WEINGARTEN REALTY INVESTORS /TX/
Form 10-Q
August 08, 2008

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

FORM 10-Q

(Mark One)

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

For the quarter ended June 30, 2008

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 1-9876

Weingarten Realty Investors
(Exact name of registrant as specified in its charter)

TEXAS (State or other jurisdiction of incorporation or organization)	74-1464203 (IRS Employer Identification No.)
2600 Citadel Plaza Drive P.O. Box 924133 Houston, Texas (Address of principal executive offices)	77292-4133 (Zip Code)

(713) 866-6000
(Registrant's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

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 xNO ¨.

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 definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨. (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).YES ¨NO x.

As of July 31, 2008, there were 83,982,442 common shares of beneficial interest of Weingarten Realty Investors, $.03 par value, outstanding.

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PART I-FINANCIAL INFORMATION

ITEM 1. Financial Statements

WEINGARTEN REALTY INVESTORS
CONDENSED STATEMENTS OF CONSOLIDATED INCOME AND COMPREHENSIVE INCOME
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended	
			June 30,	June 30,
	2008	2007	2008	2007
Revenues:				
Rentals	$ 151,196	$ 139,053	$ 301,491	$ 277,709
Other	3,428	3,163	6,150	5,176
Total	154,624	142,216	307,641	282,885
Expenses				
Depreciation and amortization	39,538	31,506	82,396	62,718
Operating	26,666	24,479	53,105	47,214
Ad valorem taxes	17,622	16,305	35,544	32,174
General and administrative	7,104	6,504	13,958	13,113
Total	90,930	78,794	185,003	155,219
Operating Income	63,694	63,422	122,638	127,666
Interest Expense	(38,474)	(35,624)	(73,954)	(71,713)
Interest and Other Income	1,699	3,044	2,748	4,756
Equity in Earnings of Real Estate Joint Ventures and Partnerships, net	5,139	4,273	10,386	7,620
Income Allocated to Minority Interests	(2,627)	(3,497)	(4,453)	(4,675)
Gain (Loss) on Sale of Properties	132	(65)	144	2,024
Gain on Land and Merchant Development Sales	6,303	3,285	6,822	3,951
Provision for Income Taxes	(1,543)	(1,012)	(2,290)	(1,003)
Income from Continuing Operations	34,323	33,826	62,041	68,626
Operating Income from Discontinued Operations	683	1,407	1,989	5,136
Gain on Sale of Properties from Discontinued Operations	41,093	40,544	49,463	53,400
Income from Discontinued Operations	41,776	41,951	51,452	58,536
Net Income	76,099	75,777	113,493	127,162
Dividends on Preferred Shares	(8,110)	(5,775)	(16,728)	(10,503)
Redemption Costs of Preferred Shares	(990)		(990)	
Net Income Available to Common Shareholders	$ 66,999	$ 70,002	$ 95,775	$ 116,659

Net Income Per Common Share - Basic:								
Income from Continuing Operations	$	0.30	$	0.32	$	0.53	$	0.67
Income from Discontinued Operations		0.50		0.49		0.61		0.68
Net Income	$	0.80	$	0.81	$	1.14	$	1.35
Net Income Per Common Share - Diluted:								
Income from Continuing Operations	$	0.30	$	0.32	$	0.53	$	0.67
Income from Discontinued Operations		0.49		0.47		0.60		0.65
Net Income	$	0.79	$	0.79	$	1.13	$	1.32
Net Income	$	76,099	$	75,777	$	113,493	$	127,162
Other Comprehensive Income (Loss):								
Unrealized gain on derivatives				4,472				4,497
Realized loss on derivatives, net						(7,204)		
Amortization of loss on derivatives		645		220		864		439
Other Comprehensive Income (Loss)		645		4,692		(6,340)		4,936
Comprehensive Income	$	76,744	$	80,469	$	107,153	$	132,098

See Notes to Condensed Consolidated Financial Statements.

WEINGARTEN REALTY INVESTORS
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except per share amounts)

	June 30, 2008	December 31, 2007
ASSETS		
Property	$ 5,007,361	$ 4,972,344
Accumulated Depreciation	(791,929)	(774,321)
Property Held for Sale, net	373	
Property, net	4,215,805	4,198,023
Investment in Real Estate Joint Ventures and Partnerships	309,252	300,756
Total	4,525,057	4,498,779
Notes Receivable from Real Estate Joint Ventures and Partnerships	151,057	81,818
Unamortized Debt and Lease Costs	120,116	114,969
Accrued Rent and Accounts Receivable (net of allowance for doubtful accounts of $9,117 in 2008 and $8,721 in 2007)	83,262	94,607
Cash and Cash Equivalents	40,427	65,777
Restricted Deposits and Mortgage Escrows	34,018	38,884
Other	120,507	98,509
Total	$ 5,074,444	$ 4,993,343
LIABILITIES AND SHAREHOLDERS' EQUITY		
Debt	$ 3,187,622	$ 3,165,059
Accounts Payable and Accrued Expenses	160,223	155,137
Other	88,860	104,439
Total	3,436,705	3,424,635
Minority Interest	158,489	96,885
Commitments and Contingencies		
Shareholders' Equity:		
Preferred Shares of Beneficial Interest - par value, $.03 per share; shares authorized: 10,000		
6.75% Series D cumulative redeemable preferred shares of beneficial interest; 100 shares issued and outstanding in 2008 and 2007; liquidation preference $75,000	3	3
6.95% Series E cumulative redeemable preferred shares of beneficial interest; 29 shares issued and outstanding in 2008 and 2007; liquidation preference $72,500	1	1
6.5% Series F cumulative redeemable preferred shares of beneficial interest, 140 shares issued; 140 and 80 shares outstanding in 2008 and 2007, respectively;	4	2

liquidation preference $350,000 in 2008 and $200,000 in 2007				
Variable-rate Series G cumulative redeemable preferred shares of beneficial interest, 80 shares issued; 32 and 80 shares outstanding in 2008 and 2007, respectively; liquidation preference $80,000 in 2008 and $200,000 in 2007		1		2
Common Shares of Beneficial Interest - par value, $.03 per share; shares authorized: 150,000; shares issued and outstanding: 83,993 in 2008 and 85,146 in 2007		2,531		2,565
Treasury Shares of Beneficial Interest - par value, $.03 per share; none in 2008 and 1,370 shares in 2007				(41)
Accumulated Additional Paid-In Capital		1,448,162		1,442,027
Net Income in Excess of Accumulated Dividends		50,363		42,739
Accumulated Other Comprehensive Loss		(21,815)		(15,475)
Shareholders' Equity		1,479,250		1,471,823
Total	$	5,074,444	$	4,993,343

See Notes to Condensed Consolidated Financial Statements.

WEINGARTEN REALTY INVESTORS
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS
(Unaudited)
(In thousands)

	Six Months Ended June 30,	
	2008	2007
Cash Flows from Operating Activities:		
Net Income	$ 113,493	$ 127,162
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	83,520	66,476
Equity in earnings of real estate joint ventures and partnerships, net	(10,386)	(7,620)
Income allocated to minority interests	4,453	4,675
Gain on land and merchant development sales	(6,822)	(3,951)
Gain on sale of properties	(49,607)	(55,424)
Distributions of income from unconsolidated real estate joint ventures and partnerships	1,204	2,267
Changes in accrued rent and accounts receivable	6,091	12,067
Changes in other assets	(15,474)	(39,707)
Changes in accounts payable and accrued expenses	(29,039)	(5,233)
Other, net	1,522	(929)
Net cash provided by operating activities	98,955	99,783
Cash Flows from Investing Activities:		
Investment in property	(161,100)	(351,881)
Proceeds from sale and disposition of properties, net	174,986	205,576
Change in restricted deposits and mortgage escrows	5,001	6,812
Notes receivable from real estate joint ventures and partnerships and other receivables:		
Advances	(77,391)	(29,286)
Collections	5,963	998
Real estate joint ventures and partnerships:		
Investments	(2,522)	(40,294)
Distributions of capital	11,529	3,651
Net cash used in investing activities	(43,534)	(204,424)
Cash Flows from Financing Activities:		
Proceeds from issuance of:		
Debt	205,030	19,092
Common shares of beneficial interest	1,681	2,348
Preferred shares of beneficial interest, net	118,146	193,978
Purchase of marketable securities in connection with the legal defeasance of mortgage notes payable		(21,509)
Repurchase of preferred shares of beneficial interest, net	(117,171)	
Principal payments of debt	(179,108)	(17,922)
Common and preferred dividends paid	(107,075)	(96,075)
Debt issuance costs paid	(934)	(761)
Other, net	(1,340)	788

Net cash (used in) provided by financing activities	(80,771)	79,939
Net decrease in cash and cash equivalents	(25,350)	(24,702)
Cash and cash equivalents at January 1	65,777	71,003
Cash and cash equivalents at June 30	$ 40,427	$ 46,301

See Notes to Condensed Consolidated Financial Statements.

WEINGARTEN REALTY INVESTORS
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Interim Financial Statements

The condensed consolidated financial statements included in this report are unaudited; however, amounts presented in the condensed consolidated balance sheet as of December 31, 2007 are derived from our audited financial statements at that date. In our opinion, all adjustments necessary for a fair presentation of such financial statements have been included. Such adjustments consisted of normal recurring items. Interim results are not necessarily indicative of results for a full year.

The condensed consolidated financial statements and notes are presented as permitted by Form 10-Q and certain information included in our annual financial statements and notes has been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2007.

Business
Weingarten Realty Investors is a real estate investment trust ("REIT") organized under the Texas Real Estate Investment Trust Act. We, and our predecessor entity, began the ownership and development of shopping centers and other commercial real estate in 1948. Our primary business is leasing space to tenants in the shopping and industrial centers we own or lease. We also manage centers for joint ventures in which we are partners or for other outside owners for which we charge fees.

We operate a portfolio of properties that include neighborhood and community shopping centers and industrial properties of approximately 73.5 million square feet. We have a diversified tenant base with our largest tenant comprising only 2.7% of total rental revenues during 2008.

We currently operate, and intend to operate in the future, as a REIT.

Basis of Presentation
Our condensed consolidated financial statements include the accounts of our subsidiaries and certain partially owned real estate joint ventures or partnerships which meet the guidelines for consolidation. All significant intercompany balances and transactions have been eliminated.

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States. Such statements require management to make estimates and assumptions that affect the reported amounts on our condensed consolidated financial statements. Actual results could differ from these estimates.

Real Estate Joint Ventures and Partnerships
To determine the method of accounting for partially owned real estate joint ventures and partnerships, we first apply the guidelines set forth in Financial Accounting Standards Board ("FASB") Interpretation No. 46R, "Consolidation of Variable Interest Entities." In March 2008, we contributed 18 neighborhood/community shopping centers located in Texas with an aggregate value of approximately $227.5 million, and aggregating more than 2.1 million square feet, to a joint venture. We sold an 85% interest in this joint venture to AEW Capital Management on behalf of one of its

institutional clients and received proceeds of approximately $216.1 million. Financing totaling $154.3 million was placed on the properties and guaranteed by us. This venture is a variable interest entity and due to our guarantee of the debt, we have consolidated this joint venture. Our maximum exposure to loss associated with this joint venture is primarily limited to our guarantee of the debt, which was approximately $154.3 million at June 30, 2008.

Partially owned real estate joint ventures and partnerships over which we exercise financial and operating control are consolidated in our financial statements. In determining if we exercise financial and operating control, we consider factors such as ownership interest, authority to make decisions, kick-out rights and substantive participating rights. Partially owned real estate joint ventures and partnerships where we have the ability to exercise significant influence, but do not exercise financial and operating control, are accounted for using the equity method.

Our investments in partially owned real estate joint ventures and partnerships are reviewed for impairment, periodically, if events or circumstances change indicating that the carrying amount of our investments may not be recoverable. The ultimate realization of our investments in partially owned real estate joint ventures and partnerships is dependent on a number of factors, including the performance of each investment and market conditions. We will record an impairment charge if we determine that a decline in the value of an investment is other than temporary. No impairment was recorded for both the quarter and the six months ended June 30, 2008 or 2007. However, due to the current credit and real estate market conditions, there is no certainty that an impairment would not occur in the future.

Restricted Deposits and Mortgage Escrows

Restricted deposits and mortgage escrows consist of escrow deposits held by lenders primarily for property taxes, insurance and replacement reserves and restricted cash that is held in a qualified escrow account for the purposes of completing like-kind exchange transactions. At June 30, 2008 and December 31, 2007, we had $18.2 million and $21.3 million held for like-kind exchange transactions, respectively, and $15.8 million and $17.6 million held in escrow related to our mortgages, respectively.

Per Share Data

Net income per common share - basic is computed using net income available to common shareholders and the weighted average shares outstanding. Net income per common share - diluted includes the effect of potentially dilutive securities for the periods indicated as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Numerator:				
Net income available to common shareholders	$ 66,999	$ 70,002	$ 95,775	$ 116,659
Income attributable to operating partnership units	1,147	1,103	2,299	2,209
Net income available to common shareholders - diluted	$ 68,146	$ 71,105	$ 98,074	$ 118,868
Denominator:				
Weighted average shares outstanding - basic	83,742	86,274	83,710	86,140
Effect of dilutive securities:				
Share options and awards	663	1,011	577	1,063
Operating partnership units	2,361	2,450	2,381	2,565
Weighted average shares outstanding - diluted	86,766	89,735	86,668	89,768

Options to purchase 2.1 million and .5 million common shares of beneficial interest for the three months ended June 30, 2008 and 2007, respectively, were not included in the calculation of net income per common share - diluted because the exercise prices were greater than the average market price for the period. Options to purchase 2.1 million

and 3,220 common shares of beneficial interest for the six months ended June 30, 2008 and 2007, respectively, were not included in the calculation of net income per common share - diluted because the exercise prices were greater than the average market price for the period.

Cash Flow Information

All highly liquid investments with original maturities of three months or less are considered cash equivalents. We issued common shares of beneficial interest valued at $.3 million and $12.6 million for the six months ended June 30, 2008 and 2007, respectively, in exchange for interests in real estate joint ventures and partnerships, which had been formed to acquire properties. We also accrued $21.7 million and $7.9 million as of June 30, 2008 and 2007, respectively, associated with the construction of property. Cash payments for interest on debt, net of amounts capitalized, of $77.6 million and $75.1 million were made during the six months ended June 30, 2008 and 2007, respectively. A cash payment of $4.5 million for income taxes was made during the six months ended June 30, 2008, and no income tax payments were made during the six months ended June 30, 2007.

In association with property acquisitions and investments in unconsolidated real estate joint ventures, items assumed were as follows (in thousands):

	Six Months Ended June 30,	
	2008	2007
Debt	$ -	$ 26,419
Obligations under Capital Leases	-	12,888
Minority Interest	634	23,582
Net Assets and Liabilities	8,450	3,600

In connection with the sale of improved properties, we received notes receivable totaling $3.6 million during the six months ended June 30, 2008. Net assets and liabilities were reduced by $59.8 million during the six months ended June 30, 2007 from the reorganization of three joint ventures, two of which were previously consolidated, to tenancy-in-common arrangements where we have a 50% interest. This net reduction from the reorganization of three joint ventures was offset by the assumption of debt totaling $33.2 million. In conjunction with the disposition of properties completed for the six months ended June 30, 2007, we defeased two mortgage loans totaling $21.2 million and transferred marketable securities totaling $21.5 million in connection with the legal defeasance of these two loans.

Reclassifications

The reclassification of prior years' operating results for certain properties to discontinued operations was made to conform to the current year presentation. This reclassification had no impact on previously reported net income, net income per share, shareholders' equity or cash flows.

Note 2. Newly Issued Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157 ("SFAS 157"), "Fair Value Measurements." This statement defines fair value and establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The key changes to current practice are (1) the definition of fair value, which focuses on an exit price rather than an entry price; (2) the methods used to measure fair value, such as emphasis that fair value is a market-based measurement, not an entity-specific measurement, as well as the inclusion of an adjustment for risk, restrictions and credit standing and (3) the expanded disclosures about fair value measurements. This statement does not require any new fair value measurements.

We adopted SFAS 157 in the first quarter of 2008 regarding our financial assets and liabilities currently recorded or disclosed at fair value. The FASB has issued FASB Staff Position No. FAS 157-2, "Effective Date of FASB Statement

No. 157," to defer the provisions of SFAS 157 relating to nonfinancial assets and liabilities that delays implementation by us until January 1, 2009. SFAS 157 has not and is not expected to materially affect how we determine fair value, but it has resulted in certain additional disclosures (see Note 15).

In September 2006, the FASB issued SFAS No. 158 ("SFAS 158"), "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – An Amendment of FASB Statements No. 87, 88, 106, and 132R." This new standard requires an employer to: (a) recognize in its statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status; (b) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions); and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. These changes will be reported in comprehensive income. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position (the "Measurement Provision") is effective for fiscal years ending after December 15, 2008. We have assessed the potential impact of the Measurement Provision of SFAS 158 and concluded that its adoption will not have a material effect on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159 ("SFAS 159"), "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS 159 expands opportunities to use fair value measurement in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. This statement was effective for us on January 1, 2008, and we have elected not to measure any of our current eligible financial assets or liabilities at fair value upon adoption; however, we do have the option to elect to measure eligible financial assets or liabilities acquired in the future at fair value.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) ("SFAS 141R"), "Business Combinations." SFAS 141R expands the original guidance's definition of a business. It broadens the fair value measurement and recognition to all assets acquired, liabilities assumed and interests transferred as a result of business combinations. SFAS 141R requires expanded disclosures to improve the ability to evaluate the nature and financial effects of business combinations. SFAS 141R is effective for us for business combinations made on or after January 1, 2009. While we have not formally quantified the effect, we expect the adoption of SFAS 141R to have a material effect on our accounting for future acquisition of properties, which may fall under the definition of a business.

In December 2007, the FASB issued SFAS No. 160 ("SFAS 160"), "Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51." SFAS 160 requires that a noncontrolling interest in an unconsolidated entity be reported as equity and any losses in excess of an unconsolidated entity's equity interest be recorded to the noncontrolling interest. The statement requires fair value measurement of any noncontrolling equity investment retained in a deconsolidation. SFAS 160 is effective for us on January 1, 2009 and most provisions will be applied retrospectively. We are currently evaluating the impact SFAS 160 will have on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161 ("SFAS 161"), "Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133." SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities. SFAS 161 is effective for us on January 1, 2009. We are currently evaluating the impact SFAS 161 will have to the disclosures included in our consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3 ("FSP FAS 142-3"), "Determination of the Useful Life of Intangible Assets." FSP FAS 142-3 amends the factors that should be considered in developing renewal and extension assumptions used to determine the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of assets considered in a business combination. FSP FAS 142-3 is effective for us on January 1, 2009. We are currently evaluating the impact FSP FAS 142-3 will have on our consolidated financial statements.

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In May 2008, the FASB issued FASB Staff Position No. APB 14-1 ("FSP APB 14-1"), "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)." FSP APB 14-1 will require that the initial debt proceeds from the sale of our convertible and exchangeable senior debentures be allocated between a liability component and an equity component in a manner that will reflect our effective nonconvertible borrowing rate. The resulting debt discount would be amortized using the effective interest method over the period the debt is expected to be outstanding as additional interest expense. FSP APB 14-1 is effective for us on January 1, 2009 and requires retroactive application. Upon the adoption of FSP APB 14-1, we estimate the unamortized debt discount (as of June 30, 2008) to be approximately $28.9 million to be included as a reduction of debt and approximately $43.5 million as accumulated additional paid-in capital on our consolidated balance sheet. We estimate incremental interest expense to be approximately $4.1 million for the first six months of 2008 and $7.9 million and $3.2 million for the years ended December 31, 2007 and 2006, respectively.

Note 3. Derivatives and Hedging

We occasionally hedge the future cash flows of our debt transactions, as well as changes in the fair value of our debt instruments, principally through interest rate swaps with major financial institutions. At June 30, 2008, we had two interest rate swap contracts designated as fair value hedges with an aggregate notional amount of $50.0 million that convert fixed interest payments at rates of 4.2% to variable interest payments. We have determined that they are highly effective in limiting our risk of changes in the fair value of fixed-rate notes attributable to changes in market interest rates.

At December 31, 2007, we had two forward-starting interest rate swap contracts with an aggregate notional amount of $118.6 million, which were designated as cash flow hedges to mitigate the risk of future fluctuations in interest rates on forecasted issuances of long-term debt.

On March 20, 2008, the cash flow hedge was completed through the issuance of $154.3 million of fixed-rate long-term debt issued by a joint venture that is consolidated by us. A loss of $12.8 million was recorded in accumulated other comprehensive loss based on the fair value of the interest rate swap contracts on that date. On March 27, 2008, the interest rate swap contracts were settled resulting in a loss of $10.0 million. For the period between the completion of the cash flow hedge and the settlement of the swap contracts, a gain of $2.8 million was recognized as a reduction of interest expense.

Changes in the fair value of fair value hedges, as well as changes in the fair value of the hedged item attributable to the hedge risk, are recorded in earnings each reporting period. For the three and six months ended June 30, 2008 and 2007, these changes in fair value were offset through earnings. The derivative instruments at June 30, 2008 were reported at their fair values in other liabilities, net of accrued interest, of $.4 million, and we had no derivative instruments reported in other assets. At December 31, 2007, derivative instruments were reported at their fair values in other liabilities, net of accrued interest, of $5.8 million, and we had no derivative instruments reported in other assets.

As of June 30, 2008 and December 31, 2007, the balance in accumulated other comprehensive loss relating to derivatives was $18.1 million and $11.8 million, respectively. Amounts amortized to interest expense were $.6 million and $.2 million during the three months ended June 30, 2008 and 2007, respectively, and $.9 million and $.4 million during the six months ended June 30, 2008 and 2007, respectively. Within the next 12 months, approximately $2.6 million of the balance in accumulated other comprehensive loss is expected to be amortized to interest expense.

For the three and six months ended June 30, 2008, the interest rate swaps decreased interest expense and increased net income by $.2 million and $.4 million, respectively, and decreased the average interest rate of our debt by .02% for both periods. The interest rate swaps increased interest expense and decreased net income by $.1 million and $.3 million for the three and six months ended June 30, 2007, respectively, and increased the average interest rate of our debt by .02% for both periods. We could be exposed to losses in the event of nonperformance by the counter-parties; however, management believes the likelihood of such nonperformance is unlikely.

Note 4. Debt

Our debt consists of the following (in thousands):

	June 30, 2008	December 31, 2007
Debt payable to 2030 at 4.5% to 8.8%	$ 2,848,404	$ 2,876,445
Unsecured notes payable under revolving credit agreements	305,730	255,000
Obligations under capital leases	29,725	29,725
Industrial revenue bonds payable to 2015 at 1.5% to 3.8%	3,763	3,889
Total	$ 3,187,622	$ 3,165,059

The grouping of total debt between fixed and variable-rate as well as between secured and unsecured is summarized below (in thousands):

	June 30, 2008	December 31, 2007
As to interest rate (including the effects of interest rate swaps):		
Fixed-rate debt	$ 2,815,363	$ 2,843,320
Variable-rate debt	372,259	321,739
Total	$ 3,187,622	$ 3,165,059
As to collateralization:		
Unsecured debt	$ 2,144,153	$ 2,095,506
Secured debt	1,043,469	1,069,553
Total	$ 3,187,622	$ 3,165,059

We have a $575 million unsecured revolving credit facility held by a syndicate of banks that expires in February 2010 and provides a one-year extension option available at our request. Borrowing rates under this facility float at a margin over LIBOR, plus a facility fee. The borrowing margin and facility fee, which are currently 42.5 and 15.0 basis points, respectively, are priced off a grid that is tied to our senior unsecured credit ratings. This facility retains a competitive bid feature that allows us to request bids for amounts up to $287.5 million from each of the syndicate banks, allowing us an opportunity to obtain pricing below what we would pay using the pricing grid.

At June 30, 2008 and December 31, 2007, the balance outstanding under the revolving credit facility was $303.0 million at a variable interest rate of 3.1% and $255.0 million at a variable interest rate of 5.4%, respectively. We also have an agreement for a $30 million unsecured and uncommitted overnight facility with a bank that we use for cash management purposes, of which $2.7 million was outstanding at a variable interest rate of 3.2% at June 30, 2008, and no amounts were outstanding at December 31, 2007. Letters of credit totaling $10.2 million and $9.2 million were outstanding under the revolving credit facility at June 30, 2008 and December 31, 2007, respectively. The available

balance under our revolving credit agreement was $259.0 million and $310.8 million at June 30, 2008 and December 31, 2007, respectively. During the six months ended June 30, 2008, the maximum balance and weighted average balance outstanding under both facilities combined were $470.9 million and $318.0 million, respectively, at a weighted average interest rate of 4.0%. During 2007, the maximum balance and weighted average balance outstanding under both facilities combined were $312.4 million and $96.7 million, respectively, at a weighted average interest rate of 6.1%.

In March 2008, we contributed assets to a joint venture with an institutional investor. In conjunction with this transaction, the joint venture issued $154.3 million of fixed-rate long-term debt with an average life of 7.3 years at an average rate of 5.4% that we guaranteed. We received all of the proceeds from the issuance of this debt and such proceeds were used to reduce amounts outstanding under our $575 million revolving credit facility.

In January 2008, we elected to repay at par a fixed-rate 8.33% mortgage totaling $121.8 million that was secured by 19 supermarket-anchored shopping centers in California originally acquired in April 2001.

As of December 31, 2007, the balance of secured debt that was assumed in conjunction with 2007 acquisitions was $99.4 million. A capital lease obligation totaling $12.9 million was assumed and subsequently settled in 2007.

Various leases and properties, and current and future rentals from those lease and properties, collateralize certain debt. At June 30, 2008 and December 31, 2007, the carrying value of such property aggregated $1.7 billion and $1.9 billion, respectively.

Scheduled principal payments on our debt (excluding $305.7 million due under our revolving credit agreements, $21.0 million of certain capital leases, ($.4) million fair value of interest rate swaps and $26.4 million of non-cash debt-related items) are due during the following years (in thousands):

2008	$ 66,074
2009	113,506
2010	128,749
2011	316,893
2012	335,317
2013	334,984
2014	375,128
2015	249,943
2016	143,517
2017	29,680
Thereafter	741,104
Total	$ 2,834,895

Our various debt agreements contain restrictive covenants, including minimum interest and fixed charge coverage ratios, minimum unencumbered interest coverage ratios, minimum net worth requirements and maximum total debt levels. We believe we were in compliance with all restrictive covenants as of June 30, 2008.

In July 2006, we priced an offering of $575 million of 3.95% convertible senior unsecured notes due 2026, which closed on August 2, 2006. Interest is payable semi-annually in arrears on February 1 and August 1 of each year, beginning February 1, 2007. The debentures are convertible under certain circumstances for our common shares of beneficial interest at an initial conversion rate of 20.3770 common shares of beneficial interest per $1,000 of principal amount of debentures (an initial conversion price of $49.075). In addition, the conversion rate may be adjusted if certain change in control transactions or other specified events occur on or prior to August 4, 2011. Upon the conversion of debentures, we will deliver cash for the principal return, as defined, and cash or common shares of beneficial interest, at our option, for the excess of the conversion value, as defined, over the principal return. The debentures are redeemable for cash at our option beginning in 2011 for the principal amount plus accrued and unpaid interest. Holders of the debentures have the right to require us to repurchase their debentures for cash equal to the principal of the debentures plus accrued and unpaid interest in 2011, 2016 and 2021 and in the event of a change in

control.

In connection with the issuance of these debentures, we filed a registration statement related to the resale of the debentures and the common shares of beneficial interest issuable upon the conversion of the debentures. This registration statement has been declared effective by the SEC.

Note 5. Preferred Shares

We issued $150 million and $200 million of depositary shares on June 6, 2008 and January 30, 2007, respectively. Each depositary share represents one-hundredth of a Series F Cumulative Redeemable Preferred Share. The depositary shares are redeemable, in whole or in part, on or after January 30, 2012 at our option, at a redemption price of $25 per depositary share, plus any accrued and unpaid dividends thereon. The depositary shares are not convertible or exchangeable for any of our other property or securities. The Series F Preferred Shares pay a 6.5% annual dividend and have a liquidation value of $2,500 per share. Series F Preferred Shares issued in June 2008 were issued at a discount, resulting in an effective rate of 8.25%. Net proceeds of $118.1 million and $194.0 million in June 2008 and January 2007, respectively, were used to repay amounts outstanding under our revolving credit facilities and for general business purposes. Subsequent to the 2008 issuance, our revolving credit facilities were used to finance the partial redemption of the Series G Cumulative Redeemable Preferred Shares as described below.

On September 25, 2007, we issued $200 million of depositary shares in a private placement, and the net proceeds of $193.6 million were used to repay amounts outstanding under our credit facilities. Each depositary share represents one-hundredth of a Series G Cumulative Redeemable Preferred Share. The depositary shares are redeemable, in whole or in part at our option, at a redemption price of $25 multiplied by a graded rate per depositary share based on the date of redemption plus any accrued and unpaid dividends thereon. The depositary shares are not convertible or exchangeable for any of our other property or securities. The Series G Preferred Shares pay a variable-rate quarterly dividend through September 2008 and then a variable-rate monthly dividend and have a liquidation preference of $2,500 per share. The variable-rate dividend is calculated on the period's three-month LIBOR rate plus a percentage determined by the number of days outstanding. Further, the rate may vary if any of our outstanding preferred shares are downgraded. The variable-rate dividend is not to exceed 20%. At June 30, 2008 and December 31, 2007, the variable-rate dividend was 3.8% and 5.9%, respectively. On June 20, 2008, we redeemed $120 million of the Series G Cumulative Redeemable Preferred Shares. Upon the redemption of these shares, the related original issuance costs of $1.0 million were reported as a deduction in arriving at net income available to common shareholders.

Subsequent to June 30, 2008, we redeemed the remaining $80 million of the Series G Cumulative Redeemable Preferred Shares. This redemption was financed through our revolving credit facilities, and the related original issuance costs of $.9 million will be a reduction to net income available to common shareholders.

In July 2004, we issued $72.5 million of depositary shares with each share representing one-hundredth of a Series E Cumulative Redeemable Preferred Share. The depositary shares are redeemable at our option, in whole or in part, for cash at a redemption price of $25 per depositary share, plus any accrued and unpaid dividends thereon. The depositary shares are not convertible or exchangeable for any of our other property or securities. The Series E preferred shares pay a 6.95% annual dividend and have a liquidation value of $2,500 per share.

In April 2003, $75 million of depositary shares were issued with each share representing one-thirtieth of a Series D Cumulative Redeemable Preferred Share. The depositary shares are redeemable at our option, in whole or in part, for cash at a redemption price of $25 per depositary share, plus any accrued and unpaid dividends thereon. The depositary shares are not convertible or exchangeable for any of our property or securities. The Series D preferred shares pay a 6.75% annual dividend and have a liquidation value of $750 per share.

Note 6. Common Shares of Beneficial Interest

In July 2007, our Board of Trust Managers authorized a common share repurchase program as part of our ongoing investment strategy. Under the terms of the program, we may purchase up to a maximum value of $300 million of our

common shares of beneficial interest during the next two years. Share repurchases may be made in the open market or in privately negotiated transactions at the discretion of management and as market conditions warrant. We anticipate funding the repurchase of shares primarily through the proceeds received from our property disposition program, as well as from general corporate funds.

During 2007, we repurchased 2.8 million common shares of beneficial interest at an average share price of $37.12 and cancelled 1.4 million common shares of beneficial interest in both 2008 and 2007. As of June 30, 2008, the remaining value of common shares of beneficial interest available to be repurchased is $196.7 million.

Note 7. Treasury Shares of Beneficial Interest

At December 31, 2007, a total of 1.4 million common shares of beneficial interest were repurchased by us at an average share price of $36.47. These shares were subsequently retired on January 11, 2008.

Note 8. Property

Our property consisted of the following (in thousands):

	June 30, 2008	December 31, 2007
Land	$ 973,958	$ 974,145
Land held for development	61,200	62,033
Land under development	226,571	223,827
Buildings and improvements	3,489,041	3,533,037
Construction in-progress	256,591	179,302
Total	$ 5,007,361	$ 4,972,344

The following carrying charges were capitalized (in thousands):

Three Months Ended June 30,	Six Months Ended