195	\$769,309
Conversion of OP Units to Common Shares by limited partners of the Operating Partnership	171	—	2,711	—	—	2,711	(2,711 )	—
Issuance of Common Shares, net of issuance costs	4,332	4	98,308	—	—	98,312	—	98,312
Issuance of OP Units to acquire real estate	—	—	—	—	—	—	2,279	2,279
Dividends declared (\$0.54 per Common Share)	—	—	—	—	(24,477 )	(24,477 )	(847 )	(25,324 )
Vesting of employee Restricted Share and LTIP awards	44	—	128	—	—	128	2,579	2,707
Common Shares issued under Employee Share Purchase Plan	3	—	59	—	—	59	—	59
Issuance of LTIP Unit awards to employees	—	—	—	—	—	—	2,577	2,577
Issuance of Common Shares to trustees	—	—	280	—	—	280	—	280
Exercise of Share options	11	—	160	—	—	160	—	160
Employee Restricted Shares cancelled	(8 )	—	(150 )	—	—	(150 )	—	(150 )
Noncontrolling interest distributions	—	—	—	—	—	—	(62,645 )	(62,645 )
Noncontrolling interest contributions	—	—	—	—	—	—	122,309	122,309
	47,139	47	450,163	(3,913 )	14,840	461,137	448,736	909,873
Comprehensive (loss) income:								
Net income	—	—	—	—	18,429	18,429	2,223	20,652

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Unrealized loss on valuation of swap agreements	—	—	—	(2,212	) —	(2,212	) (1,658	) (3,870	)
Reclassification of realized interest on swap agreements	—	—	—	1,362	—	1,362	602	1,964	
Total comprehensive (loss) income	—	—	—	(850	) 18,429	17,579	1,167	18,746	
Balance at September 30, 2012	47,139	\$47	\$450,163	\$ (4,763	) \$33,269	\$478,716	\$ 449,903	\$928,619	

## ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011 (continued)

(unaudited)

(amounts in thousands, except per share amounts)	Common Shares Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2010	40,254	\$40	\$303,823	\$ (2,857 )	\$17,206	\$ 318,212	\$ 269,310	\$587,522
Conversion of OP Units to Common Shares by limited partners of the Operating Partnership	11	—	49	—	—	49	(49 )	—
Dividends declared (\$0.54 per Common Share)	—	—	—	—	(21,776 )	(21,776 )	(738 )	(22,514 )
Vesting of employee Restricted Share and LTIP awards	95	—	389	—	—	389	2,829	3,218
Common Shares issued under Employee Share Purchase Plan	4	—	68	—	—	68	—	68
Issuance of LTIP Unit awards to employees	—	—	—	—	—	—	2,441	2,441
Issuance of Common Shares to trustees	8	—	171	—	—	171	—	171
Exercise of Share options	1	—	7	—	—	7	—	7
Employee Restricted Shares cancelled	(40 )	—	(724 )	—	—	(724 )	—	(724 )
Noncontrolling interest distributions	—	—	—	—	—	—	(815 )	(815 )
Noncontrolling interest contributions	—	—	—	—	—	—	43,646	43,646
	40,333	40	303,783	(2,857 )	(4,570 )	296,396	316,624	613,020
Comprehensive (loss) income:								
Net income (loss)	—	—	—	—	43,668	43,668	(4,328 )	39,340
Unrealized loss on valuation of swap agreements	—	—	—	(3,265 )	—	(3,265 )	(1,944 )	(5,209 )
Reclassification of realized interest on swap agreements	—	—	—	1,891	—	1,891	507	2,398

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Total comprehensive (loss) income	—	—	—	(1,374	)	43,668	42,294	(5,765	)	36,529
Balance at September 30, 2011	40,333	\$40	\$303,783	\$ (4,231	)	\$39,098	\$ 338,690	\$ 310,859		\$649,549

See accompanying notes

## ACADIA REALTY TRUST AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(dollars in thousands)	Nine Months Ended September 30,	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$20,652	\$39,340
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	29,653	25,087
Amortization of financing costs	2,395	2,897
Gain on sale of property	(8,585)	(32,498)
Gain on debt extinguishment	—	(1,268)
Impairment of asset	—	6,925
Share compensation expense	2,986	3,390
Equity in (earnings) of unconsolidated affiliates	(1,997)	(3,025)
Distributions of operating income from unconsolidated affiliates	4,087	5,213
Other, net	336	1,970
Changes in assets and liabilities		
Cash in escrow	1,939	735
Rents receivable, net	(5,639)	(6,974)
Prepaid expenses and other assets	(7,625)	(4,039)
Accounts payable and accrued expenses	(3,013)	4,133
Other liabilities	739	(2,749)
Net cash provided by operating activities	35,928	39,137
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of real estate	(137,208)	(90,615)
Redevelopment and property improvement costs	(55,817)	(45,094)
Deferred leasing costs	(3,397)	(4,291)
Investments in and advances to unconsolidated affiliates	(19,356)	(46,544)
Return of capital from unconsolidated affiliates	13,497	3,735
Proceeds from notes receivable	2,005	48,182
Issuance of notes receivable	(34,500)	(7,834)
Proceeds from sale of property	44,703	43,791
Net cash used in investing activities	(190,073)	(98,670)

## ACADIA REALTY TRUST AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(unaudited)

(dollars in thousands)	Nine Months Ended September 30,	
	2012	2011
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on mortgage notes	(189,747)	(66,751)
Proceeds received from mortgage notes	214,276	108,802
Purchase of convertible notes payable	—	(21,994)
Increase in deferred financing and other costs	(6,684)	(2,835)
Capital contributions from noncontrolling interests	122,309	43,646
Distributions to noncontrolling interests	(63,463)	(1,478)
Dividends paid to Common Shareholders	(23,671)	(21,773)
Proceeds from stock offering, net of issuance costs of \$400	96,540	—
Other employee and trustee stock compensation, net	70	(649)
Net cash provided by financing activities	149,630	36,968
(Decrease) in cash and cash equivalents	(4,515)	(22,565)
Cash and cash equivalents, beginning of period	89,812	120,592
Cash and cash equivalents, end of period	\$85,297	\$98,027
Supplemental disclosure of cash flow information		
Cash paid during the period for interest, net of capitalized interest of \$4,515 and \$3,613, respectively	\$24,528	\$22,006
Cash paid for income taxes	\$941	\$3,721
Supplemental disclosure of non-cash investing activities:		
Acquisition of real estate through assumption of debt	\$59,335	\$—
Acquisition of real estate through issuance of OP Units	\$2,279	\$—
Acquisition of real estate through conversion of notes receivable	\$14,000	\$—

See accompanying notes

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

Business and Organization

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

All of the Company's assets are held by, and all of its operations are conducted through, Acadia Realty Limited Partnership (the “Operating Partnership”) and entities in which the Operating Partnership owns an interest. As of September 30, 2012, 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 OP Units” or “Preferred OP Units”) and employees who have been awarded restricted OP units (“LTIP Units”) as long-term incentive compensation (Note 13). Limited partners holding Common OP Units are generally entitled to exchange their units on a one-for-one basis for common shares of beneficial interest of the Trust (“Common Shares”).

As of September 30, 2012, the Company has ownership interests in 58 properties within its core portfolio, which consist 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 its opportunity funds (“Core Portfolio”). The Company also has ownership interests in 37 properties within three of its opportunity funds, Acadia Strategic Opportunity Fund L.P. (“Fund I”), Acadia Strategic Opportunity Fund II, LLC (“Fund II”) and Acadia Strategic Opportunity Fund III LLC (“Fund III” and together with Funds I, II and Acadia Strategic Opportunity Fund IV, LLC (“Fund IV”), the “Opportunity Funds”). The 95 Core Portfolio and Opportunity Fund properties consist of commercial properties, which are primarily neighborhood and community shopping centers, mixed-use properties with a retail component and self-storage properties. In addition, the Company also invests in operating companies through Acadia Mervyn Investors I, LLC (“Mervyns I”), Acadia Mervyn Investors II, LLC (“Mervyns II”) and 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 is the sole general partner or managing member of the Opportunity Funds and RCP Venture and earns fees or priority distributions for asset management, property management, construction, development, leasing and legal services. Cash flows from the Opportunity Funds and RCP Venture are distributed pro-rata to their respective partners and members (including the Operating Partnership) until each receives a certain cumulative return (“Preferred Return”), and the return of all capital contributions. Thereafter, remaining cash flow is distributed 20% to the Operating Partnership (“Promote”) and 80% to the partners or members (including the Operating Partnership).

Effective May 16, 2012, the Company formed Fund IV. During the quarter ended September 30, 2012, the Company completed its final closings with a total of \$540.6 million of equity commitments with 17 principally institutional



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investors as well as some high-net worth individuals. The Operating Partnership's share of equity commitments totaled \$125.0 million. As of September 30, 2012, there have been no capital contributions made to, nor any investments made by, Fund IV.

Following is the Preferred Return and Operating Partnership's equity interests in the Opportunity Funds and RCP Venture:

Entity	Equity Interest Held By Operating Partnership	Preferred Return
Fund I and Mervyns I	22.2%	9.0%
Fund II and Mervyns II	20.0%	8.0%
Fund III	19.9%	6.0%
Fund IV	23.1%	6.0%

### Basis of Presentation

The consolidated financial statements include the consolidated accounts of the Company and its investments in entities in which the Company is presumed to have control in accordance with the consolidation guidance of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). Investments in entities for which the Company has the ability to

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION (continued)

exercise significant influence but does not have financial or operating control are accounted for under the equity method of accounting. Accordingly, the Company's share of the net earnings (or losses) of entities accounted for under the equity method are included in consolidated net income under the caption, Equity in (Losses) Earnings of Unconsolidated Affiliates. Investments in entities for which the Company does not have the ability to exercise any influence are accounted for under the cost method.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes.

Actual results could differ from these estimates. Operating results for the three and nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2012. 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 period. These consolidated financial statements should be read in conjunction with the Company's 2011 Annual Report on Form 10-K, as filed with the SEC on February 28, 2012.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 presentation.

Real Estate

The Company reviews its long-lived assets for impairment when there is an event or change in circumstances that indicates that the carrying amount may not be recoverable. The Company records impairment losses and reduces the carrying value of properties when indicators of impairment are present and the expected undiscounted cash flows related to those properties are less than their carrying amounts. In cases where the Company does not expect to recover its carrying costs on properties held for use, the Company reduces its carrying cost to fair value, and for properties held-for-sale, the Company reduces its carrying value to the fair value less costs to dispose. Management does not believe that the values of any of the Company's properties are impaired as of September 30, 2012.

Involuntary Conversion of Asset

The Company experienced significant flooding that resulted in extensive damage to one of its properties during September 2011. Costs related to the clean-up and redevelopment are insured to a limit sufficient that the Company believes will allow for full restoration of the property. Loss of rents during the redevelopment are covered by business interruption insurance subject to a \$0.1 million deductible. The Company plans to restore the improvements that were damaged by the flooding and expects that the costs of such restoration and rebuilding will be recoverable from insurance proceeds. In accordance with ASC Topic 360 "Property, Plant and Equipment," and as a result of the above-described property damage, the Company has recorded a write-down of the asset's carrying value in the accompanying consolidated balance sheets of approximately \$1.4 million as of September 30, 2012 and December 31, 2011. In addition, the Company has recorded an insurance recovery in the same amount that is included in Prepaid Expenses and Other Assets in the accompanying consolidated balance sheets. The Company has also provided a \$0.1 million provision in the 2011 year-end consolidated statement of income of the Company's 2011 Annual Report on

Form 10-K, as filed with the SEC for its exposure to the insurance deductible attributable to the loss of rents. As of September 30, 2012, the Company has received initial insurance proceeds of approximately \$6.9 million but is still in the process of finalizing all claims related to the flood with the insurance carrier.

#### Recent Accounting Pronouncements

During May 2011, the FASB issued ASU No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." ASU No. 2011-04 amended ASC 820, Fair Value Measurements and Disclosures, to converge the fair value measurement guidance in GAAP and International Financial Reporting Standards ("IFRS"). The amendments, which primarily require additional fair value disclosure, are to be applied prospectively. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. The adoption of ASU No. 2011-04 did not have a material impact on the Company's financial condition or results of operations.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION (continued)

During June 2011, the FASB issued ASU No. 2011-05, "Presentation of Comprehensive Income," which revises the manner in which companies present comprehensive income. Under ASU No. 2011-05, companies may present comprehensive income, which is net income adjusted for the components of other comprehensive income, either in a single continuous statement of comprehensive income or by using two separate but consecutive statements. Regardless of the alternative chosen, companies must display adjustments for items reclassified from other comprehensive income into net income within the presentation of both net income and other comprehensive income. ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011, on a retrospective basis. The Company adopted ASU 2011-05 as of December 31, 2011 and the adoption did not have a material impact on the Company's financial condition or results of operations.

During December 2011, the FASB issued ASU No. 2011-10, "Property, Plant and Equipment (Topic 360): Derecognition of in Substance Real Estate - a Scope Clarification," which clarifies current guidance found in ASC Topic 810 as to the proper accounting in situations when a reporting entity ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary's nonrecourse debt. ASU No. 2011-10 is effective for fiscal years, and interim periods within those years, beginning on or after June 15, 2012. The adoption of ASU No. 2011-10 did not have a material impact on the Company's financial condition or results of operations.

2. EARNINGS PER COMMON SHARE

Basic earnings per Common Share is computed by dividing net income attributable to Common Shareholders by the weighted average Common Shares outstanding. At September 30, 2012, the Company has unvested LTIP Units (Note 13) which provide for non-forfeitable rights to dividend equivalent payments. Accordingly, these unvested LTIP Units are considered participating securities and are included in the computation of basic earnings per Common Share pursuant to the two-class method.

Diluted earnings per Common Share reflects the potential dilution of the conversion of obligations and the assumed exercises of securities including the effects of restricted share unit ("Restricted Share Units") and share option awards issued under the Company's Share Incentive Plans (Note 13). The effect of the assumed conversion of 188 Series A Preferred OP Units into 25,067 Common Shares would be anti-dilutive and are therefore not included in the computation of diluted earnings per share for the three and nine months ended September 30, 2012 and for the three months ended September 30, 2011, but would be dilutive and therefore are included in the computation of diluted earnings per share for the nine months ended September 30, 2011.

The effect of the conversion of Common OP Units is not reflected in the computation of basic and diluted earnings per share, 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 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 included in the computation of basic and diluted earnings per share 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

(unaudited)

## 2. EARNINGS PER COMMON SHARE (continued)

The following table sets forth the computation of basic and diluted earnings per share from continuing operations for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands, except per share amounts)	2012	2011	2012	2011
Numerator				
Income from continuing operations	\$6,265	\$3,769	\$16,665	\$16,057
Less: net income attributable to participating securities	127	164	336	122
Income from continuing operations net of income attributable to participating securities	6,138	3,605	16,329	15,935
Effect of dilutive securities:				
Preferred OP Unit distributions	—	—	—	14
Numerator for diluted earnings per Common Share	\$6,138	\$3,605	\$16,329	\$15,949
Denominator				
Weighted average shares for basic earnings per share	46,338	40,340	44,447	40,330
Effect of dilutive securities:				
Employee Restricted Share Units and share options	435	289	424	267
Convertible Preferred OP Units	—	—	—	25
Dilutive potential Common Shares	435	289	424	292
Denominator for diluted earnings per share	46,773	40,629	44,871	40,622
Basic earnings per Common Share from continuing operations attributable to Common Shareholders	\$0.13	\$0.09	\$0.37	\$0.40
Diluted earnings per Common Share from continuing operations attributable to Common Shareholders	\$0.13	\$0.09	\$0.37	\$0.40

## 3. SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS

During the third quarter 2012, the Company completed its at-the-market ("ATM") equity program with an aggregate offering amount of \$75.0 million of gross proceeds from the sale of Common Shares. Under this program, the Company issued 3.3 million Common Shares which generated net proceeds of \$73.7 million.

During August 2012, the Company established a new ATM equity program with an additional aggregate offering amount of up to \$125.0 million of gross proceeds from the sale of Common Shares. Through September 30, 2012, the Company issued approximately 1.0 million Common Shares under this new ATM which generated gross proceeds of approximately \$25.4 million and net proceeds of approximately \$25.0 million. The net proceeds from these ATM equity programs will be used by the Company primarily to fund acquisitions directly in the Core Portfolio and through its capital contributions to the Opportunity Funds.

Noncontrolling interests represent the portion of equity in entities consolidated in the accompanying financial statements that the Company does not own. Such noncontrolling interests are reported on the Consolidated Balance Sheets within equity, separately from shareholders' equity and include third party interests in the Company's Opportunity Funds and other entities. It also includes interests in the Operating Partnership which represent (i) the

limited partners' 384,376 and 279,748 Common OP Units at September 30, 2012 and December 31, 2011, respectively; (ii) 188 Series A Preferred OP Units at both September 30, 2012 and December 31, 2011; and (iii) 230,441 and 217,826 LTIP Units at September 30, 2012 and December 31, 2011, respectively.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

4. ACQUISITION AND DISPOSITION OF REAL ESTATE AND DISCONTINUED OPERATIONS

Acquisitions

2012 Core Portfolio Acquisitions

During July 2012, the Company acquired 83 Spring Street, a 4,800 square foot retail condominium unit in New York, New York for \$11.5 million.

During June 2012, the Company acquired the Brentwood Shopping Center, a 57,000 square foot shopping center located in Washington, D.C. for \$21.7 million, including the assumption of \$16.5 million of debt.

During May 2012, the Company acquired 28 Jericho Turnpike, a 96,000 square foot single-tenant property located in Westbury, New York for \$27.3 million.

During April 2012, the Company acquired 930 North Rush Street, a 2,900 square foot single-tenant property located in Chicago, Illinois for \$20.7 million.

During March 2012, the Company acquired a four property portfolio located in Chicago, Illinois for \$18.8 million, including the assumption of debt of \$16.0 million.

During February 2012, the Company acquired 330 River Street, a 53,300 square foot shopping center located in Cambridge, Massachusetts for \$18.9 million, which included the assumption of \$7.0 million of debt.

During January 2012, the Company acquired 1520 North Milwaukee Avenue, a 3,100 square foot property located in Chicago, Illinois for \$3.8 million.

The Company expensed \$1.2 million of costs for the nine months ended September 30, 2012 related to these 2012 Core Portfolio acquisitions.

2012 Fund III Acquisitions

During August 2012, Fund III acquired 3104 M Street, a 4,900 square foot single-tenant retail property located in Washington D.C. for \$3.0 million.

During August 2012, Fund III acquired an undeveloped parcel of land located in Mohegan Lake, New York, for \$11.0 million.

During August 2012, Fund III, in a joint venture with an unaffiliated partner, acquired a 90% interest in Arundel Plaza, a 265,000 square foot shopping center in Glen Burnie, Maryland, for \$17.6 million, including the assumption of debt of \$9.3 million.

During August 2012, Fund III obtained a deed in lieu of foreclosure on a 19.2 acre undeveloped property in Farmingdale, New York encumbered by the Fund's existing \$10.0 million first mortgage loan which was originated in September 2008.

During April 2012, Fund III acquired Lincoln Park Centre, a 62,700 square foot retail property located in Chicago, Illinois for \$31.5 million, including the assumption of debt of \$19.8 million.

During February 2012, Fund III, in a joint venture with an unaffiliated partner, acquired a 50% interest in 640 Broadway, a 45,700 square foot property located in New York, New York for \$16.3 million.

The Company expensed \$2.2 million of costs during the nine months ended September 30, 2012 related to these 2012 Fund III acquisitions.

The above 2012 Core Portfolio and Fund III acquisitions, excluding the acquisitions of land, have been accounted for as business combinations. The purchase prices were allocated to the acquired assets and liabilities based on the estimated fair value of the acquired assets at the dates of acquisition. The preliminary measurements at fair value reflected below are subject to change. The Company expects to finalize the valuations and complete the purchase price allocations within one year from the dates of acquisition.



The following table summarizes both the Company's preliminary and finalized allocations of the purchase prices of assets acquired and liabilities assumed during 2012:

## ACADIA REALTY TRUST AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

## Acquisitions (continued)

(dollars in thousands)	Purchase Price Allocation as Originally Reported	Adjustments	Finalized Purchase Price Allocation	Preliminary Purchase Price Allocation (1)
Land	\$50,870	\$4,951	\$55,821	\$27,084
Buildings and improvements	67,303	(7,432)	) 59,871	85,592
Acquisition-related intangible assets (in Acquired lease intangibles, net)	2,482	3,463	5,945	—
Acquisition-related intangible liabilities (in Acquired lease and other intangibles, net)	(4,387	)(1,056	)(5,443	) —
Above-below market debt assumed (included in Mortgage notes payable)	935	74	1,009	—
Total consideration	\$117,203	\$—	\$117,203	\$112,676

(1) Represents preliminary allocation for 2012 acquisitions where purchase price allocations have not been finalized

During 2011, the Company acquired properties and recorded the preliminary allocation of the purchase price to the assets acquired based on provisional measurements of fair value. During 2012, the Company finalized the allocation of the purchase price and made certain measurement period adjustments.

The following table summarizes the preliminary allocation of the purchase price of these properties as recorded as of December 31, 2011, and the finalized allocation of the purchase price as adjusted as of September 30, 2012:

(dollars in thousands)	Finalized Purchase Price Allocation	Preliminary Purchase Price Allocation
Land	\$12,150	\$5,438
Buildings and improvements	11,009	18,563
Acquisition-related intangible assets (in Acquired lease intangibles, net)	1,027	—
Acquisition-related intangible liabilities (in Acquired lease and other intangibles, net)	(185	) —
Total consideration	\$24,001	\$24,001

## Discontinued Operations

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

During August 2012, Fund III sold 125 Main Street, located in Westport, Connecticut, for \$33.5 million.

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During June 2012, Fund I sold Tarrytown Centre, a 35,000 square foot shopping center, located in Westchester, New York, for \$12.8 million.

During the year ended December 2011, the Company sold 18 assets for a combined \$65.0 million. For additional detail on these assets, please refer to the Company's 2011 Form 10-K as filed with the SEC.

## ACADIA REALTY TRUST AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

## Discontinued Operations (continued)

The combined assets and liabilities as of December 31, 2011, and the results of operations of the properties classified as discontinued operations for the three and nine months ended September 30, 2012 and September 30, 2011, respectively are summarized as follows:

## BALANCE SHEET

ASSETS	December 31, 2011
(dollars in thousands)	
Net real estate	\$33,817
Rents receivable, net	830
Deferred charges, net	1,483
Prepaid expenses and other assets	96
Total assets of discontinued operations	\$36,226
LIABILITIES	
Mortgage notes payable	\$20,760
Accounts payable and accrued expenses	710
Other liabilities	702
Total liabilities of discontinued operations	\$22,172

STATEMENTS OF OPERATIONS	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
(dollars in thousands)				
Total revenues	\$226	\$1,766	\$1,917	\$6,457
Total expenses	125	890	1,134	3,712
Operating income	101	876	783	2,745
Impairment of asset	—	—	—	(6,925)
Gain on sale of property	5,917	—	8,585	32,498
Income from discontinued operations	6,018	876	9,368	28,318
(Income) from discontinued operations attributable to noncontrolling interests	(4,702)	(634)	(7,604)	(707)
Income from discontinued operations attributable to Common Shareholders	\$1,316	\$242	\$1,764	\$27,611

## 5. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED AFFILIATES

## Core Portfolio

The Company owns a 22.2% interest in an approximately one million square foot retail portfolio (the "Brandywine Portfolio") located in Wilmington, Delaware, a 49% interest in a 311,000 square foot shopping center located in White Plains, New York ("Crossroads"), and a 50% interest in an approximately 28,000 square foot retail portfolio located in Georgetown, Washington D.C. (the "Georgetown Portfolio"). These investments are accounted for under the equity method.



## ACADIA REALTY TRUST AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

## Opportunity Funds

## RCP Venture

The Company along with Klaff Realty, LP (“Klaff”) and Lubert-Adler Management, Inc. (“Lubert-Adler”) formed an investment group, the RCP Venture, for the purpose of making investments in surplus or underutilized properties owned by retailers. The RCP Venture is neither a single entity nor a specific investment. Any member of this group has the option of participating, or not, in any individual investment and each individual investment has been made on a stand-alone basis through a separate limited liability company (“LLC”). These investments have been made through different investment vehicles with different affiliated and unaffiliated investors and different economics to the Company. Investments under the RCP Venture are structured as separate joint ventures as there may be other investors participating in certain investments in addition to Klaff, Lubert-Adler and Acadia. The Company has made these investments through its subsidiaries, Mervyns I, Mervyns II and Fund II, (together the “Acadia Investors”), all on a non-recourse basis. Through September 30, 2012, the Acadia Investors have made investments in Mervyns Department Stores (“Mervyns”) and Albertsons including additional investments in locations that are separate from these original investments (“Add-On Investments”). Additionally, they have invested in Shopko, Marsh and Rex Stores Corporation (collectively “Other RCP Investments”).

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

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

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

The Company accounts for the Add-On Investments and Other RCP Investments under the cost method. Due to its minor ownership interest, based on the size of the investments as well as the terms of the underlying operating agreements, the Company has no influence over such entities’ operating and financial policies. Other than the minority investor rights to which the Company is entitled pursuant to statute, it has no rights other than to receive its pro-rata share of cash distributions as declared by the managers of the Add-On Investments and Other RCP Investments. The

Company has no rights with respect to the control and operation of these investment vehicles, nor with the formulation and execution of business and investment policies.

During the nine months ended September 30, 2012, the Company received RCP Venture distributions from Albertsons Add-On investments and Rex Stores totaling \$3.9 million of which the Operating Partnership's share totaled \$0.8 million.

In September 2008, the Company, certain of its subsidiaries, and other unrelated entities (the "Investor Consortium") were named as defendants in an adversary proceeding brought by Mervyn's LLC ("Mervyns") in the United States Bankruptcy Court for the District of Delaware. The action involved five claims alleging fraudulent transfers in which Mervyns was nominally seeking approximately \$1.175 billion in damages from the Investor Consortium, although the actual claims made by the administrator and the unsecured creditors were substantially less. The first claim contended that, at the time of the sale of Mervyns by Target Corporation ("Target") to the Investor Consortium, a transfer of assets was made in an effort to defraud creditors. The Company

## ACADIA REALTY TRUST AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

believed that this aspect of the case was without merit. The remaining four claims relate to transfers of assets of Mervyns at various times after the sale by Target. The Company believed that there were substantial defenses to these claims.

During the third quarter of 2012, the parties to this litigation arrived at an agreement to settle the claim. The settlement, was approved by the bankruptcy court and provides for a payment of \$163.7 million. Based on the defendants' agreement, the net cost of the settlement to the Investor Consortium would amount to approximately \$143.6 million. After applying cash on hand at the investee level, Mervyns I and Mervyns II's combined contribution to this settlement will be approximately \$0.9 million. In addition, the Company reduced its carrying value of these investments from \$6.3 million to its fair value of \$5.5 million. In total, this resulted in a charge of \$1.7 million during the quarter ended September 30, 2012, of which the Operating Partnership's share, net of income taxes was \$0.2 million.

The following table summarizes activity related to the RCP Venture investments from inception through September 30, 2012:

(dollars in thousands)

Investment	Year Acquired	Invested		Operating Partnership Share	
		Capital and Advances	Distributions	Capital and Advances	Distributions
Mervyns	2004	\$26,058	\$45,966	\$4,901	\$11,251
Mervyns Add-On investments	2005/2008	6,517	3,558	1,046	819
Albertsons	2006	20,717	81,594	4,239	16,318
Albertsons Add-On investments	2006/2007	2,416	4,778	388	955
Shopko	2006	1,108	1,659	222	332
Marsh and Add-On investments	2006/2008	2,667	2,639	533	528
Rex Stores	2007	2,701	1,623	535	325
		\$62,184	\$141,817	\$11,864	\$30,528

## Other Opportunity Fund Investments

The unaffiliated venture partners for Fund III's investments in Lincoln Road, Parkway Crossing, Arundel Plaza, Self-Storage Management and the White City Shopping Center maintain control over these entities and, as such, the Company accounts for these investments under the equity method.

Fund III owned an 84% interest in the Shop Rite at Orchard Center, which was accounted for using the equity method. During the second quarter of 2012, this property was sold for \$13.8 million.

During the third quarter of 2012, Fund III acquired a 90% interest in Arundel Plaza (Note 4).

During the second quarter of 2012, Fund III made a 49% equity investment in an entity that holds a \$2.2 million note receivable that is collateralized by a property. The note bears interest at 6% and matures February 2, 2017. As the unaffiliated venture partner maintains control over this entity, the Company accounts for this investment under the equity method.

During June 2010, Fund III, in a joint venture 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. Fund III has a 50% interest in the entity. 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.



Summary of Investments in Unconsolidated Affiliates

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

## ACADIA REALTY TRUST AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

(dollars in thousands)	September 30, 2012	December 31, 2011
Combined and Condensed Balance Sheets		
Assets		
Rental property, net	\$296,390	\$280,470
Investment in unconsolidated affiliates	89,099	156,421
Other assets	40,554	29,587
Total assets	\$426,043	\$466,478
Liabilities and partners' equity		
Mortgage notes payable	\$318,568	\$319,425
Other liabilities	28,323	16,902
Partners' equity	79,152	130,151
Total liabilities and partners' equity	\$426,043	\$466,478
Company's investment in and advances to unconsolidated affiliates	\$88,572	\$84,568
Company's share of distributions in excess of income and investments in unconsolidated affiliates	\$(22,409)	) \$(21,710)

(dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Combined and Condensed Statements of Operations				
Total revenues	\$11,903	\$10,290	\$36,121	\$30,789
Operating and other expenses	4,977	3,699	13,793	10,993
Interest and other finance expense	4,603	4,274	13,854	12,532
Equity in earnings of unconsolidated affiliates	1,398	13,472	6,244	13,060
Depreciation and amortization	2,573	2,222	7,216	6,467
Gain on sale of property	—	—	3,402	—
Net income	\$1,148	\$13,567	\$10,904	\$13,857
Company's share of net income	\$(2,440)	) \$3,208	\$2,291	\$3,318
Amortization of excess investment	(98)	) (98)	) (294)	) (293)
Company's equity in (losses) earnings of unconsolidated affiliates	\$(2,538)	) \$3,110	\$1,997	\$3,025

## ACADIA REALTY TRUST AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

## 6. NOTES RECEIVABLE

As of September 30, 2012, the Company's notes receivable, net, aggregated \$78.8 million, and were collateralized either by the underlying properties or the borrowers' ownership interests in the entities that own the properties and/or by the borrowers' personal guarantee subject, as applicable, to senior liens, as follows:

Description	Effective Interest Rate	Maturity Date	First Priority Liens	Net Carrying amount of Notes Receivable	Extension Options
(dollars in thousands)					
Zero Coupon Loan	24.0%	1/3/2016	\$ 166,200	\$3,861	—
Mezzanine Loan	10.0%	12/31/2013	85,835	9,089	—
Mezzanine Loan	15.0%	Upon Capital Event	11,925	3,834	—
First Mortgage Loan	12.0%	12/5/2012	—	19,500	—
First Mortgage Loan	9.2%	3/30/2013	—	3,000	—
First Mortgage Loan	5.3%	Demand	—	18,500	—
First Mortgage Loan	6.0%	12/1/2012	—	12,609	2 x 6 months
Construction Loan	20.5%	10/1/2012	—	5,400	—
Individually less than 3.0%	10.0% to 12.0%	12/31/13 to 1/1/17	37,623	3,033	—
Total				\$78,826	

During August 2012, the Company obtained a deed in lieu of foreclosure on a property located in Farmingdale, New York encumbered by its \$10.0 million first mortgage loan (Note 4).

During April 2012, the Company acquired a first mortgage loan, collateralized by a property located in Brooklyn, New York, for \$18.5 million. The loan, with an initial maturity date of May 2012, has been in default since November 2011 and has been accruing interest at a 16.0% annual default interest rate. As of September 30, 2012, the loan had an outstanding balance of \$23.5 million, including default interest, and was in maturity default. The Company has commenced foreclosure proceedings and a receiver has been appointed.

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

The activity in the allowance for notes receivable for the nine months ended September 30, 2012 is as follows:

(dollars in thousands)	Allowance for Notes Receivable
Balance at December 31, 2011	\$3,276
Provision for losses on notes receivable	5,147
Balance at September 30, 2012	\$8,423



ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

7. DERIVATIVE FINANCIAL INSTRUMENTS

As of September 30, 2012, the Company's derivative financial instruments consisted of nine interest rate swaps with an aggregate notional value of \$161.0 million, which effectively fix LIBOR at rates ranging from 0.52% to 3.79% and mature between November 2012 and September 2022. The Company is also a party to one forward interest rate swap transaction with respect to \$12.5 million of LIBOR-based variable-rate debt. The Company also has five derivative financial instruments with a notional value of \$181.0 million which cap variable-rate interest at rates ranging from 3.0% to 6.0% and mature between October 2012 and September 2015. The fair value of these derivative instruments, which is included in other liabilities in the Consolidated Balance Sheets, was a liability totaling \$4.9 million and \$3.5 million at September 30, 2012 and December 31, 2011, 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 of variable-rate interest payments on mortgage debt. Such instruments are reported at the fair value reflected above. As of September 30, 2012 and December 31, 2011, unrealized losses totaling \$4.8 million and \$3.9 million, respectively, were reflected in accumulated other comprehensive loss on the consolidated balance sheets.

As of September 30, 2012 and December 31, 2011, 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.

In conjunction with its implementation of updates to the fair value measurements guidance, the Company made an accounting policy election to measure derivative financial instruments subject to master netting agreements on a net basis.

8. MORTGAGE NOTES PAYABLE

The Company completed the following transactions related to mortgage notes payable and credit facilities during the nine months ended September 30, 2012:

During the nine months ended September 30, 2012, the Company repaid \$53.1 million under the Fund III subscription line of credit. As of September 30, 2012, the total outstanding amount under this facility was \$82.9 million.

During the nine months ended September 30, 2012, the Company repaid \$7.6 million under the Fund II term loan. As of September 30, 2012, the total outstanding amount under this facility was \$32.4 million.

During September 2012, the Company refinanced a \$7.8 million loan bearing interest at 6.40% with a new \$8.0 million loan collateralized by a property. The new loan bears interest at a fixed rate of 4.20% and matures on September 6, 2022.

During September 2012, the Company closed on a \$6.4 million loan collateralized by a property. The loan bears interest at LIBOR plus 190 basis points and matures on September 1, 2022.

During September 2012, the Company refinanced an \$83.3 million loan collateralized by a property. The new loan bears interest at LIBOR plus 300 basis points and matures on September 25, 2015, and has 2 one-year extension options.

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During August 2012, the Company closed on a \$21.0 million loan collateralized by a property. The loan bears interest at LIBOR plus 225 basis points and matures on August 10, 2015, and has 2 one-year extension options.

During August 2012, the Company entered into a \$20.0 million loan under New Markets Tax Credit program to finance the construction of a property. Of the total principal, \$14.8 million is due to an affiliate included in the consolidated group which has been netted on the accompanying balance sheet and the resulting \$5.2 million is included in Mortgage Notes Payable in the accompanying consolidated balance sheet at September 30, 2012. The loan bears interest at 1.00% and matures on August 23, 2019.

During August 2012, the Company closed on a \$50.0 million construction line of credit collateralized by a property. This facility bears interest at LIBOR plus 330 basis points and matures on August 23, 2015. As of September 30, 2012 no funds have been drawn down on this facility.

During August 2012, in conjunction with the disposition of a property (Note 4), the Company repaid a \$12.5 million loan.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

8. MORTGAGE NOTES PAYABLE (continued)

During July 2012, the Company refinanced an \$11.5 million loan bearing interest at 7.34% with a new \$10.6 million loan collateralized by a property. The new loan bears interest at LIBOR plus 335 basis points and matures on July 1, 2015.

During June 2012, the Company closed on a \$22.8 million loan collateralized by a property. The loan bears interest at LIBOR plus 295 basis points and matures on July 1, 2015, and has a one-year extension option.

During June 2012, in conjunction with the acquisition of the Brentwood Shopping Center (Note 4), the Company assumed a loan of \$16.5 million. The loan bears interest at 6.35% and matures on December 1, 2016.

During June 2012, in conjunction with the disposition of a property (Note 4), the Company repaid an \$8.3 million loan.

During May 2012, the Company closed on a \$4.3 million loan collateralized by a property. This loan bears interest at 3.68% and matures on May 1, 2016, and has a five-year extension option. The proceeds were used to pay off bridge financing in connection with the acquisition of a property.

During April 2012, the Company amended an existing \$56.5 million construction loan collateralized by a property with a \$69.6 million loan. This loan bears interest at LIBOR plus 225 basis points and matures on May 1, 2015, and has 2 one-year extension options.

During April 2012, the Company received an additional \$23.6 million of proceeds on a loan collateralized by a property. As of September 30, 2012, the total outstanding amount for this loan was \$73.9 million.

During April 2012, the Company closed on a \$15.5 million loan collateralized by a property. The loan bears interest at LIBOR plus 190 basis points and matures on April 27, 2019.

During April 2012, in conjunction with the acquisition of Lincoln Park Centre (Note 4), the Company assumed a loan of \$19.8 million. The loan bears interest at 5.85% and matures on December 31, 2013.

During March 2012, in conjunction with the acquisition of four properties in Chicago, Illinois (Note 4), the Company assumed loans of \$14.5 million and \$1.5 million, which bear interest at 5.62% and 5.55%, respectively, and both mature on February 1, 2016.

During February 2012, in conjunction with the acquisition of 330 River St. (Note 4), the Company assumed a \$7.0 million loan which bears interest at 6.26% and matures on May 1, 2016, and has a five-year extension option.

9. CONVERTIBLE NOTES PAYABLE

In December 2006 and January 2007, the Company issued convertible notes totaling \$115.0 million 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 15<sup>th</sup> and December 15<sup>th</sup> 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% after 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 15, 2016 and December 15, 2021.

As of December 31, 2011, all loan costs associated with the issuance have been expensed and there is no remaining net carrying amount of the equity component. The additional non-cash interest expense recognized in the Consolidated Statements of Income was \$0.2 million for the three months ended September 30, 2011 and \$0.7 million for the nine months ended September 30, 2011. The if-converted value of the Convertible Notes does not exceed their aggregate principal amount as of September 30, 2012 and there are no derivative transactions that were entered into in connection with the issuance of the Convertible Notes.

Through December 31, 2011, the Company had purchased \$114.1 million in principal amount of its Convertible Notes at an average discount of approximately 11% of which \$24.0 million was repurchased by the Company at par on December 20, 2011 pursuant to the holder's exercise of their repurchase option. The Company did not purchase any of its Convertible Notes during the nine months ended September 30, 2012. The outstanding principal amount of the Convertible Notes as of September 30, 2012 was \$0.9 million.



## ACADIA REALTY TRUST AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

## 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 value 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 value 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, 2012:

(dollars in thousands)	Level 1	Level 2	Level 3
Liabilities			
Derivative financial instruments (Note 7)	\$—	\$4,928	\$—

In addition to items that are measured at fair value on a recurring basis, the Company also has assets and liabilities on its balance sheet that are measured at fair value on a nonrecurring basis. As these assets and liabilities are not measured at fair value on a recurring basis, they are not included in the table above. Assets and liabilities that are measured at fair value on a nonrecurring basis include assets acquired and liabilities assumed in business combinations (Note 4).

## 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 approximate their fair values.

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

(dollars in thousands)	September 30, 2012		December 31, 2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Notes Receivable	\$78,826	\$78,826	\$59,989	\$59,989
Mortgage Notes Payable and Convertible Notes Payable	\$872,173	\$888,099	\$768,080	\$771,991

## 11. RELATED PARTY TRANSACTIONS

The Company earned property management fees, legal and leasing fees from the Brandywine Portfolio totaling \$0.2 million for each of the three months ended September 30, 2012 and 2011, and \$0.6 million and \$0.8 million for the nine months ended September 30, 2012 and 2011, respectively.

Related party payables, included in Other Liabilities on the consolidated balance sheet due to unconsolidated affiliates totaled \$0.9 million at September 30, 2012 and receivables due from unconsolidated affiliates totaled \$1.4 million at December 31, 2011.

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, 2012 and 2011 and \$75,000 for each of the nine months ended September 30, 2012 and 2011.

## ACADIA REALTY TRUST AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

## 12. SEGMENT REPORTING

The Company has five reportable segments: Core Portfolio, Opportunity Funds, Self-Storage Investments, Notes Receivable and Other. "Notes Receivable" consists of the Company's notes receivable and related interest income. "Other" consists primarily of management fees and other 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/managing 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, 2012 and 2011 and does not include unconsolidated affiliates:

## Three Months Ended September 30, 2012

(dollars in thousands)	Core Portfolio	Opportunity Funds	Self- Storage Investments	Notes Receivable	Other	Amounts Eliminated in Consolidation	Total
Revenues	\$17,917	\$17,340	\$ 6,729	\$ 1,866	\$5,815	\$ (5,526 )	\$44,141
Property operating expenses, other operating and real estate taxes	5,571	5,851	3,444	—	—	(680 )	14,186
General and administrative	5,436	4,948	(3 )	—	—	(3,377 )	7,004
Income before depreciation and amortization and interest and other finance expense	\$6,910	\$6,541	\$ 3,288	\$ 1,866	\$5,815	\$ (1,469 )	\$22,951
Depreciation and amortization	\$4,712	\$4,732	\$ 1,188	\$—	\$—	\$ (267 )	\$10,365
Interest and other finance expense	\$4,085	\$4,449	\$ 827	\$—	\$—	\$ 202	\$9,563
Real estate at cost	\$634,851	\$868,206	\$ 217,296	\$—	\$—	\$ (17,035 )	\$1,703,318
Total assets	\$786,041	\$993,046	\$ 193,225	\$78,826	\$—	\$ (151,555 )	\$1,899,583
Expenditures for redevelopment and improvements	\$(915 )	\$14,108	\$ 1,643	\$—	\$—		