ACADIA REALTY TRUST
Form 10-Q
May 01, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015

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

For the transition period from _______ to _______

Commission File Number 1-12002

ACADIA REALTY TRUST

(Exact name of registrant in its charter)

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

(914) 288-8100
(Registrant’s telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES x	NO o

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

YES x	NO o

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

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

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act) Yes o No x
As of May 1, 2015 there were 68,785,193 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, 2015	December 31, 2014
ASSETS	(unaudited)	
Operating real estate		
Land	$498,321	$424,661
Buildings and improvements	1,510,444	1,329,080
Construction in progress	10,861	7,464
	2,019,626	1,761,205
Less: accumulated depreciation	270,372	256,015
Net operating real estate	1,749,254	1,505,190
Real estate under development	484,676	447,390
Notes receivable and preferred equity investments, net	98,560	102,286
Investments in and advances to unconsolidated affiliates	184,500	184,352
Cash and cash equivalents	119,555	217,580
Cash in escrow	59,508	20,358
Restricted cash	5,401	30,604
Rents receivable, net	38,380	36,962
Deferred charges, net	32,042	30,679
Acquired lease intangibles, net	45,660	44,618
Prepaid expenses and other assets	53,330	56,508
Assets of properties held for sale	—	56,073
Total assets	$2,870,866	$2,732,600
LIABILITIES		
Mortgage and other notes payable	$1,304,739	$1,130,481
Distributions in excess of income from, and investments in, unconsolidated affiliates	12,361	12,564
Accounts payable and accrued expenses	36,454	34,026
Dividends and distributions payable	17,675	39,339
Acquired lease intangibles, net	30,713	29,585
Other liabilities	27,196	25,148
Liabilities of properties held for sale	—	25,500
Total liabilities	1,429,138	1,296,643
EQUITY		
Shareholders' Equity		
Common shares, $.001 par value, authorized 100,000,000 shares; issued and outstanding 68,731,681 and 68,109,287 shares, respectively	69	68
Additional paid-in capital	1,048,457	1,027,861
Accumulated other comprehensive loss	(6,848)	(4,005)
Retained earnings	31,678	31,617
Total shareholders' equity	1,073,356	1,055,541
Noncontrolling interests	368,372	380,416
Total equity	1,441,728	1,435,957
Total liabilities and equity	$2,870,866	$2,732,600

See accompanying notes

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ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

	Three Months Ended March 31,	
(dollars in thousands, except per share amounts)	2015	2014
Revenues		
Rental income	$38,187	$33,818
Interest income	3,408	3,164
Expense reimbursements	10,066	8,790
Other	820	913
Total revenues	52,481	46,685
Operating Expenses		
Property operating	7,731	7,124
Other operating	2,120	687
Real estate taxes	6,292	5,670
General and administrative	7,532	6,896
Depreciation and amortization	13,658	11,587
Total operating expenses	37,333	31,964
Operating income	15,148	14,721
Equity in earnings of unconsolidated affiliates	6,593	3,029
Loss on debt extinguishment	(109)	(203)
Gain on disposition of property	27,143	12,387
Interest and other finance expense	(8,821)	(10,651)
Income from continuing operations before income tax provision	39,954	19,283
Income tax provision	(1,417)	(168)
Net income	38,537	19,115
Net (income) loss attributable to noncontrolling interests	(21,990)	2,480
Net income attributable to Common Shareholders	$16,547	$21,595
Basic and diluted earnings per share	$0.24	$0.38

See accompanying notes

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ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Three Months Ended March 31,	
	2015	2014
(dollars in thousands)		
Net income	$38,537	$19,115
Other comprehensive (loss) income		
Unrealized (loss) on valuation of swap agreements	(4,319)	(2,329)
Reclassification of realized interest on swap agreements	1,053	837
Other comprehensive (loss)	(3,266)	(1,492)
Comprehensive income	35,271	17,623
Comprehensive (income) loss attributable to noncontrolling interests	(21,567)	2,433
Comprehensive income attributable to Common Shareholders	$13,704	$20,056

See accompanying notes

ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2015

(unaudited)

(amounts in thousands, except per share amounts)	Common Shares Shares	Common Shares Amount	Additional Paid-In Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2014	68,109	$68	$1,027,861	$(4,005)	$31,617	$1,055,541	$380,416	$1,435,957
Conversion of OP Units to Common Shares by limited partners of the Operating Partnership	44	—	1,094	—	—	1,094	(1,094)	—
Issuance of Common Shares, net of issuance costs	571	1	19,332	—	—	19,333	—	19,333
Dividends declared ($0.24 per Common Share)	—	—	—	—	(16,486)	(16,486)	(1,186)	(17,672)
Employee and trustee stock compensation, net	8	—	170	—	—	170	1,708	1,878
Noncontrolling interest distributions	—	—	—	—	—	—	(33,089)	(33,089)
Noncontrolling interest contributions	—	—	—	—	—	—	50	50
	68,732	69	1,048,457	(4,005)	15,131	1,059,652	346,805	1,406,457
Comprehensive (loss) income:								
Net income	—	—	—	—	16,547	16,547	21,990	38,537
Unrealized loss on valuation of swap agreements	—	—	—	(3,536)	—	(3,536)	(783)	(4,319)
Reclassification of realized interest on swap agreements	—	—	—	693	—	693	360	1,053
Total comprehensive (loss) income	—	—	—	(2,843)	16,547	13,704	21,567	35,271
Balance at March 31, 2015	68,732	$69	$1,048,457	$(6,848)	$31,678	$1,073,356	$368,372	$1,441,728

See accompanying notes

ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Three Months Ended March 31,	
(dollars in thousands)	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$38,537	$19,115
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	13,658	11,587
Amortization of financing costs	768	688
Gain on disposition of property	(27,143)	(12,387)
Share compensation expense	1,889	2,087
Equity in earnings of unconsolidated affiliates	(6,593)	(3,029)
Distributions of operating income from unconsolidated affiliates	5,889	2,562
Other, net	(1,346)	(648)
Changes in assets and liabilities		
Cash in escrow	(6,232)	(141)
Rents receivable, net	(1,354)	(486)
Prepaid expenses and other assets	8,015	(23)
Accounts payable and accrued expenses	2,437	2,507
Other liabilities	(1,908)	345
Net cash provided by operating activities	26,617	22,177
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of real estate	(220,271)	(90,500)
Cash in escrow for property acquisitions	(33,000)	—
Redevelopment and property improvement costs	(40,494)	(37,505)
Deferred leasing costs	(2,805)	(369)
Investments in and advances to unconsolidated affiliates	(3,151)	(21,568)
Return of capital from unconsolidated affiliates	1,946	22,491
Proceeds from notes receivable	—	7,156
Issuance of notes receivable	(550)	—
Proceeds from sale of properties, net	63,224	—
Net cash used in investing activities	(235,101)	(120,295)

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

(unaudited)

	Three Months Ended March 31,	
(dollars in thousands)	2015	2014
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on mortgage and other notes	(30,390)	(38,972)
Proceeds received from mortgage and other notes	169,720	130,700
Loan proceeds held as restricted cash	25,203	15,058
Deferred financing and other costs	(1,232)	(921)
Capital contributions from noncontrolling interests	50	8,712
Distributions to noncontrolling interests	(34,718)	(33,577)
Dividends paid to Common Shareholders	(36,779)	(12,798)
Proceeds from issuance of Common Shares, net of issuance costs of $440 and $429, respectively	18,605	23,519
Net cash provided by financing activities	110,459	91,721
Decrease in cash and cash equivalents	(98,025)	(6,397)
Cash and cash equivalents, beginning of period	217,580	79,189
Cash and cash equivalents, end of period	$119,555	$72,792
Supplemental disclosure of cash flow information		
Cash paid during the period for interest, net of capitalized interest of $3,673 and $2,892, respectively	$13,344	$12,173
Cash paid for income taxes	$902	$281
Supplemental disclosure of non-cash investing activities		
Acquisition of real estate through assumption of debt	$9,765	$—
Disposition of real estate through cancellation of debt	$—	$(22,865)

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 located primarily in high-barrier-to-entry, supply-constrained, densely-populated metropolitan areas in the United States.

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, 2015, the Trust controlled approximately 95% 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 12). 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, 2015, the Company has ownership interests in 89 properties within its core portfolio, which consist of those properties either wholly owned, or partially owned through joint venture interests, by the Operating Partnership, or subsidiaries thereof, not including those properties owned through its opportunity funds (the "Core Portfolio"). The Company also has ownership interests in 56 properties within its four 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 "Funds"). The 145 Core Portfolio and 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. Fund I and Fund II also include investments in operating companies through Acadia Mervyn Investors I, LLC ("Mervyns I"), Acadia Mervyn Investors II, LLC ("Mervyns II") and, in certain instances, directly through 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 Funds, Mervyns I and Mervyns II and earns fees or priority distributions for asset management, property management, construction, redevelopment, leasing and legal services. Cash from the Funds and RCP Venture is distributed pro-rata to the 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 the Operating Partnership's equity interests in the Funds and Mervyns I and II:

Entity

	Formation Date	Operating Partnership Share of Capital		Committed Capital (2)	Capital Called as of March 31, 2015 (3)	Equity Interest Held By Operating Partnership		Preferred Return		Total Distributions as of March 31, 2015 (3)
Fund I and Mervyns I (1)	9/2001	22.22	%	$90.0	$86.6	37.78	%	9	%	$192.3
Fund II and Mervyns II (2)	6/2004	20.00	%	300.0	300.0	20.00	%	8	%	131.6
Fund III	5/2007	19.90	%	475.0	381.6	19.90	%	6	%	403.1
Fund IV	5/2012	23.12	%	540.6	140.2	23.12	%	6	%	101.9

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION (continued)

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) During 2013, a distribution of $47.1 million was made to the Fund II investors, including the Operating Partnership. This amount is subject to recontribution to Fund II until December 2016, if needed to fund the on-going development and construction of existing projects.
(3) Represents the total for the Funds, including the Operating Partnership and noncontrolling interests' shares.

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 of Unconsolidated Affiliates. Investments in entities for which the Company does not have the ability to exercise any influence are accounted for under the cost method.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates. Operating results for the three months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2015. The information furnished in the accompanying consolidated financial statements reflects all adjustments that, in the opinion of management, are necessary for a fair presentation of the aforementioned consolidated financial statements for the interim periods. Such adjustments consisted of normal recurring items. These consolidated financial statements should be read in conjunction with the Company's 2014 Annual Report on Form 10-K, as filed with the SEC on February 20, 2015.

Reclassifications

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 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 measures and 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 carrying values of any of its properties are impaired as of March 31, 2015.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION (continued)

Recent Accounting Pronouncements

During April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-03, "Interest - Imputation of Interest - Simplifying the Presentation of Debt Issuance Costs." ASU 2015-03 modifies the treatment of debt issuance costs from a deferred charge to a deduction of the carrying value of the financial liability. ASU 2015-03 is effective for periods beginning after December 15, 2015, with early adoption permitted and retrospective application. ASU 2015-03 is not expected to have a material impact on the Company's consolidated financial statements.

During February 2015, the FASB issued ASU No. 2015-02, "Consolidation - Amendments to the Consolidation Analysis." ASU 2015-02 (i) modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIE's"), (ii) eliminates the presumption that a general partner should consolidate a limited partnership and (iii) affects the consolidation analysis of reporting entities that are involved with VIE's, particularly those with fee arrangements and related party relationships. ASU 2015-02 is effective for periods beginning after December 15, 2015, with early adoption permitted. The Company is in the process of evaluating the impact the adoption of ASU 2015-02 will have on the consolidated financial statements.

During January 2015, the FASB issued ASU No. 2015-01, "Income Statement - Extraordinary and Unusual Items." ASU 2015-01 eliminates the concept of extraordinary items. However, the presentation and disclosure requirements for items that are either unusual in nature or infrequent in occurrence remain and will be expanded to include items that are both unusual in nature and infrequent in occurrence. ASU 2015-01 is effective for periods beginning after December 15, 2015. ASU 2015-01 is not expected to have a material impact on the Company's consolidated financial statements.

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, 2015, the Company has unvested LTIP Units (Note 12) 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 12). The effect of the assumed conversion of 188 Series A Preferred OP Units into 25,067 Common Shares would be dilutive and therefore are included in the computation of diluted earnings per share for the three months ended March 31, 2015 and 2014.

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

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ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

2. EARNINGS PER COMMON SHARE (continued)

(dollars in thousands, except per share amounts)	Three Months Ended March 31, 2015	2014
Numerator		
Income from continuing operations	$16,547	$21,595
Less: net income attributable to participating securities	(240)	(392)
Income from continuing operations, net of income attributable to participating securities	16,307	21,203
Denominator		
Weighted average shares for basic earnings per share	68,295	55,953
Effect of dilutive securities:		
Employee Restricted Share Units and share options	40	40
Convertible Preferred OP Units	25	25
Denominator for diluted earnings per share	68,360	56,018
Diluted earnings per Common Share from continuing operations attributable to Common Shareholders	$0.24	$0.38

3. SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS

For the three months ended March 31, 2015, the Company issued 0.6 million Common Shares under its at-the-market ("ATM") equity program, generating gross proceeds of $19.8 million and net proceeds of $19.5 million.

The net proceeds from the Company's ATM equity programs have been, and are anticipated to be, used by the Company primarily to fund Core Portfolio acquisitions, its capital contributions to the Funds and for general corporate purposes.

Noncontrolling interests represent the portion of equity in entities consolidated in the accompanying consolidated 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 Funds and other entities. It also includes interests in the Operating Partnership which represent (i) the limited partners' 2,975,277 and 2,988,277 Common OP Units at March 31, 2015 and December 31, 2014; (ii) 188 Series A Preferred OP Units at March 31, 2015 and December 31, 2014; and (iii) 937,651 and 675,367 LTIP Units at March 31, 2015 and December 31, 2014, respectively.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

4. ACQUISITION AND DISPOSITION OF REAL ESTATE AND PROPERTIES HELD FOR SALE

Acquisitions

During 2015, the Company acquired the following properties through its Core Portfolio and Fund IV as follows:

(dollars in thousands)

Property	GLA	Percent Owned	Type	Month of Acquisition	Purchase Price	Location	Assumption of Debt
Core Portfolio:							
City Center	205,000	100 %	Urban Retail Center	March	$155,000	San Fransisco, CA	$—
163 Highland Avenue	40,500	100 %	Suburban Shopping Center	March	24,000	Needham, MA	9,765
Total Core Portfolio	245,500				$179,000		$9,765
Fund IV:							
1035 Third Avenue (1)	53,294	100 %	Street Retail	January	$51,036	New York, NY	$—
Total Fund IV	53,294				$51,036		$—
Total	298,794				$230,036		$9,765

Note:

(1) GLA includes a portion of office space and a below-grade operator controlled parking garage.

The Company expensed $0.6 million of acquisition costs for the three months ended March 31, 2015, related to the Core Portfolio and $1.6 million of acquisition costs for the three months ended March 31, 2015, related to Fund IV.

Purchase Price Allocations

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

The following table summarizes the Company's preliminary allocations of the purchase prices of assets acquired and liabilities assumed during 2015 which have yet to be finalized:

(dollars in thousands)	Preliminary Purchase Price Allocations
Land	$57,509
Buildings and improvements	172,527

Above-below market debt assumed (included in Mortgage and other notes payable)	(9,765)
Total consideration	$220,271

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ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

4. ACQUISITION AND DISPOSITION OF REAL ESTATE AND PROPERTIES HELD FOR SALE(continued)

Acquisitions (continued)

During 2014, the Company acquired properties and recorded the preliminary allocations of the purchase prices to the assets acquired and liabilities assumed based on provisional measurements of fair value. During 2015, 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, 2014, and the finalized allocations as adjusted as of March 31, 2015:

(dollars in thousands)	Purchase Price Allocations as Originally Reported	Adjustments	Finalized Purchase Price Allocations
Land	$22,625	$10,765	$33,390
Buildings and improvements	67,875	(12,626)	55,249
Acquisition-related intangible assets (in Acquired lease intangibles, net)	—	4,705	4,705
Acquisition-related intangible liabilities (in Acquired lease intangibles, net)	—	(2,844)	(2,844)
Total consideration	$90,500	$—	$90,500

Dispositions

During 2015, the Company disposed of the following property:

(dollars in thousands)

Dispositions	GLA	Sale Price	Gain on Sale	Month Sold	Owner
Lincoln Park Centre	61,761	$64,000	$27,143	January	Fund III

Properties Held For Sale

At March 31, 2015, no assets were held for sale. At December 31, 2014, The Company had two properties classified as held-for-sale. The assets and liabilities relating to those properties are summarized as follows:

(dollars in thousands)	December 31, 2014
Assets of properties held for sale	$56,073
Liabilities of properties held for sale	$25,500

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

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") and a 88.43% tenancy in common interest in an 87,000 square foot retail property located in Chicago, Illinois. As our unaffiliated partners in these investments maintain operating control, these are accounted for under the equity method.

Funds

RCP Venture

The 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, 2015, 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. During the three months ended March 31, 2015, the Company received distributions from its RCP Venture of $4.5 million, of which the Operating Partnership's aggregate share was $0.9 million.

The following table summarizes activity related to the RCP Venture investments from inception through March 31, 2015:

(dollars in thousands)		Investment Group Share		Operating Partnership Share	
Investment	Year Acquired	Invested Capital and Advances	Distributions	Invested Capital and Advances	Distributions
Mervyns	2004	$26,058	$48,547	$4,901	$11,801
Mervyns Add-On investments	2005/2008	7,547	9,272	1,252	2,017
Albertsons	2006	20,717	81,594	4,239	16,318
Albertsons Add-On investments	2006/2007	2,416	4,864	388	972
Shopko	2006	1,110	2,460	222	492
Marsh and Add-On investments	2006/2008	2,667	2,639	533	528

Rex Stores	2007	2,701	4,727	535	946
		$63,216	$154,103	$12,070	$33,074

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ACADIA REALTY TRUST AND SUBSIDIARIES

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

Other Fund Investments

The unaffiliated partners in Fund II's investment in Albee Tower I Owners, Fund III's investments in Parkway Crossing, Arundel Plaza and the White City Shopping Center as well as Fund IV's investments in 1701 Belmont Avenue, 2819 Kennedy Boulevard, Promenade at Manassas, Eden Square and the Broughton Street Portfolio, maintain control over these entities. The Company accounts for these investments under 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.

Self-Storage Management, a Fund III investment, was determined to be a variable interest entity. Management has evaluated the applicability of ASC Topic 810 to this joint venture and determined that the Company is not the primary beneficiary and, therefore, consolidation of this venture is not required. The Company accounts for this investment using the equity method of accounting.

Summary of Investments in Unconsolidated Affiliates

The following Combined and Condensed Balance Sheets and Statements of Income summarize the financial information of the Company’s investments in unconsolidated affiliates:

(dollars in thousands)	March 31, 2015	December 31, 2014
Combined and Condensed Balance Sheets		
Assets		
Rental property, net	$388,590	$387,739
Real estate under development	66,942	60,476
Investment in unconsolidated affiliates	7,548	11,154
Other assets	63,288	62,862
Total assets	$526,368	$522,231
Liabilities and partners’ equity		
Mortgage notes payable	$317,103	$315,897
Other liabilities	71,551	66,116
Partners’ equity	137,714	140,218
Total liabilities and partners’ equity	$526,368	$522,231
Company’s investment in and advances to unconsolidated affiliates	$184,500	$184,352
Company's share of distributions in excess of income from, and investments in, unconsolidated affiliates	$(12,361)	$(12,564)

ACADIA REALTY TRUST AND SUBSIDIARIES

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

	Three Months Ended March 31,			
(dollars in thousands)	2015		2014	
Combined and Condensed Statements of Income				
Total revenues	$11,930		$12,105	
Operating and other expenses	(3,857	)	(3,815	)
Interest and other finance expense	(2,638	)	(2,524	)
Equity in earnings (losses) of unconsolidated affiliates	66,655		(328	)
Depreciation and amortization	(2,307	)	(2,706	)
Loss on debt extinguishment	—		(187	)
Net income	$69,783		$2,545	
Company’s share of net income	$6,691		$3,127	
Amortization of excess investment	(98	)	(98	)
Company’s equity in earnings of unconsolidated affiliates	$6,593		$3,029	

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6. STRUCTURED FINANCINGS, NET

As of March 31, 2015, the Company's structured financing portfolio, net consisted of notes receivable and preferred equity investments, aggregating $98.6 million. These investments were collateralized either by underlying properties, the borrowers' ownership interests in the entities that own properties and/or by the borrowers' personal guarantee subject, as applicable, to senior liens, as follows:
(dollars in thousands)

Description	Effective interest rate (1)	First Priority liens	Net Carrying Amounts of Notes Receivable as of March 31, 2015	Net Carrying Amounts of Notes Receivable as of December 31, 2014	Maturity date	Extension Options
First Mortgage Loan	7.7%		$12,000	$12,000	Demand	
Mezzanine Loan	12.7%	18,900	8,000	8,000	10/3/2015	
First Mortgage Loan	8.8%		7,500	7,500	10/31/2015	1 x 12 Months
Zero Coupon Loan (2)	24.0%	166,200	5,149	4,986	1/3/2016	
First Mortgage Loan	5.5%		4,000	4,000	4/1/2016	1 x 6 Months
Preferred Equity	13.5%		4,000	4,000	5/9/2016	
Other	18.0%		3,457	3,307	7/1/2017	
Preferred Equity	8.1%	20,855	13,000	13,000	9/1/2017	
Other	15.0%		30,879	30,879	11/9/2020	
Other	LIBOR + 2.5%		—	4,000	12/30/2020	
Mezzanine Loan (3)	10.0%	87,477	7,983	7,983	Demand	
Individually less than 3% (4)	3.9% to 11.6%		2,592	2,631	12/31/2015 to 5/1/2024	
Total			$98,560	$102,286		

Notes:

(1) Includes origination and exit fees
(2) The principal balance for this accrual-only loan is increased by the interest accrued
(3) Comprised of three cross-collateralized loans from one borrower, which are non-performing
(4) Consists of two loans as of March 31, 2015

During February 2015, the Company made an additional investment of $0.4 million to an already existing loan collateralized by a property.

The Company monitors the credit quality of its notes receivable on an ongoing basis and considers indicators of credit quality such as loan payment activity, the estimated fair value of the underlying collateral, the seniority of the Company's loan in relation to other debt secured by the collateral and the prospects of the borrower. As of March 31, 2015, the Company held three non-performing notes.

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7. DERIVATIVE FINANCIAL INSTRUMENTS

As of March 31, 2015, the Company's derivative financial instruments consisted of 16 interest rate swaps with an aggregate notional value of $272.6 million, which effectively fix the London Inter-Bank Offer Rate ("LIBOR") at rates ranging from 0.7% to 3.8% and mature between May 2015 and March 2025. The Company also has four derivative financial instruments with an aggregate notional value of $139.3 million which cap LIBOR at rates ranging from 3.0% to 4.3% and mature between July 2015 and April 2018. The fair value of these derivative instruments that represent liabilities are included in other liabilities in the Consolidated Balance Sheets and totaled $7.5 million and $4.6 million at March 31, 2015 and December 31, 2014, respectively. The fair value of these derivative instruments representing assets are included in prepaid expenses and other assets in the Consolidated Balance Sheets and totaled $0.2 million at December 31, 2014. The notional value does not represent exposure to credit, interest rate, or market risks.

These derivative instruments have been designated as cash flow hedges and hedge the future cash outflows of variable-rate interest payments on mortgage and other debt. Such instruments are reported at their fair values as stated above. As of March 31, 2015 and December 31, 2014, unrealized losses totaling $(6.8) million and $(4.0) million, respectively, were reflected in accumulated other comprehensive loss on the Consolidated Balance Sheets.

As of March 31, 2015 and December 31, 2014, no derivatives were designated as fair value hedges, hedges of net investments in foreign operations or considered to be ineffective. Additionally, the Company does not use derivatives for trading or speculative purposes.

8. MORTGAGE AND OTHER NOTES PAYABLE

The Company completed the following transactions related to mortgage and other notes payable and credit facilities during the three months ended March 31, 2015:

Secured Debt:

(dollars in thousands)			Borrowings			Repayments	
Property	Date	Description	Amount	Interest Rate	Maturity Date	Amount	Interest Rate
1035 Third Ave	January	New Borrowing	$42,000	2.52% (LIBOR+2.35%)	1/27/2021	$—	
Lincoln Park Centre	January	Repayment	—		12/3/2016	28,000	1.62% (LIBOR+1.45%)
163 Highland Avenue	March	Assumption	9,765	4.66%	2/1/2024	—	
Total			$51,765			$28,000	

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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8. MORTGAGE AND OTHER NOTES PAYABLE (continued)

Unsecured Debt:

During the three months ended March 31, 2015, the Company redeemed the remaining $0.4 million of its outstanding convertible notes at par value.

During the three months ended March 31, 2015, the Company borrowed $50.0 million on its unsecured credit facility. The outstanding balance under this facility is $50.0 million as of March 31, 2015.

During the three months ended March 31, 2015, the Company borrowed $46.6 million on its Fund IV subscription line. The outstanding balance under this facility is $123.7 million as of March 31, 2015.

During March 2015, Fund IV closed on a $50.0 million unsecured credit facility. At closing, Fund IV drew down $31.0 million. The facility bears interest at LIBOR plus 275 basis points and matures February 9, 2017 with one 6-month extension option. Along with a guarantee with respect to customary non-recourse carve outs, the Operating Partnership, as the managing member of Fund IV, has provided a guarantee of principal, interest and fees upon a default as a result of Fund IV’s breach of certain specified financial covenants.

9. FAIR VALUE MEASUREMENTS

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

The following table presents the Company’s fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of March 31, 2015:

(dollars in thousands)	Level 1	Level 2	Level 3
Assets			
Derivative financial instruments (Note 7)	$—	$—	$—
Liabilities			
Derivative financial instruments (Note 7)	$—	$7,504	$—

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

Financial Instruments

Certain of the Company’s assets and liabilities meet the definition of financial instruments. Except as disclosed below, the carrying amounts of these financial instruments approximate their fair values.

The Company has determined the estimated fair values of the following financial instruments within Level 2 of the hierarchy by discounting future cash flows utilizing a discount rate equivalent to the rate at which similar financial instruments would be originated at the reporting date:

(dollars in thousands)	March 31, 2015		December 31, 2014	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Notes receivable and preferred equity investments, net	$98,560	$98,560	$102,286	$102,286
Mortgage and other notes payable	$1,304,739	$1,318,299	$1,130,481	$1,141,371

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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10. RELATED PARTY TRANSACTIONS

The Company earned property management fees, construction, legal and leasing fees from its investments in unconsolidated affiliates totaling $0.1 million for the three months ended March 31, 2015.

11. SEGMENT REPORTING

The Company has three reportable segments: Core Portfolio, Funds and Structured Financing. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates property performance primarily based on net operating income before depreciation, amortization and certain nonrecurring items. Investments in the Core Portfolio are typically held long-term. Given the contemplated finite life of the Funds, these investments are typically held for shorter terms. Fees earned by the Company as the general partner/managing member of the Funds are eliminated in the Company's consolidated financial statements. Structured Financing represents the Company's investments in notes receivable and preferred equity. The following tables set forth certain segment information for the Company, as of and for the three months ended March 31, 2015 and 2014, and does not include unconsolidated affiliates:

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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11. SEGMENT REPORTING (continued)

Three Months Ended March 31, 2015

(dollars in thousands)	Core Portfolio	Funds	Structured Financing	Total
Revenues	$35,593	$13,480	$3,408	$52,481
Property operating expenses, other operating and real estate taxes	(9,691)	(6,452)	—	(16,143)
General and administrative expenses	(6,811)	(721)	—	(7,532)
Depreciation and amortization	(9,907)	(3,751)	—	(13,658)
Operating income	9,184	2,556	3,408	15,148
Equity in earnings of unconsolidated affiliates	434	6,159	—	6,593
Loss on debt extinguishment	—	(109)	—	(109)
Gain on disposition of property	—	27,143	—	27,143
Interest and other finance expense	(6,468)	(2,353)	—	(8,821)
Income tax provision	(480)	(937)	—	(1,417)
Net income	2,670	32,459	3,408	38,537
Noncontrolling interests				
Net income attributable to noncontrolling interests	(179)	(21,811)	—	(21,990)
Net income attributable to Common Shareholders	$2,491	$10,648	$3,408	$16,547
Real Estate at Cost	$1,550,695	$953,607	$—	$2,504,302
Total Assets	$1,666,987	$1,105,319	$98,560	$2,870,866
Acquisition of Real Estate	$169,235	$51,036	$—	$220,271
Investment in Redevelopment and Improvements	$6,353	$34,141	$—	$40,494

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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11. SEGMENT REPORTING (continued)

Three Months Ended March 31, 2014

(dollars in thousands)	Core Portfolio	Funds	Structured Financing	Total
Revenues	$30,149	$12,642	$3,894	$46,685
Property operating expenses, other operating and real estate taxes	(7,906)	(5,575)	—	(13,481)
General and administrative expenses	(6,413)	(483)	—	(6,896)
Depreciation and amortization	(8,333)	(3,254)	—	(11,587)
Operating income	7,497	3,330	3,894	14,721
Equity in earnings of unconsolidated affiliates	95	2,934	—	3,029
Gain on disposition of property	12,387	—	—	12,387
Loss on debt extinguishment	—	(203)	—	(203)
Interest and other finance expense	(7,200)	(3,451)	—	(10,651)
Income tax provision	(104)	(64)	—	(168)
Net Income	12,675	2,546	3,894	19,115
Noncontrolling interests				