WEINGARTEN REALTY INVESTORS /TX/
Form 10-Q
November 07, 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 September 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	74-1464203
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
2600 Citadel Plaza Drive P.O. Box 924133 Houston, Texas	77292-4133
(Address of principal executive offices)	(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 October 31, 2008, there were 87,063,386 common shares of beneficial interest of Weingarten Realty Investors, $.03 par value, outstanding.

1

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 September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues:				
Rentals	$ 154,440	$ 148,387	$ 455,536	$ 425,736
Other	4,307	4,542	10,456	9,716
Total	158,747	152,929	465,992	435,452
Expenses				
Depreciation and amortization	36,606	33,115	118,957	95,787
Operating	26,999	27,528	80,054	74,683
Ad valorem taxes	20,517	19,528	56,028	51,669
General and administrative	5,816	6,537	19,774	19,650
Total	89,938	86,708	274,813	241,789
Operating Income	68,809	66,221	191,179	193,663
Interest Expense	(38,884)	(38,470)	(112,838)	(110,183)
Interest and Other Income	1,172	2,082	3,920	6,838
Equity in Earnings of Real Estate Joint Ventures and Partnerships, net	5,151	4,893	15,537	12,513
Income Allocated to Minority Interests	(2,515)	(3,003)	(6,968)	(7,678)
Gain (Loss) on Sale of Properties	(43)	986	101	3,010
Gain on Land and Merchant Development Sales	1,418	4,199	8,240	8,150
Provision for Income Taxes	(701)	(930)	(2,991)	(1,933)
Income from Continuing Operations	34,407	35,978	96,180	104,380
Operating Income from Discontinued Operations	100	2,001	2,357	7,361
Gain on Sale of Properties from Discontinued Operations	4,520	6,284	53,983	59,684
Income from Discontinued Operations	4,620	8,285	56,340	67,045
Net Income	39,027	44,263	152,520	171,425
Dividends on Preferred Shares	(9,114)	(5,982)	(25,842)	(16,485)
Redemption Costs of Preferred Shares	(860)		(1,850)	
Net Income Available to Common Shareholders	$ 29,053	$ 38,281	$ 124,828	$ 154,940
Net Income Per Common Share - Basic:				
Income from Continuing Operations	$ 0.29	$ 0.35	$ 0.82	$ 1.02
Income from Discontinued Operations	0.06	0.10	0.67	0.78
Net Income	$ 0.35	$ 0.45	$ 1.49	$ 1.80

Net Income Per Common Share - Diluted:								
Income from Continuing Operations	$	0.29	$	0.34	$	0.81	$	1.02
Income from Discontinued Operations		0.05		0.10		0.67		0.75
Net Income	$	0.34	$	0.44	$	1.48	$	1.77
Net Income	$	39,027	$	44,263	$	152,520	$	171,425
Other Comprehensive Income (Loss):								
Unrealized gain (loss) on derivatives				(4,243)				254
Realized loss on derivatives, net						(7,204)		
Amortization of loss on derivatives		605		219		1,469		658
Other Comprehensive Income (Loss)		605		(4,024)		(5,735)		912
Comprehensive Income	$	39,632	$	40,239	$	146,785	$	172,337

See Notes to Condensed Consolidated Financial Statements.

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

	September 30, 2008	December 31, 2007
ASSETS		
Property	$ 5,065,750	$ 4,972,344
Accumulated Depreciation	(818,070)	(774,321)
Property, net	4,247,680	4,198,023
Investment in Real Estate Joint Ventures and Partnerships	308,516	300,756
Total	4,556,196	4,498,779
Notes Receivable from Real Estate Joint Ventures and Partnerships	166,161	81,818
Unamortized Debt and Lease Costs	119,577	114,969
Accrued Rent and Accounts Receivable (net of allowance for doubtful accounts of $9,639 in 2008 and $8,721 in 2007)	91,485	94,607
Cash and Cash Equivalents	53,224	65,777
Restricted Deposits and Mortgage Escrows	18,010	38,884
Other	116,004	98,509
Total	$ 5,120,657	$ 4,993,343
LIABILITIES AND SHAREHOLDERS' EQUITY		
Debt	$ 3,318,327	$ 3,165,059
Accounts Payable and Accrued Expenses	165,250	155,137
Other	88,822	104,439
Total	3,572,399	3,424,635
Minority Interest	158,530	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; liquidation preference $350,000 in 2008 and	4	2

$200,000 in 2007				
Variable-rate Series G cumulative redeemable preferred shares of beneficial interest, 80 shares issued; none in 2008 and 80 shares outstanding in 2007; liquidation preference $200,000 in 2007				2
Common Shares of Beneficial Interest - par value, $.03 per share; shares authorized: 150,000; shares issued and outstanding: 84,044 in 2008 and 85,146 in 2007		2,533		2,565
Treasury Shares of Beneficial Interest - par value, $.03 per share; none in 2008 and 1,370 shares outstanding in 2007				(41)
Accumulated Additional Paid-In Capital		1,373,097		1,442,027
Net Income in Excess of Accumulated Dividends		35,300		42,739
Accumulated Other Comprehensive Loss		(21,210)		(15,475)
Shareholders' Equity		1,389,728		1,471,823
Total	$	5,120,657	$	4,993,343

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended September 30, 2008	2007
Cash Flows from Operating Activities:		
Net Income	$ 152,520	$ 171,425
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	120,133	100,703
Equity in earnings of real estate joint ventures and partnerships, net	(15,537)	(12,513)
Income allocated to minority interests	6,968	7,678
Gain on land and merchant development sales	(8,240)	(8,150)
Gain on sale of properties	(54,084)	(62,694)
Distributions of income from unconsolidated real estate joint ventures and partnerships	2,419	2,160
Changes in accrued rent and accounts receivable	(4,829)	(5,336)
Changes in other assets	(17,651)	(24,701)
Changes in accounts payable and accrued expenses	(28,385)	(22,199)
Other, net	4,209	590
Net cash provided by operating activities	157,523	146,963
Cash Flows from Investing Activities:		
Investment in property	(229,807)	(634,443)
Proceeds from sale and disposition of properties, net	190,388	251,417
Change in restricted deposits and mortgage escrows	21,049	66,086
Notes receivable from real estate joint ventures and partnerships and other receivables:		
Advances	(109,610)	(118,163)
Collections	25,161	74,569
Real estate joint ventures and partnerships:		
Investments	(4,036)	(72,981)
Distributions of capital	16,298	15,976
Net cash used in investing activities	(90,557)	(417,539)
Cash Flows from Financing Activities:		
Proceeds from issuance of:		
Debt	386,660	150,092
Common shares of beneficial interest	2,786	2,853
Preferred shares of beneficial interest, net	118,013	387,678
Purchase of marketable securities in connection with the legal defeasance of mortgage notes payable		(21,509)
Repurchase of preferred shares of beneficial interest, net	(195,824)	
Repurchase of common shares of beneficial interest, net		(53,359)
Principal payments of debt	(229,370)	(62,384)
Common and preferred dividends paid	(159,649)	(144,160)
Debt issuance costs paid	(958)	(839)

Other, net	(1,177)	1,016
Net cash (used in) provided by financing activities	(79,519)	259,388
Net decrease in cash and cash equivalents	(12,553)	(11,188)
Cash and cash equivalents at January 1	65,777	71,003
Cash and cash equivalents at September 30	$ 53,224	$ 59,815

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 2.8% 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 September 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 nine months ended September 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 September 30, 2008 and December 31, 2007, we had $1.0 million and $21.3 million held for like-kind exchange transactions, respectively, and $17.0 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 September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Numerator:				
Net income available to common shareholders	$ 29,053	$ 38,281	$ 124,828	$ 154,940
Income attributable to operating partnership units				3,311
Net income available to common shareholders - diluted	$ 29,053	$ 38,281	$ 124,828	$ 158,251
Denominator:				
Weighted average shares outstanding - basic	83,795	85,470	83,739	85,914
Effect of dilutive securities:				
Share options and awards	521	994	549	1,193
Operating partnership units				2,303
Weighted average shares outstanding - diluted	84,316	86,464	84,288	89,410

Options to purchase 2.0 million and .5 million common shares of beneficial interest for the three months ended September 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 of our common shares of beneficial interest for the period. Options to purchase 1.2 million and .5 million common shares of beneficial interest for the nine months ended September 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 of our common shares of beneficial interest for the period. For the three months ended September 30, 2008 and 2007, 2.4 million and 2.2 million, respectively, of operating partnership units were not included in the calculation of net income per common share – diluted because these units had an anti-dilutive effect. For the nine months ended September 30, 2008, 2.4 million of operating partnership units was not included in the calculation of net income per common share – diluted because these units had an anti-dilutive effect.

As of October 7, 2008, we sold 3.0 million common shares of beneficial interest at an average share price of $34.20. Had this transaction occurred on January 1, 2008, earnings per common share – basic and earnings per common share – diluted for the three months ended September 30, 2008 would have both decreased by $.02 and $.01, respectively, and earnings per common share – basic and earnings per common share – diluted for the nine months ended September 30, 2008 would have both decreased by $.05.

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 $.4 million and $12.9 million for the nine months ended September 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 $23.4 million and $11.3 million as of September 30, 2008 and 2007, respectively, associated with the construction of property. Cash payments for interest on debt, net of amounts capitalized, of $137.6 million and $138.0 million were made during the nine months ended September 30, 2008 and 2007, respectively. Cash payments of $4.9 million and $.05 million for income taxes were made during the nine months ended September 30, 2008 and 2007, respectively.

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

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Debt	$ -	$ 63,957
Obligations under Capital Leases	-	12,888
Minority Interest	634	27,932
Net Assets and Liabilities	8,450	13,175

In connection with the sale of improved properties, we received notes receivable totaling $3.6 million during the nine months ended September 30, 2008. Net assets and liabilities were reduced by $59.8 million during the nine months ended September 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 nine months ended September 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" which defers the provisions of SFAS 157 relating to nonfinancial assets and liabilities, and 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 October 2008, the FASB issued FASB Staff Position No. FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active," to clarify the provisions of SFAS 157 relating to valuing a financial asset when the market for that asset is not active. This FSP was effective upon issuance and has not had a material effect on our consolidated financial statements.

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 us on December 31, 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.

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 many 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 as amended by FASB Staff Position No. FAS 133-1 and FIN 45-4 (see below) on December 31, 2008. 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.

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 September 30, 2008) to be approximately $25.2 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 $7.7 million for the first nine months of 2008 and $7.9 million and $3.2 million for the years ended December 31, 2007 and 2006, respectively.

In May 2008, the FASB issued SFAS No. 162 (“SFAS 162”), “The Hierarchy of Generally Accepted Accounting Principles.” SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in presenting financial statements in conformity with generally accepted accounting principles in the United States. SFAS 162 is effective for us on November 15, 2008. We believe that the adoption of this standard on its effective date will not have a material effect on our consolidated financial statements.

In June 2008, the FASB issued FASB Staff Position No. EITF 03-6-1(“FSP EITF 03-6-1”), “Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities.” FSP EITF 03-6-1 considers unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) as participating securities. These participating securities shall be included in the computation of earnings per share pursuant to the two-class method under FASB Statement No. 128. FSP EITF 03-6-1 is effective for us on January 1, 2009. All prior-period earnings per share data presented shall be adjusted retrospectively. We are currently evaluating the impact FSP EITF 03-6-1 will have on our consolidated financial statements.

In September 2008, the FASB issued FASB Staff Position No. FAS 133-1 and FIN 45-4 (“FSP FAS 133-1”), “Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161.” FSP FAS 133-1 requires disclosures by sellers of credit derivatives; additional disclosures on current status of payment/performance risk of guarantees and clarified the effective date of SFAS 161. FSP FAS 133-1 is effective for us on December 31, 2008. We are currently evaluating the impact FSP FAS 133-1 will have on our consolidated financial statements.

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 September 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 nine months ended September 30, 2008 and 2007, these changes in fair value were offset through earnings. The derivative instruments at September 30, 2008 were reported at their fair values in other assets, net of accrued interest, of $.2 million, and we had no derivative instruments reported in other liabilities. 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 September 30, 2008 and December 31, 2007, the balance in accumulated other comprehensive loss relating to derivatives was $17.5 million and $11.8 million, respectively. Amounts amortized to interest expense were $.6 million and $.2 million during the three months ended September 30, 2008 and 2007, respectively, and $1.5 million and $.4 million during the nine months ended September 30, 2008 and 2007, respectively. Within the next 12 months, approximately $2.0 million of the balance in accumulated other comprehensive loss is expected to be amortized to interest expense.

For the three and nine months ended September 30, 2008, the interest rate swaps decreased interest expense and increased net income by $.1 million and $.5 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 $.2 million and $.5 million for the three and nine months ended September 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):

	September 30, 2008	December 31, 2007
Debt payable to 2030 at 4.5% to 8.8%	$ 2,801,902	$ 2,876,445
Unsecured notes payable under revolving credit agreements	483,000	255,000
Obligations under capital leases	29,725	29,725
Industrial revenue bonds payable to 2015 at 3.8% to 7.6%	3,700	3,889
Total	$ 3,318,327	$ 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):

	September 30, 2008	December 31, 2007
As to interest rate (including the effects of interest rate swaps):		
Fixed-rate debt	$ 2,768,894	$ 2,843,320
Variable-rate debt	549,433	321,739
Total	$ 3,318,327	$ 3,165,059
As to collateralization:		
Unsecured debt	$ 2,284,724	$ 2,095,506
Secured debt	1,033,603	1,069,553
Total	$ 3,318,327	$ 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 September 30, 2008 and December 31, 2007, the balance outstanding under the revolving credit facility was $483.0 million at a variable interest rate of 4.3% 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 no amounts were outstanding at September 30, 2008 and December 31, 2007. Letters of credit totaling $10.2 million and $9.2 million were outstanding under the revolving credit facility at September 30, 2008 and December 31, 2007, respectively. The available balance under our revolving credit agreement was $81.8 million and $310.8 million at September 30, 2008 and December 31, 2007, respectively. During the nine months ended September 30, 2008, the maximum balance and weighted average balance outstanding under both facilities combined were $503.0 million and $344.0 million, respectively, at a weighted average interest rate of 3.6%. 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 leases and properties, collateralize certain debt. At September 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 $483.0 million due under our revolving credit agreements, $21.0 million of certain capital leases, $.2 million fair value of interest rate swaps and $25.2 million of non-cash debt-related items) are due during the following years (in thousands):

2008	$ 24,487
2009	113,420
2010	128,651
2011	316,785
2012	335,198
2013	334,851
2014	374,863
2015	249,780
2016	147,123
2017	29,391
Thereafter	734,444
Total	$ 2,788,993

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 September 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

In June and July of 2008, we redeemed $120 million and $80 million of depositary shares, respectively, retiring all of the Series G Cumulative Redeemable Preferred Shares. Each depositary share represented one-hundredth of a Series G Cumulative Redeemable Preferred Share. These depositary shares were redeemed, 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. Upon the redemption of these shares, the related original issuance costs of $1.9 million were reported as a deduction in arriving at net income available to common shareholders. In September 2007, these depositary shares were issued through a private placement, and net proceeds of $193.6 million were used to repay amounts outstanding under our credit facilities. The Series G Preferred Shares paid a variable-rate quarterly dividend through July 2008 and had a liquidation preference of $2,500 per share. The variable-rate dividend was calculated on the period's three-month LIBOR rate plus a percentage determined by the number of days outstanding. At December 31, 2007, the variable-rate dividend was 5.9%.

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 above.

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 on or after July 8, 2009, 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 currently 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 September 30, 2008, the remaining value of common shares of beneficial interest available to be repurchased is $196.7 million.

Subsequent to September 30, 2008, we sold 3.0 million common shares of beneficial interest at $34.20 per share. Net proceeds from this offering were $98.2 million and were used to repay indebtedness outstanding under our revolving credit facilities and for other general corporate purposes.

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):

	September 30, 2008	December 31, 2007
Land	$ 975,927	$ 974,145
Land held for development	111,905	62,033
Land under development	169,217	223,827
Buildings and improvements	3,547,558	3,533,037
Construction in-progress	261,143	179,302
Total	$ 5,065,750	$ 4,972,344

The following carrying charges were capitalized (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Interest	$ 5,236	$ 6,665	$ 15,376	$ 19,156
Ad valorem taxes	627	638	2,032	1,578
Total	$ 5,863	$ 7,303	$ 17,408	$ 20,734

During the nine months ended September 30, 2008, we invested $139.4 million in new development projects. During 2008, we commenced three new development projects, of which two are located in Texas and one in Florida. Of these, one property is held in a 70%-owned consolidated real estate joint venture. We also disposed of eight shopping centers, one industrial property and 21 land parcels.

Note 9. Discontinued Operations

During the first nine months of 2008, one industrial center located in Texas and eight shopping centers, five of which were located in Texas, one in California and two in Louisiana, were sold. During 2007, we sold one industrial center located in Texas and 17 shopping centers, nine of which were located in Texas, three in Louisiana, two each in Colorado and Illinois, and one in Georgia. The operating results of these properties have been reclassified and reported as discontinued operations in the Condensed Statements of Consolidated Income and Comprehensive Income in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," as well as any gains on the respective dispositions for all periods presented. Revenues recorded in operating income from discontinued operations for the three months ended September 30, 2008 and 2007, totaled $.2 million and $4.9 million, respectively, and $5.3 million and $19.5 million for the nine months ended September 30, 2008 and 2007, respectively. Included in the Condensed Consolidated Balance Sheet at December 31, 2007 were $88.3 million of property and $35.4 million of accumulated depreciation related to the property sold during the nine months ended September 30, 2008.

The discontinued operations reported for the first nine months of 2008 had no debt that was required to be repaid upon their disposition.

During the first nine months of 2007, we incurred a net loss of $.4 million on the defeasance of two loans totaling $21.2 million that were required to be settled upon their disposition. These defeasance costs were recognized as interest expense and have been reclassified and reported as discontinued operations.

We elected not to allocate other consolidated interest expense to discontinued operations because the interest savings to be realized from the proceeds of the sale of these operations was not material.

Note 10. Notes Receivable from Real Estate Joint Ventures and Partnerships

We have ownership interests in a number of real estate joint ventures and partnerships. Notes receivable from these entities bear interest ranging from 4.0% to 10.0% at September 30, 2008 and 5.7% to 10.0% at December 31, 2007. These notes are due at various dates through 2028 and are generally secured by real estate assets. Interest income recognized on these notes was $1.2 million and $.8 million for the three months ended September 30, 2008 and 2007, respectively, and $2.9 million and $1.6 million for the nine months ended September 30, 2008 and 2007, respectively.

Note 11. Investment in Real Estate Joint Ventures and Partnerships

We own interests in real estate joint ventures or limited partnerships and have tenancy-in-common interests in which we exercise significant influence, but do not have financial and operating control. We account for these investments using the equity method, and our interests range from 7.8% to 75%. Combined condensed financial information of these ventures (at 100%) is summarized as follows (in thousands):

	September 30, 2008	December 31, 2007
Combined Condensed Balance Sheets		
Property	$ 1,786,708	$ 1,660,915
Accumulated depreciation	(96,985)	(71,998)
Property – net	1,689,723	1,588,917
Other assets	227,817	238,166
Total	$ 1,917,540	$ 1,827,083
Debt (primarily mortgage payables)	$ 397,129	$ 378,206
Amounts payable to Weingarten Realty Investors	170,704	87,191
Other liabilities	130,533	138,150
Accumulated equity	1,219,174	1,223,536
Total	$ 1,917,540	$ 1,827,083

	Three Months Ended September 30, 2008	2007	Nine Months Ended September 30, 2008	2007
Combined Condensed Statements of Income				
Revenues	$ 39,021	$ 39,561	$ 117,344	$ 106,047
Expenses:				
Depreciation and amortization	10,868	9,760	30,099	25,296
Interest	5,491	7,014	14,808	17,500
Operating	6,218	5,786	19,146	15,574
Ad valorem taxes	4,480	3,955	13,834	12,288
General and administrative	809	276	1,786	621
Total	27,866	26,791	79,673	71,279
Gain on land and merchant development sales	443		933	
Gain (loss) on sale of properties	(3)	(5)	35	(5)
Net income	$ 11,595	$ 12,765	$ 38,639	$ 34,763

Our investment in real estate joint ventures and partnerships, as reported on our Condensed Consolidated Balance Sheets, differs from our proportionate share of the entities' underlying net assets due to basis differentials, which arose upon the transfer of assets to the joint ventures. The basis differentials, which totaled $14.9 million and $15.8 million at September 30, 2008 and December 31, 2007, respectively, are generally amortized over the useful lives of the related assets.

Fees earned by us for the management of these real estate joint ventures and partnerships totaled, in millions, $1.4 for both the three months ended September 30, 2008 and 2007, respectively, and $4.4 and $3.5 for the nine months ended September 30, 2008 and 2007, respectively.

During the first nine months of 2008, a 25%-owned unconsolidated real estate joint venture acquired a 4,000 square foot building located in Port Charlotte, Florida. A 50%-owned unconsolidated real estate joint venture was formed for the purposes of developing an industrial building in Houston, Texas, while a 32%-owned unconsolidated real estate joint venture commenced construction of a retail property in Salt Lake City, Utah.

In July 2008, a 47.75%-owned unconsolidated real estate joint venture (“WMB”) acquired an 83.34% interest (“WMMDHB”) in a 919,000 square foot new development to be constructed in Aurora, Colorado. WMB guaranteed debt issued to WMMDHB resulting in WMMDHB being classified as a variable interest entity of WMB. WMB’s maximum exposure to loss is primarily limited to the guarantee of the debt, which was approximately $15.6 million at September 30, 2008.

In August 2008, we executed a real estate limited partnership with a foreign institutional investor to purchase up to $250 million of retail properties in various states, of which our capital commitment is $17.6 million that will be funded as properties are acquired, but no later than June 30, 2011. Our ownership in this unconsolidated real estate limited partnership is 20.1%. As of September 30, 2008, no properties have been purchased.

During the first nine months of 2007, a 25%-owned unconsolidated joint venture acquired two shopping centers. Cole Park Plaza is located in Chapel Hill, North Carolina, and Sunrise West is located in Sunrise, Florida. A 50%-owned unconsolidated joint venture was formed for the purpose of developing a retail shopping center. A 20%-owned unconsolidated joint venture acquired seven industrial properties, one each in Ashland and Chester, Virginia, two in Colonial Heights, Virginia and three in Richmond, Virginia. We invested in a 20% owned unconsolidated joint venture, which acquired three retail power centers: Pineapple Commons located in Stuart, Florida; Mansell Crossing located in Alpharetta, Georgia; and Preston Shepard Place located in Plano, Texas. We acquired a 10% interest in a retail shopping center located in San Jose, California through a tenancy-in-common arrangement.

In March 2007, three joint ventures, two of which were previously consolidated, were reorganized and our 50% interest in each of these properties is now held in a tenancy-in-common arrangement.

Note 12. Federal Income Tax Considerations

We qualify as a REIT under the provisions of the Internal Revenue Code, and therefore, no tax is imposed on us for our taxable income distributed to shareholders. To maintain our REIT status, we must distribute at least 90% of our ordinary taxable income to our shareholders and meet certain income source and investment restriction requirements. Our shareholders must report their share of income distributed in the form of dividends.

Our taxable REIT subsidiary is subject to federal, state and local income taxes. During the three months ended September 30, 2008 and 2007, we have recorded a federal income tax provision of $.02 million and $.3 million, respectively. For the nine months ended September 30, 2008 and 2007, we have recorded a federal income tax provision of $.8 million and $.5 million, respectively. Our deferred tax assets at September 30, 2008 and December 31, 2007 were $.5 million and $1.1 million, respectively, with the deferred tax liabilities totaling $1.3 million and $1.4 million, respectively. Also, an accrued tax payable of $.6 million and $2.3 million has been recorded at September 30, 2008 and December 31, 2007, respectively, in association with this tax.

We have reviewed our tax positions under FASB Interpretation No. 48 (“FIN 48”), “Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109.” FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition of a tax position taken, or expected to be taken, in a tax return. A tax position may only be recognized in the financial statements if it is more likely than not that the tax position will be sustained upon examination. We believe it is more likely than not that our tax positions will be sustained in any tax examinations.

In May 2006, the State of Texas enacted a new business tax (the “Revised Texas Franchise Tax”) that replaced its existing franchise tax. In general, legal entities that do business in Texas are subject to the Revised Texas Franchise Tax. Most REITs are subject to the Revised Texas Franchise Tax, whereas they were previously exempt. The Revised Texas Franchise Tax became effective for franchise tax reports due on or after January 1, 2008 and is based on revenues earned during the 2007 fiscal year.

Because the Revised Texas Franchise Tax is determined by applying a tax rate to a base that considers both revenues and expenses, it is considered an income tax and is accounted for in accordance with the provisions of SFAS No. 109, “Accounting for Income Taxes.”

During the three months ended September 30, 2008 and 2007, we recorded a provision for the Revised Texas Franchise Tax of $.7 million and $.6 million, respectively. For the nine months ended September 30, 2008 and 2007, we have recorded a provision for the Revised Texas Franchise Tax of $2.2 million and $1.5 million, respectively. The deferred tax assets associated with this tax each totaled $.1 million as of September 30, 2008 and December 31, 2007, and the deferred tax liability associated with this tax totaled $.2 million and $.1 million as of September 30, 2008 and December 31, 2007, respectively. Also, an accrued tax payable of $2.2 million and $2.0 million has been recorded at September 30, 2008 and December 31, 2007, respectively, in association with this tax.

Note 13. Commitments and Contingencies

We participate in six ventures, structured as DownREIT partnerships, which have properties in Arkansas, California, Georgia, North Carolina, Texas and Utah. As a general partner, we have operating and financial control over these ventures and consolidate their operations in our condensed consolidated financial statements. These ventures allow the outside limited partners to put their interest to the partnership for our common shares of beneficial interest or an equivalent amount in cash. We may acquire any limited partnership interests that are put to the partnership, and we have the option to redeem the interest in cash or a fixed number of our common shares of beneficial interest, at our discretion. We also participate in two real estate ventures that have properties in Florida and Texas that allow their outside partners to put their interest to operating partnership units to us for our common shares of beneficial interest or an equivalent amount in cash. We have the option to redeem these units in cash or a fixed number of our common shares of beneficial interest, at our discretion. During the first nine months of 2008 and 2007, we issued common shares of beneficial interest valued at $.4 million and $12.9 million, respectively, in exchange for certain of these limited partnership interests or operating partnership units. The aggregate redemption value of these operating partnership units was approximately $84 million and $76 million as of September 30, 2008 and December 31, 2007, respectively.

In April 2007, we acquired an industrial building located in Virginia. This purchase transaction includes an earnout provision of approximately $6 million that is contingent upon the lease up of vacant space by the property seller. This contingency agreement expires in 2009. We have an estimated obligation of $2.3 million and $5.6 million recorded as of September 30, 2008 and December 31, 2007. Since inception of this obligation, $3.3 million has been paid. Amounts paid or accrued under such earnouts are treated as additional purchase price and capitalized to the related property.

In January 2007, we acquired two retail properties in Arizona. This purchase transaction includes an earnout provision of approximately $29 million that is contingent upon the subsequent development of space by the property seller. This contingency agreement expires in 2010. We have an estimated obligation of $7.6 million and $4.2 million recorded as of September 30, 2008 and December 31, 2007, respectively. Since inception of this obligation, $5.2 million has been paid. Amounts paid or accrued under such earnouts are treated as additional purchase price and capitalized to the related property.

In August 2006, we acquired a portfolio of five properties, including four properties in Georgia and one in Florida. The purchase agreement allows for the subsequent development and leasing of an additional phase of Brookwood Marketplace by the property seller. If the terms of the purchase agreement are met by the seller, the purchase price would be increased by approximately $6.9 million. This agreement expired in August 2008; however, we have entered into a 180-day extension period per the terms of the purchase agreement. We have an estimated obligation of $1.3 million recorded as of September 30, 2008, and we had no obligation recorded for this contingency as of December 31, 2007. Since inception of this obligation, no amounts have been paid. Amounts paid or accrued under such earnouts are treated as additional purchase price and capitalized to the related property.

We are subject to numerous federal, state and local environmental laws, ordinances and regulations in the areas where we own or operate properties. We are not aware of any material contamination, which may have been caused by us or any of our tenants that would have a material effect on our condensed consolidated financial statements.

As part of our risk management activities, we have applied and been accepted into state-sponsored environmental programs which will limit our expenses if contaminants need to be remediated. We also have an environmental insurance policy that covers us against third party liabilities and remediation costs.

While we believe that we do not have any material exposure to environmental remediation costs, we cannot give absolute assurance that changes in the law or new discoveries of contamination will not result in increased liabilities to us.

Related to our investment in a redevelopment project in Sheridan, Colorado that is held in an unconsolidated real estate joint venture, we, our joint venture partner and the joint venture have each provided a guarantee for the payment of any annual sinking fund requirement shortfalls on bonds issued in connection with the project.&#1