

ACADIA REALTY TRUST
Form 10-Q
May 09, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013

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

For the transition period from _____ to _____

Commission File Number 1-12002

ACADIA REALTY TRUST

(Exact name of registrant in its charter)

MARYLAND

(State or other jurisdiction of
incorporation or organization)

23-2715194

(I.R.S. Employer
Identification No.)

1311 MAMARONECK AVENUE, SUITE 260, WHITE
PLAINS, NY

(Address of principal executive offices)

(914) 288-8100

(Registrant's telephone number, including area code)

10605

(Zip Code)

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

YES

NO

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

YES

NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

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

As of May 9, 2013 there were 55,075,420 common shares of beneficial interest, par value \$.001 per share, outstanding.

ACADIA REALTY TRUST AND SUBSIDIARIES

FORM 10-Q

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Part I. Financial Information

Item 1. Financial Statements.

ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(dollars in thousands)	March 31, 2013 (unaudited)	December 31, 2012
ASSETS		
Operating real estate		
Land	\$344,178	\$293,691
Building and improvements	1,157,960	953,020
Construction in progress	2,747	2,429
	1,504,885	1,249,140
Less: accumulated depreciation	223,834	187,029
Net operating real estate	1,281,051	1,062,111
Real estate under development	262,291	246,602
Notes receivable, net	105,367	129,278
Investments in and advances to unconsolidated affiliates	222,462	221,694
Cash and cash equivalents	81,831	91,813
Cash in escrow	20,317	18,934
Restricted cash	151,596	—
Rents receivable, net	32,147	27,744
Deferred charges, net	39,053	26,777
Acquired lease intangibles, net	31,839	31,975
Prepaid expenses and other assets	45,775	29,241
Accounts receivable from related parties	1,126	210
Assets of discontinued operations	21,014	22,061
Total assets	\$2,295,869	\$1,908,440
LIABILITIES		
Mortgage and other notes payable	\$1,101,391	\$727,048
Convertible notes payable	930	930
Distributions in excess of income from, and investments in, unconsolidated affiliates	12,488	22,707
Accounts payable and accrued expenses	31,074	29,309
Dividends and distributions payable	11,764	9,674
Acquired lease and other intangibles, net	16,962	14,115
Other liabilities	22,657	21,303
Liabilities of discontinued operations	11,911	13,098
Total liabilities	1,209,177	838,184
EQUITY		
Shareholders' Equity		
Common shares, \$.001 par value, authorized 100,000,000 shares; issued and outstanding 54,514,365 and 52,482,598 shares, respectively	54	52
Additional paid-in capital	635,414	581,925
Accumulated other comprehensive loss	(4,932)	(4,307)
Retained earnings	43,341	45,127
Total shareholders' equity	673,877	622,797

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Noncontrolling interests	412,815	447,459
Total equity	1,086,692	1,070,256
Total liabilities and equity	\$2,295,869	\$1,908,440
See accompanying notes		

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ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

(dollars in thousands, except per share amounts)	Three Months Ended		
	March 31, 2013	2012	
Revenues			
Rental income	\$33,055	\$21,951	
Interest income	2,869	2,055	
Expense reimbursements	7,971	5,402	
Other	3,376	505	
Total revenues	47,271	29,913	
Operating Expenses			
Property operating	5,637	4,422	
Other operating	1,512	1,035	
Real estate taxes	5,196	4,139	
General and administrative	5,626	5,925	
Depreciation and amortization	10,628	7,146	
Total operating expenses	28,599	22,667	
Operating income	18,672	7,246	
Equity in earnings (losses) of unconsolidated affiliates	2,250	(56)
Other interest income	29	54	
Interest and other finance expense	(10,309	) (6,560)
Income from continuing operations before income taxes	10,642	684	
Income tax benefit (provision)	140	(188)
Income from continuing operations	10,782	496	
Discontinued Operations			
Operating income from discontinued operations	397	2,327	
Net income	11,179	2,823	
Noncontrolling interests			
Continuing operations	(1,208	) 2,992	
Discontinued operations	(348	) (1,805)
Net (income) loss attributable to noncontrolling interests	(1,556	) 1,187	
Net income attributable to Common Shareholders	\$9,623	\$4,010	
Basic Earnings per Share			
Income from continuing operations	\$0.18	\$0.08	
Income from discontinued operations	—	0.01	
Basic earnings per share	\$0.18	\$0.09	
Diluted Earnings per Share			
Income from continuing operations	\$0.18	\$0.08	
Income from discontinued operations	—	0.01	
Diluted earnings per share	\$0.18	\$0.09	
See accompanying notes			

ACADIA REALTY TRUST AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Three Months Ended March 31,	
	2013	2012
(dollars in thousands)		
Net income	\$ 11,179	\$ 2,823
Other Comprehensive (loss) income		
Unrealized (loss) income on valuation of swap agreements	(1,092	) 57
Reclassification of realized interest on swap agreements	592	637
Other comprehensive (loss) income	(500	) 694
Comprehensive income	10,679	3,517
Comprehensive (income) loss attributable to noncontrolling interests	(1,681	) 1,087
Comprehensive income attributable to Common Shareholders	\$ 8,998	\$ 4,604
See accompanying notes		

ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012

(unaudited)

(amounts in thousands, except per share amounts)	Common Shares		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Amount						
Balance at December 31, 2012	52,482	\$52	\$581,925	\$ (4,307)	\$45,127	\$622,797	\$ 447,459	\$1,070,256
Conversion of OP Units to Common Shares by limited partners of the Operating Partnership	20	—	438	—	—	438	(438)	—
Issuance of Common Shares, net of issuance costs	1,997	2	52,816	—	—	52,818	—	52,818
Dividends declared (\$0.21 per Common Share)	—	—	—	—	(11,409)	(11,409)	(348)	(11,757)
Vesting of employee Restricted Share and LTIP awards	9	—	53	—	—	53	1,252	1,305
Common Shares issued under Employee Share Purchase Plan	1	—	19	—	—	19	—	19
Issuance of Common Shares to trustees	—	—	103	—	—	103	—	103
Exercise of Share options	8	—	143	—	—	143	—	143
Employee Restricted Shares canceled	(3)	—	(83)	—	—	(83)	—	(83)
Consolidation of previously unconsolidated investment	—	—	—	—	—	—	(33,949)	(33,949)
Noncontrolling interest distributions	—	—	—	—	—	—	(2,842)	(2,842)
	54,514	54	635,414	(4,307)	33,718	664,879	411,134	1,076,013
Comprehensive (loss) income:								
Net income	—	—	—	—	9,623	9,623	1,556	11,179
Unrealized loss on valuation of swap	—	—	—	(974)	—	(974)	(118)	(1,092)

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agreements								
Reclassification of realized interest on swap agreements	—	—	—	349	—	349	243	592
Total comprehensive (loss) income	—	—	—	(625	) 9,623	8,998	1,681	10,679
Balance at March 31, 2013	54,514	\$54	\$635,414	\$ (4,932) \$43,341	\$673,877	\$ 412,815	\$1,086,692

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ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012 (continued)

(unaudited)

(amounts in thousands, except per share amounts)	Common Shares	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity	Noncontrolling Interests	Total Equity	
Balance at December 31, 2011	42,586	\$43	\$348,667	\$ (3,913)	\$39,317	\$ 384,114	\$ 385,195	\$769,309
Conversion of OP Units to Common Shares by limited partners of the Operating Partnership	161	—	2,534	—	—	2,534	(2,534)	—
Issuance of Common Shares, net of issuance costs	808	1	17,760	—	—	17,761	—	17,761
Issuance of OP Units to acquire real estate	—	—	—	—	—	—	2,279	2,279
Dividends declared (\$0.18 per Common Share)	—	—	—	—	(7,808)	(7,808)	(287)	(8,095)
Vesting of employee Restricted Share and LTIP awards	22	—	40	—	—	40	846	886
Common Shares issued under Employee Share Purchase Plan	1	—	20	—	—	20	—	20
Issuance of LTIP Unit awards to employees	—	—	—	—	—	—	2,577	2,577
Issuance of Common Shares to trustees	—	—	84	—	—	84	—	84
Exercise of Share options	1	—	23	—	—	23	—	23
Employee Restricted Shares cancelled	(7)	—	(150)	—	—	(150)	—	(150)
Noncontrolling interest distributions	—	—	—	—	—	—	(3,450)	(3,450)
Noncontrolling interest contributions	—	—	—	—	—	—	38,578	38,578
	43,572	44	368,978	(3,913)	31,509	396,618	423,204	819,822
Comprehensive income (loss):								
Net income (loss)	—	—	—	—	4,010	4,010	(1,187)	2,823
Unrealized loss on valuation of swap	—	—	—	124	—	124	(67)	57

agreements								
Reclassification of realized interest on swap agreements	—	—	—	470	—	470	167	637
Total comprehensive income (loss)	—	—	—	594	4,010	4,604	(1,087	) 3,517
Balance at March 31, 2012	43,572	\$44	\$368,978	\$ (3,319	) \$35,519	\$ 401,222	\$ 422,117	\$823,339

See accompanying notes

ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Three Months Ended March 31,	
(dollars in thousands)	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$11,179	\$2,823
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	10,628	9,141
Amortization of financing costs	734	683
Share compensation expense	1,411	970
Equity in (earnings) losses of unconsolidated affiliates	(2,250	) 56
Distributions of operating income from unconsolidated affiliates	1,208	128
Other, net	(1,476	) 358
Changes in assets and liabilities		
Cash in escrow	(274	) 2,268
Rents receivable, net	(878	) 168
Prepaid expenses and other assets	(15,029	) (3,824
Accounts receivable from related parties	8	406
Accounts payable and accrued expenses	(739	) (2,365
Other liabilities	(289	) 1,059
Net cash provided by operating activities	4,233	11,871
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of real estate	(86,600	) (48,689
Redevelopment and property improvement costs	(17,941	) (20,081
Deferred leasing costs	(2,220	) (1,035
Investments in and advances to unconsolidated affiliates	(2	) (1,690
Return of capital from unconsolidated affiliates	482	1,255
Consolidation of previously unconsolidated investment	1,864	—
Proceeds from notes receivable	5,529	3
Issuance of notes receivable	—	(17,080
Net cash used in investing activities	(98,888	) (87,317

ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(unaudited)

(dollars in thousands)	Three Months Ended	
	March 31, 2013	2012
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on mortgage notes	(47,136	) (3,513
Proceeds received from mortgage notes	254,000	4,250
Loan proceeds held as restricted cash	(151,596) —
Increase in deferred financing and other costs	(9,998	) (570
Capital contributions from noncontrolling interests	—	38,578
Distributions to noncontrolling interests	(3,098	) (3,697
Dividends paid to Common Shareholders	(9,417	) (7,666
Proceeds from issuance of Common Shares, net of issuance costs of \$843 and \$126, respectively	51,840	8,029
Other employee and trustee stock compensation, net	78	(107
Net cash provided by financing activities	84,673	35,304
(Decrease) in cash and cash equivalents	(9,982	) (40,142
Cash and cash equivalents, beginning of period	91,813	89,812
Cash and cash equivalents, end of period	\$81,831	\$49,670
Supplemental disclosure of cash flow information		
Cash paid during the period for interest, net of capitalized interest of \$1,664 and \$1,433, respectively	\$5,858	\$7,700
Cash paid for income taxes	\$12	\$70
Supplemental disclosure of non-cash investing activities:		
Acquisition of real estate through assumption of debt	\$—	\$23,062
Acquisition of real estate through issuance of OP Units	\$—	\$2,279
Acquisition of real estate through conversion of notes receivable	\$18,500	\$—
Consolidation of previously unconsolidated investment		
Real estate, net	\$(118,484) \$—
Mortgage notes payable	166,200	—
Distributions in excess of income from, and investments in, unconsolidated affiliates	(10,298) —
Other assets and liabilities	(1,605) —
Noncontrolling interest	(33,949) —
Cash included in consolidation of previously unconsolidated investment	\$1,864	\$—

See accompanying notes

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

Business and Organization

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

All of the Company's assets are held by, and all of its operations are conducted through, Acadia Realty Limited Partnership (the "Operating Partnership") and entities in which the Operating Partnership owns an interest. As of March 31, 2013, the Trust controlled approximately 99% of the Operating Partnership as the sole general partner. As the general partner, the Trust is entitled to share, in proportion to its percentage interest, in the cash distributions and profits and losses of the Operating Partnership. The limited partners primarily represent entities or individuals that contributed their interests in certain properties or entities to the Operating Partnership in exchange for common or preferred units of limited partnership interest ("Common OP Units" or "Preferred OP Units") and employees who have been awarded restricted OP units ("LTIP Units") as long-term incentive compensation (Note 13). Limited partners holding Common OP Units are generally entitled to exchange their units on a one-for-one basis for common shares of beneficial interest of the Trust ("Common Shares").

As of March 31, 2013, the Company has ownership interests in 73 properties within its core portfolio, which consist of those properties either 100% owned, or partially owned through joint venture interests, by the Operating Partnership, or subsidiaries thereof, not including those properties owned through its opportunity funds ("Core Portfolio"). The Company also has ownership interests in 31 properties within four of its opportunity funds, Acadia Strategic Opportunity Fund, L.P. ("Fund I"), Acadia Strategic Opportunity Fund II, LLC ("Fund II"), Acadia Strategic Opportunity Fund III LLC ("Fund III") and Acadia Strategic Opportunity Fund IV LLC ("Fund IV" and together with Funds I, II and III, the "Opportunity Funds"). The 104 Core Portfolio and Opportunity Fund properties consist of commercial properties, which are primarily high-quality urban and/or street retail properties, community shopping centers and mixed-use properties with a retail component. The Opportunity Funds also include investments in operating companies through Acadia Mervyn Investors I, LLC ("Mervyns I"), Acadia Mervyn Investors II, LLC ("Mervyns II") and Fund II, all on a non-recourse basis. These investments comprise and are referred to as the Company's Retailer Controlled Property Initiative ("RCP Venture").

The Operating Partnership is the sole general partner or managing member of the Opportunity Funds and Mervyns I and II and earns fees or priority distributions for asset management, property management, construction, redevelopment, leasing and legal services. Cash flows from the Opportunity Funds and RCP Venture are distributed pro-rata to their respective partners and members (including the Operating Partnership) until each receives a certain cumulative return ("Preferred Return"), and the return of all capital contributions. Thereafter, remaining cash flow is distributed 20% to the Operating Partnership ("Promote") and 80% to the partners or members (including the Operating Partnership).

Following is a table summarizing the general terms and Operating Partnership's equity interests in the Opportunity Funds and Mervyns I and II:

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Entity	Formation Date	Operating Partnership Share of Capital	Committed Capital (2)	Capital Called as of March 31, 2013 (2)	Equity Interest Held By Operating Partnership	Preferred Return	Capital Returned as of March 31, 2013 (2)
Fund I and Mervyns I (1)	9/2001	22.22	% \$90.0	\$86.6	37.78	% 9	% \$86.6
Fund II and Mervyns II	6/2004	20.00	% 300.0	300.0	20.00	% 8	% 84.5
Fund III	5/2007	19.90	% 475.0	341.0	19.90	% 6	% 166.5
Fund IV	5/2012	23.12	% 540.6	64.6	23.12	% 6	% —

Notes:

(1) Fund I and Mervyns I have returned all capital and preferred return. The Operating Partnership is now entitled to a Promote on all future cash distributions.

(2) Represents the total for the Opportunity Funds, including the Operating Partnership and noncontrolling interests' shares.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION (continued)

Basis of Presentation

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

The Company owns a 22.22% interest in an approximately one million square foot retail portfolio (the "Brandywine Portfolio") located in Wilmington, Delaware. Effective January 1, 2013, following certain changes in the financial and operating controls of the joint venture, the Company now accounts for this investment on a consolidated basis.

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

Actual results could differ from these estimates. Operating results for the three months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2013. The information furnished in the accompanying consolidated financial statements reflects all adjustments that, in the opinion of management, are necessary for a fair presentation of the aforementioned consolidated financial statements for the interim period. These consolidated financial statements should be read in conjunction with the Company's 2012 Annual Report on Form 10-K, as filed with the SEC on February 27, 2013.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 presentation.

Real Estate

The Company reviews its long-lived assets for impairment when there is an event or change in circumstances that indicates that the carrying amount may not be recoverable. The Company records impairment losses and reduces the carrying value of properties when indicators of impairment are present and the expected undiscounted cash flows related to those properties are less than their carrying amounts. In cases where the Company does not expect to recover its carrying costs on properties held for use, the Company reduces its carrying cost to fair value, and for properties held-for-sale, the Company reduces its carrying value to the fair value less costs to dispose. Management does not believe that the values of any of the Company's properties are impaired as of March 31, 2013.

Recent Accounting Pronouncements

During February 2013, the FASB issued Accounting Standards Update ("ASU") No. 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." ASU 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. ASU 2013-02 is effective prospectively for reporting periods beginning after December 15, 2012. The Company adopted ASU 2013-02 as of January 1, 2013 and the adoption did not have a material impact on the Company's financial condition or results of operations.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

2. EARNINGS PER COMMON SHARE

Basic earnings per Common Share is computed by dividing net income attributable to Common Shareholders by the weighted average Common Shares outstanding. At March 31, 2013, the Company has unvested LTIP Units (Note 13) which provide for non-forfeitable rights to dividend equivalent payments. Accordingly, these unvested LTIP Units are considered participating securities and are included in the computation of basic earnings per Common Share pursuant to the two-class method.

Diluted earnings per Common Share reflects the potential dilution of the conversion of obligations and the assumed exercises of securities including the effects of restricted share unit ("Restricted Share Units") and share option awards issued under the Company's Share Incentive Plans (Note 13). The effect of the assumed conversion of 188 Series A Preferred OP Units into 25,067 Common Shares would be anti-dilutive and are therefore not included in the computation of diluted earnings per share for the three months ended March 31, 2013 and 2012.

The effect of the conversion of Common OP Units is not reflected in the computation of basic and diluted earnings per share, as they are exchangeable for Common Shares on a one-for-one basis. The income allocable to such units is allocated on this same basis and reflected as noncontrolling interests in the accompanying consolidated financial statements. As such, the assumed conversion of these units would have no net impact on the determination of diluted earnings per share. The conversion of the convertible notes payable (Note 9) is not included in the computation of basic and diluted earnings per share as such conversion, based on the current market price of the Common Shares, would be settled with cash.

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

	Three Months Ended March 31,	
	2013	2012
(dollars in thousands, except per share amounts)		
Numerator		
Income from continuing operations	\$9,574	\$3,488
Less: net income attributable to participating securities	172	73
Income from continuing operations net of income attributable to participating securities	9,402	3,415
Numerator for diluted earnings per Common Share	\$9,402	\$3,415
Denominator		
Weighted average shares for basic earnings per share	53,414	42,736
Effect of dilutive securities:		
Employee Restricted Share Units and share options	437	410
Dilutive potential Common Shares	437	410
Denominator for diluted earnings per share	53,851	43,146
Basic earnings per Common Share from continuing operations attributable to Common Shareholders	\$0.18	\$0.08
Diluted earnings per Common Share from continuing operations attributable to Common Shareholders	\$0.18	\$0.08

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

3. SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS

During the first quarter 2013, the Company issued 2.0 million Common Shares under its at-the-market ("ATM") program generating gross proceeds of \$53.7 million and net proceeds of \$52.9 million. Subsequent to March 31, 2013, the Company completed this ATM program with an aggregate offering amount of \$125.0 million of gross proceeds from the sale of Common Shares. Under this program, the Company issued a total of 4.9 million Common Shares which generated net proceeds of \$123.1 million. In addition, the Company established a new ATM equity program with an additional aggregate offering amount of up to \$150.0 million of gross proceeds from the sale of Common Shares. The net proceeds from these ATM equity programs have been, and will be, used by the Company primarily to fund acquisitions directly in the Core Portfolio and through its capital contributions to the Opportunity Funds.

Noncontrolling interests represent the portion of equity in entities consolidated in the accompanying financial statements that the Company does not own. Such noncontrolling interests are reported on the Consolidated Balance Sheets within equity, separately from shareholders' equity and include third party interests in the Company's Opportunity Funds and other entities. It also includes interests in the Operating Partnership which represent (i) the limited partners' 284,097 Common OP Units at March 31, 2013 and December 31, 2012; (ii) 188 Series A Preferred OP Units at March 31, 2013 and December 31, 2012; and (iii) 379,522 and 168,357 LTIP Units at March 31, 2013 and December 31, 2012, respectively.

4. ACQUISITION OF REAL ESTATE AND DISCONTINUED OPERATIONS

Acquisitions

2013 Core Portfolio Acquisitions

During March 2013, the Company acquired 664 North Michigan Avenue, an 18,141 square foot retail condominium in Chicago, Illinois for \$86.6 million.

2013 Fund III Acquisitions

Fund III had previously acquired a \$23.0 million maturing note receivable at a discounted price of \$18.5 million during April 2012. The note receivable was collateralized by a 79,526 square foot shopping center located in Brooklyn, New York ("Nostrand Place"). The Company commenced foreclosure proceedings, but ultimately agreed to a settlement with the unaffiliated borrower. Pursuant to the settlement, in February 2013, Fund III and the borrower formed a joint venture whereby Fund III contributed its interest in the note for a 99% controlling interest in the joint venture, and the borrower contributed the deed to Nostrand Place in exchange for a 1% interest in the joint venture.

Purchase Price Allocation

The above 2013 Core Portfolio and Fund III acquisitions have been accounted for as business combinations. The purchase prices were allocated to the acquired assets and liabilities based on the estimated fair value of the acquired assets at the dates of acquisition. The preliminary measurements at fair value reflected below are subject to change. The Company expects to finalize the valuations and complete the purchase price allocations within one year from the dates of acquisition.

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The following table summarizes the Company's preliminary allocations of the purchase prices of assets acquired and liabilities assumed during 2013:

(dollars in thousands)	Preliminary Purchase Price Allocations (1)
Land	\$22,182
Buildings and improvements	83,865
Total consideration	\$106,047

Note:

(1) Represents preliminary allocations for 2013 acquisitions where purchase price allocations have not been finalized.

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ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

Acquisitions (continued)

During 2012, the Company acquired properties and recorded the preliminary allocations of the purchase prices to the assets acquired based on provisional measurements of fair value. During 2013, the Company finalized the allocations of the purchase prices and made certain measurement period adjustments.

The following table summarizes the preliminary allocations of the purchase prices of these properties as recorded as of December 31, 2012, and the finalized allocations of the purchase prices as adjusted as of March 31, 2013:

(dollars in thousands)	Finalized Purchase Price Allocations	Preliminary Purchase Price Allocations
Land	\$4,933	\$5,175
Buildings and improvements	14,587	15,525
Acquisition-related intangible assets (in Acquired lease intangibles, net)	1,180	—
Total consideration	\$20,700	\$20,700

Discontinued Operations

The Company reports properties held-for-sale and properties sold during the periods as discontinued operations. The results of operations of discontinued operations are reflected as a separate component within the accompanying Consolidated Statements of Income for all periods presented. As of March 31, 2013, two of the properties within the Opportunity Funds were under contract for sale.

The combined assets and liabilities as of March 31, 2013 and December 31, 2012, and the results of operations of the properties classified as discontinued operations for the three months ended March 31, 2013 and March 31, 2012, respectively, are summarized as follows:

BALANCE SHEET

ASSETS	March 31, 2013	December 31, 2012
(dollars in thousands)		
Net real estate	\$19,468	\$19,400
Rents receivable, net	875	917
Deferred charges, net	360	612
Prepaid expenses and other assets	311	1,132
Total assets of discontinued operations	\$21,014	\$22,061
LIABILITIES		
Mortgage notes payable	\$9,178	\$9,208
Accounts payable and accrued expenses	2,124	3,125
Other liabilities	609	765
Total liabilities of discontinued operations	\$11,911	\$13,098

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

Discontinued Operations (continued)

STATEMENTS OF OPERATIONS (dollars in thousands)	Three Months Ended	
	March 31, 2013	2012
Total revenues	\$1,170	\$9,713
Total expenses	773	7,386
Income from discontinued operations	397	2,327
Income from discontinued operations attributable to noncontrolling interests	(348)	(1,805)
Income from discontinued operations attributable to Common Shareholders	\$49	\$522

5. INVESTMENTS IN AND ADVANCES TO UNCONSOLIDATED AFFILIATES

Core Portfolio

The Company owns a 49% interest in a 311,000 square foot shopping center located in White Plains, New York ("Crossroads"), a 50% interest in an approximately 28,000 square foot retail portfolio located in Georgetown, Washington D.C. (the "Georgetown Portfolio") and a 22.22% interest in an approximately 20,000 square foot retail property located in Wilmington, Delaware ("Route 202 Shopping Center"). These investments are accounted for under the equity method.

Opportunity Funds

RCP Venture

The Opportunity Funds, together with two unaffiliated partners formed an investment group, the RCP Venture, for the purpose of making investments in surplus or underutilized properties owned by retailers and, in some instances, the retailers' operating company. The RCP Venture is neither a single entity nor a specific investment and the Company has no control or rights with respect to the formation and operation of these investments. The Company has made these investments through its subsidiaries, Mervyns I, Mervyns II and Fund II, (together the "Acadia Investors"), all on a non-recourse basis. Through March 31, 2013, the Acadia Investors have made investments in Mervyns Department Stores ("Mervyns") and Albertsons including additional investments in locations that are separate from these original investments ("Add-On Investments"). Additionally, they have invested in Shopko, Marsh and Rex Stores Corporation (collectively "Other RCP Investments"). The Company accounts for its investments in Mervyns and Albertsons on the equity method as it has the ability to exercise significant influence, but does not have any rights with respect to financial or operating control. The Company accounts for its investments in its Add-On Investments and Other RCP Investments on the cost method as it does not have any influence over such entities' operating and financial policies nor any rights with respect to the control and operation of these entities.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

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

The following table summarizes activity related to the RCP Venture investments from inception through March 31, 2013:

(dollars in thousands)

Investment	Year Acquired	Invested Capital and Advances	Distributions	Operating Partnership Share	
				Invested Capital and Advances	Distributions
Mervyns	2004	\$26,058	\$45,966	\$4,901	\$11,251
Mervyns Add-On investments	2005/2008	7,547	3,558	1,252	819
Albertsons	2006	20,717	81,594	4,239	16,318
Albertsons Add-On investments	2006/2007	2,416			