ACADIA REALTY TRUST
Form 10-Q
August 06, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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 June 30, 2009

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 o 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 August 6, 2009 there were 39,678,826 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)		June 30, 2009 (unaudited)		December 31, 2008 as adjusted
ASSETS				
Real estate				
Land	$	309,806	$	294,132
Buildings and improvements		795,118		729,159
Construction in progress		84,647		70,423
		1,189,571		1,093,714
Less: accumulated depreciation		179,370		165,803
Net real estate		1,010,201		927,911
Cash and cash equivalents		107,739		86,691
Cash in escrow		7,344		6,794
Investments in and advances to unconsolidated affiliates		52,967		54,978
Rents receivable, net		13,655		12,660
Notes receivable and preferred equity investment, net		124,500		125,587
Deferred charges, net of amortization		24,511		21,899
Acquired lease intangibles, net of amortization		26,899		19,476
Prepaid expenses and other assets, net of amortization		27,478		31,735
Assets of discontinued operations		-		3,652
Total assets	$	1,395,294	$	1,291,383
LIABILITIES AND SHAREHOLDERS' EQUITY				
Mortgage notes payable	$	753,269	$	653,543
Convertible notes payable, net of unamortized discount of $2,610 and $6,597, respectively		47,549		100,403
Acquired lease and other intangibles, net of amortization		8,964		6,506
Accounts payable and accrued expenses		23,132		22,193
Dividends and distributions payable		7,361		25,514
Distributions in excess of income from, and investments in, unconsolidated affiliates		20,781		20,633
Other liabilities		17,229		18,912
Liabilities of discontinued operations		-		1,451
Total liabilities		878,285		849,155
Equity				
Common shares		40		32
Additional paid-in capital		298,706		218,527
Accumulated other comprehensive loss		(3,227)		(4,508)
Retained earnings		16,784		13,671
Total Common Shareholders equity		312,303		227,722
Noncontrolling interests in subsidiaries		204,706		214,506
Total equity		517,009		442,228

Total liabilities and equity	$	1,395,294	$	1,291,383

See accompanying notes

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ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009 AND 2008

(unaudited)

(dollars in thousands, except per share amounts)	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Revenues				
Minimum rents	$ 23,870	$ 21,135	$ 45,192	$ 39,469
Percentage rents	128	58	329	238
Expense reimbursements	4,941	3,497	10,424	7,956
Lease termination income	-	24,500	-	24,500
Other property income	908	174	1,414	398
Management fee income	444	387	1,200	2,406
Interest income	5,028	1,891	10,171	4,696
Other	-	-	1,700	-
Total revenues	35,319	51,642	70,430	79,663
Operating Expenses				
Property operating	7,282	5,421	14,669	10,517
Real estate taxes	4,108	3,113	7,793	5,843
General and administrative	5,208	6,257	11,349	12,310
Depreciation and amortization	8,468	7,080	17,060	13,301
Abandonment of project costs	2,415	-	2,415	-
Reserve for notes receivable	1,734	-	1,734	-
Total operating expenses	29,215	21,871	55,020	41,971
Operating income	6,104	29,771	15,410	37,692
Equity in earnings (losses) of unconsolidated affiliates	49	4,469	(3,258)	17,704
Interest and other finance expense	(7,631)	(7,377)	(15,452)	(13,973)
Gain on debt extinguishment	3,895	-	7,045	-
Gain on sale of land	-	763	-	763
Income from continuing operations before income taxes	2,417	27,626	3,745	42,186
Income tax provision	(1,096)	(343)	(1,622)	(2,200)
Income from continuing operations	1,321	27,283	2,123	39,986
Discontinued Operations				
Operating income from discontinued operations	-	240	178	987
Gain on sale of property	-	7,182	5,637	7,182
Income from discontinued operations	-	7,422	5,815	8,169
Net income	1,321	34,705	7,938	48,155
Loss (income) attributable to noncontrolling interests in subsidiaries:				

Continuing operations		5,814		(17,034)		14,361		(22,047)
Discontinued operations		-		(273)		(4,865)		(472)
Net loss (income) attributable to noncontrolling interests in subsidiaries		5,814		(17,307)		9,496		(22,519)
Net income attributable to Common Shareholders	$	7,135	$	17,398	$	17,434		25,636
Supplemental Information								
Income from continuing operations attributable to Common Shareholders	$	7,135	$	10,249	$	16,484	$	17,939
Income from discontinued operations attributable to Common Shareholders		-		7,149		950		7,697
Net Income attributable to Common Shareholders	$	7,135	$	17,398	$	17,434	$	25,636
Basic Earnings per Share								
Income from continuing operations	$	0.18	$	0.30	$	0.45	$	0.53
Income from discontinued operations		-		0.21		0.03		0.23
Basic earnings per share	$	0.18	$	0.51	$	0.48	$	0.76
Diluted Earnings per Share								
Income from continuing operations	$	0.18	$	0.30	$	0.45	$	0.52
Income from discontinued operations		-		0.21		0.03		0.23
Diluted earnings per share	$	0.18	$	0.51	$	0.48	$	0.75

See accompanying notes

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008

(unaudited)

(dollars in thousands)	June 30, 2009	June 30, 2008 as adjusted
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 7,938	$ 48,155
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation and amortization	17,060	14,070
Gain on sale of property	(5,637)	(7,945)
Gain on debt extinguishment	(7,045)	-
Amortization of lease intangibles	4,295	346
Amortization of mortgage note premium	(18)	(40)
Amortization of discount on convertible debt	783	1,044
Non-cash accretion of notes receivable	(2,570)	(139)
Lease termination receivable	-	(24,500)
Share compensation expense	2,187	1,737
Equity in earnings (losses) of unconsolidated affiliates	3,258	(17,704)
Distributions of operating income from unconsolidated affiliates	338	4,071
Abandonment of project costs	2,415	-
Reserve for notes receivable	1,734	-
Provision for bad debt	1,982	293
Changes in assets and liabilities		
Cash in escrows	(550)	(25,081)
Rents receivable	(3,083)	1,001
Prepaid expenses and other assets, net	4,266	(16,736)
Accounts payable and accrued expenses	1,409	2,163
Other liabilities	(372)	3,173
Net cash provided by (used in) operating activities	28,390	(16,092)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in real estate and improvements	(107,804)	(188,933)
Deferred acquisition and leasing costs	(6,160)	(3,345)
Investments in and advances to unconsolidated affiliates	(2,985)	(4,669)
Return of capital from unconsolidated affiliates	1,879	2,443
Collections on notes receivable	1,728	389
Advances on notes receivable	(696)	(3,130)
Preferred equity investment	-	(40,000)
Proceeds from sale of property	9,481	23,627
Net cash used in investing activities	(104,557)	(213,618)

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2009 AND 2008

(unaudited)

(dollars in thousands)		June 30, 2009		June 30, 2008 as adjusted
CASH FLOWS FROM FINANCING ACTIVITIES:				
Principal payments on mortgage notes		(67,843)		(61,035)
Proceeds received on mortgage notes		166,262		182,041
Purchase of convertible notes		(46,611)		-
Payment of deferred financing and other costs		(27)		(2,591)
Capital contributions from noncontrolling interests in partially-owned affiliates		-		46,014
Distributions to noncontrolling interests in partially-owned affiliates		(454)		(5,199)
Dividends paid to Common Shareholders		(15,824)		(20,972)
Distributions to noncontrolling interests in Operating Partnership		(848)		(465)
Distributions on preferred Operating Partnership Units to noncontrolling interests		(24)		(16)
Proceeds from issuance of Common Shares, net of issuance costs		65,243		-
Repurchase and cancellation of shares		(2,715)		(2,100)
Common Shares issued under Employee Share Purchase Plan		56		154
Exercise of options to purchase Common Shares		-		814
Net cash provided by financing activities		97,215		136,645
Increase (decrease) in cash and cash equivalents		21,048		(93,065)
Cash and cash equivalents, beginning of period		86,691		123,343
Cash and cash equivalents, end of period	$	107,739	$	30,278
Supplemental disclosure of cash flow information				
Cash paid during the period for interest, including capitalized interest of $2,126 and $2,633, respectively	$	16,746	$	15,616
Cash paid for income taxes	$	153	$	2,454
Supplemental disclosure of non-cash investing and financing activities				
Acquisition of real estate through assumption of debt	$	-	$	39,967
Dividends paid through the issuance of Common Shares	$	16,192	$	-

See accompanying notes

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. THE COMPANY

Acadia Realty Trust (the "Trust") and subsidiaries (collectively, the "Company") is a fully-integrated, self-managed and self-administered equity real estate investment trust ("REIT") focused primarily on the ownership, acquisition, redevelopment and management of retail properties, including neighborhood and community shopping centers and mixed-use properties with retail components.

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 a controlling interest. As of June 30, 2009, the Trust controlled 98% 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 who contributed their interests in certain properties or entities to the Operating Partnership in exchange for common or preferred units of limited partnership interest ("Common or Preferred OP Units"). 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"). This structure is commonly referred to as an umbrella partnership REIT or "UPREIT."

During 2001, the Company formed a partnership, Acadia Strategic Opportunity Fund I, LP ("Fund I"), and in 2004 formed a limited liability company, Acadia Mervyn Investors I, LLC ("Mervyns I"), with four institutional investors. The Operating Partnership committed a total of $20.0 million to Fund I and Mervyns I, and the four institutional shareholders committed $70.0 million, for the purpose of acquiring real estate investments. As of June 30, 2009, Fund I was fully invested and closed to new investors and investments.

The Operating Partnership is the sole general partner of Fund I and sole managing member of Mervyns I, with a 22.2% equity interest in both Fund I and Mervyns I and is also entitled to a profit participation in excess of its equity interest percentage based on certain investment return thresholds ("Promote"). Cash flow is distributed pro-rata to the partners and members (including the Operating Partnership) until they receive a 9% cumulative return ("Preferred Return"), and the return of all capital contributions. Thereafter, remaining cash flow (which is net of distributions and fees to the Operating Partnership for management, asset management, leasing, construction and legal services) is distributed 80% to the partners (including the Operating Partnership) and 20% to the Operating Partnership as a Promote. As all contributed capital and accumulated preferred return has been distributed to investors, the Operating Partnership is now entitled to a Promote on all earnings and distributions.

During 2004, the Company, along with the investors from Fund I as well as two additional institutional investors, formed Acadia Strategic Opportunity Fund II, LLC ("Fund II"), and Acadia Mervyn Investors II, LLC ("Mervyns II") with $300.0 million of committed discretionary capital available to acquire or develop real estate investments. The Operating Partnership's share of committed capital is $60.0 million. The Operating Partnership is the managing member with a 20% interest in both Fund II and Mervyns II. The terms and structure of Fund II and Mervyns II are substantially the same as Fund I and Mervyns I, including the Promote structure, with the exception that the Preferred Return is 8%. As of June 30, 2009, the Operating Partnership had contributed $30.8 million to Fund II and $7.6 million to Mervyns II.

During 2007, the Company formed Acadia Strategic Opportunity Fund III LLC ("Fund III") with 14 institutional investors, including all of the investors from Fund I and a majority of the investors from Fund II with $503 million of committed discretionary capital available to acquire or develop real estate investments. The Operating Partnership's share of the committed capital is $100.0 million and it is the managing member with a 19.9% interest in Fund III. The terms and structure of Fund III are substantially the same as the previous Funds, including the Promote structure, with the exception that the Preferred Return is 6%. As of June 30, 2009, the Operating Partnership had contributed $19.2 million to Fund III.

Fund I, Fund II, and Fund III are collectively referred to herein as the "Opportunity Funds."

2. BASIS OF PRESENTATION

The consolidated financial statements include the consolidated accounts of the Company and its controlling investments in partnerships and limited liability companies in which the Company is presumed to have control in accordance with Emerging Issues Task Force Issue No. 04-05. 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 instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Investments in entities for which the Company has the ability to exercise significant influence over, but does not have financial or operating control, are accounted for using the equity method of accounting. Accordingly, the Company's share of the net earnings (or loss) of these entities are included in consolidated net income under the caption, Equity in Earnings of Unconsolidated Affiliates. 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.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PRESENTATION, (continued)

Although the Company accounts for its investment in Albertson's, which it has made through the Retailer Controlled Property Venture ("RCP Venture") (Note 7), using the equity method of accounting, the Company adopted the policy of not recording its equity in earnings or losses of the unconsolidated affiliate until the Company receives the audited financial statements of Albertson's to support the equity earnings or losses in accordance with paragraph 19 of Accounting Principles Board ("APB") Opinion No. 18 "Equity Method of Accounting for Investments in Common Stock."

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 six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2009. For further information, refer to the consolidated financial statements and accompanying footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

The Company has evaluated subsequent events from June 30, 2009 through the time of filing this Form 10-Q with the SEC on August 6, 2009. Material subsequent events that have occurred since June 30, 2009 are discussed in Note 17 to the Consolidated Financial Statements.

Effective January 1, 2009, the Company adopted the following Financial Accounting Statements Board ("FASB") pronouncements, which required it to retrospectively restate and reclassify previously disclosed consolidated financial statements. As such, certain prior period amounts have been restated or reclassified in the unaudited consolidated financial statements to conform to the adoption of these FASB pronouncements.

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 160, "Noncontrolling Interests in Consolidated Financial Statements," which, among other things, provides guidance and establishes amended accounting and reporting standards for noncontrolling interests in a consolidated subsidiary and the deconsolidation of a subsidiary. Under SFAS No. 160, the Company now reports noncontrolling interests in subsidiaries as a separate component of equity in the consolidated financial statements and shows both net income attributable to the noncontrolling interests and net income attributable to the controlling interests on the face of the Consolidated Statements of Income.

The Company adopted FASB Staff Position No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)", ("FSP APB 14-1"). FSP APB 14-1 requires the proceeds from the issuance of convertible debt be allocated between a debt component and an equity component. The debt component is measured based on the fair value of similar debt without an equity conversion feature, and the equity component is determined as the residual of the fair value of the debt deducted from the original proceeds received. The resulting discount on the debt component is amortized over the period the convertible debt is expected to be outstanding, which is December 11, 2006 to December 20, 2011, as additional non-cash interest expense. The equity component recorded as additional paid-in capital was $11.3 million, which represented the difference between the proceeds from the issuance of the convertible notes payable and the fair value of the liability at the time of issuance. The additional non-cash interest expense recognized in the Consolidated Statements of Income was $0.4 million and $0.5 million for the quarters ended June 30, 2009 and 2008, respectively and $0.8 million and $1.0 million for the six months ended June 30, 2009 and 2008, respectively. Accumulated amortization related to the convertible notes payable was $0.6 million and $1.1 million as of June 30, 2009 and December 31, 2008, respectively, after giving effect to repurchases.

The following table shows the effect of the retroactive restatement and reclassification of (i) the consolidated balance sheet accounts for the year ended December 31, 2008 and (ii) the consolidated statement of income for the three and six months ended June 30, 2008 and consolidated statement of cash flow accounts for the six months ended June 30, 2008:

(dollars in thousands)	December 31, 2008		
Affected Consolidated Balance Sheet accounts	As Originally Reported	As Adjusted	Effect of Change
Deferred charges, net of amortization	$ 22,072	$ 21,899	$ (173)
Convertible notes payable	$ 107,000	$ 100,403	$ (6,597)
Minority interests	$ 214,506	$ -	$ (214,506)
Additional paid-in capital	$ 212,007	$ 218,527	$ 6,520
Retained earnings	$ 13,767	$ 13,671	$ (96)
Noncontrolling interests in subsidiaries	$ -	$ 214,506	$ 214,506

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PRESENTATION, (continued)

(dollars in thousands, except per share amounts)

	Three months ended June 30, 2008		
Affected Consolidated Income Statement Accounts	As Originally Reported	As Adjusted	Effect of Change
Depreciation and amortization	$ 7,090	$ 7,080	$ 10
Interest expense	$ 6,854	$ 7,377	$ (523)
Net income attributable to Common Shareholders	$ 17,911	$ 17,398	$ (513)
Basic earnings per share	$ 0.55	$ 0.51	$ (0.04)
Diluted earnings per share	$ 0.54	$ 0.51	$ (0.03)

	Six months ended June 30, 2008		
Affected Consolidated Income Statement Accounts	As Originally Reported	As Adjusted	Effect of Change
Depreciation and amortization	$ 13,327	$ 13,301	$ 26
Interest expense	$ 12,929	$ 13,973	$ (1,044)
Net income attributable to Common Shareholders	$ 26,654	$ 25,636	$ (1,018)
Basic earnings per share	$ 0.82	$ 0.76	$ (0.06)
Diluted earnings per share	$ 0.81	$ 0.75	$ (0.06)

	Six months ended June 30, 2008		
Affected Consolidated Statement of Cash Flow Accounts	As Originally Reported	As Adjusted	Effect of Change
Depreciation and amortization	$ 14,096	$ 14,070	$ (26)
Amortization of discount on convertible debt	$ –	$ 1,044	$ 1,044

During December of 2007, the FASB issued SFAS No. 141R, “Business Combinations,” which replaces SFAS No. 141, “Business Combinations.” SFAS No. 141R establishes principles and requirements for how an acquirer entity recognizes and measures in its financial statements the identifiable assets acquired (including intangibles), the liabilities assumed and any noncontrolling interest in the acquired entity. Effective January 1, 2009, the Company adopted SFAS 141R and it did not have a material impact to the Company’s financial position or results of operations.

During March of 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities – an amendment of SFAS No. 133.” SFAS No. 161 amends SFAS No. 133 to provide additional information about how derivative and hedging activities affect an entity’s financial position, financial performance, and cash flows. It requires enhanced disclosures about an entity’s derivatives and hedging activities. SFAS No. 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008. The adoption of SFAS No. 161 did not have an impact on the Company’s financial condition or results of operations.

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ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PRESENTATION, (continued)

During June of 2008, the FASB ratified Emerging Issues Task Force ("EITF") EITF Issue 07-5, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock," ("EITF 07-5"). Paragraph 11(a) of SFAS 133 specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to the Company's own stock and (b) classified in stockholders' equity in the statement of financial position would not be considered a derivative financial instrument. EITF 07-5 provides a new two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer's own stock and thus able to qualify for the SFAS 133 paragraph 11(a) scope exception. EITF 07-5 became effective on January 1, 2009. The adoption of EITF 07-5 did not have an impact on the Company's financial position and results of operations.

During October of 2008, the FASB issued FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active," ("FSP FAS 157-3") which clarifies the application of SFAS No. 157, "Fair Value Measurements." FSP FAS 157-3 provides guidance in determining the fair value of a financial asset when the market for that financial asset is not active. The adoption of FSP FAS 157-3 did not have an impact on the Company's financial position and results of operations.

In April 2009, the FASB issued FSP SFAS 107-1 and APB 28-1, "Interim Disclosures About Fair Value of Financial Instruments" ("FSP SFAS 107-1"). FSP SFAS 107-1 amends SFAS No. 107, "Disclosures about Fair Values of Financial Instruments" and Accounting Principles Board Opinion No. 28, "Interim Financial Reporting," to require disclosures about fair value of financial instruments in interim financial statements. FSP SFAS 107-1 is effective for interim periods ending after June 15, 2009. The Company adopted FSP SFAS 107-1 and has provided the disclosures in Note 12 to the Consolidated Financial Statements. The adoption did not have an impact on the Company's financial position and results of operations.

In May 2009, the FASB issued SFAS No. 165 "Subsequent Events," ("SFAS No. 165") which establishes general standards of accounting and disclosure for events that occur after the balance sheet date but before the financial statements are issued. This new standard was effective for interim or annual periods ending after June 15, 2009. The Company adopted SFAS No. 165 and has provided the new disclosures as required. The adoption did not have an impact on the Company's financial position and results of operations.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)," ("SFAS No. 167") which changes the approach to determining the primary beneficiary of a variable interest entity and requires companies to more frequently assess whether they must consolidate a variable interest entity. SFAS No. 167 is effective on the first annual reporting period that begins after November 15, 2009. The Company is currently assessing the potential impact of SFAS No. 167 on its financial position and results of operations.

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles" ("SFAS No. 168"). SFAS No. 168 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements that are presented in conformity with GAAP. It establishes the FASB Accounting Standards Codification ("Codification") as the single source of authoritative accounting principles recognized by the FASB in the preparation of financial statements in conformity with GAAP. Codification does not create new accounting and reporting guidance rather it reorganizes GAAP pronouncements into approximately 90 topics within a consistent structure. All guidance contained in the Codification carries an equal level of authority. Relevant portions of authoritative content, issued by the SEC, for SEC registrants, have been included in the Codification. SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company will adopt SFAS No. 168 on September 30, 2009 and will update all disclosures to reference Codification in its September 30, 2009 quarterly report.

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ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. EARNINGS PER COMMON SHARE

Basic earnings per share was determined by dividing the applicable net income attributable to Common Shareholders for the period by the weighted average number of Common Shares outstanding during each period consistent with SFAS No. 128, "Earnings per Share." Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue Common Shares were exercised or converted into Common Shares or resulted in the issuance of Common Shares that then shared in the earnings of the Company.

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

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Numerator:				
Income from continuing operations attributable to Common Shareholders	$ 7,135	$ 10,249	$ 16,484	$ 17,939
Effect of dilutive securities:				
Preferred OP Unit distributions	5	5	10	10
Numerator for diluted earnings per Common Share	$ 7,140	$ 10,254	$ 16,494	$ 17,949
Denominator:				
Weighted average shares for basic earnings per share	38,592	33,807	36,261	33,777
Effect of dilutive securities:				
Employee share options	187	545	154	508
Convertible Preferred OP Units	25	25	25	25
Dilutive potential Common Shares	212	570	179	533
Denominator for diluted earnings per share	38,804	34,377	36,440	34,310
Basic earnings per Common Share from continuing operations attributable to Common Shareholders	$ 0.18	$ 0.30	$ 0.45	$ 0.53
Diluted earnings per Common Share from continuing operations attributable to Common Shareholders	$ 0.18	$ 0.30	$ 0.45	$ 0.52

The weighted average shares used in the computation of basic earnings per share include unvested restricted Common Shares ("Restricted Shares") and restricted OP units ("LTIP Units") (Note 15) that are entitled to receive dividend equivalent payments. The effect of the conversion of Common OP Units is not reflected in the above table, 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 subsidiaries 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 to Common Shares (Note 11) is not reflected in the table as such conversion would be anti-dilutive. The effect of the assumed conversion of 25,067 Series A Preferred OP Units to Common Shares would be dilutive for the three and six months ended June 30, 2009 and June 30, 2008 and, accordingly, they are included in the table.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. COMPREHENSIVE INCOME

The following table sets forth comprehensive income for the three and six months ended June 30, 2009 and 2008:

(dollars in thousands)	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Net income attributable to Common Shareholders	$ 7,135	$ 17,398	$ 17,434	$ 25,636
Other comprehensive income	1,135	854	1,281	28
Comprehensive income attributable to Common Shareholders	$ 8,270	$ 18,252	$ 18,715	$ 25,664

Other comprehensive income relates to the changes in the fair value of derivative instruments accounted for as cash flow hedges and the amortization, which is included in interest expense, of a derivative instrument.

The following table sets forth the change in accumulated other comprehensive income for the six months ended June 30, 2009:

Accumulated other comprehensive loss

(dollars in thousands)	
Balance at December 31, 2008	$ (4,508)
Unrealized income on valuation of derivative instruments and amortization of derivative instrument	1,281
Balance at June 30, 2009	$ (3,227)

5. SHAREHOLDERS’ EQUITY AND NONCONTROLLING INTERESTS IN SUBSIDIARIES

The following table summarizes the change in the shareholders’ equity and noncontrolling interest since December 31, 2008:

(dollars in thousands)	Common Shareholders’ Equity	Noncontrolling interests	Total
Balance at December 31, 2008 (as adjusted, Note 2)	$ 227,722	$ 214,506	$ 442,228
Dividends and distributions declared of $0.39 per Common Share and Common OP Unit	(14,321)	(415)	(14,736)
Net income (loss) for the period January 1 through June 30, 2009	17,434	(9,496)	7,938
Distributions paid	-	(454)	(454)
Other comprehensive income – Unrealized gain on valuation of derivative instruments	1,281	112	1,393
Conversion options on Convertible Notes purchased (Note 11)	(838)	-	(838)
Common Shares issued under Employee Share Purchase Plan	56	-	56
Issuance of Common Shares to Trustees	570	-	570
Issuance of Common Shares through special dividend	16,192		16,192

Employee Restricted Share awards		1,679		-		1,679
Employee Restricted Shares cancelled		(2,715)		-		(2,715)
Employee LTIP Unit awards		-		453		453
Issuance of 5,750,000 Common Shares, net of issuance costs		65,243		-		65,243
Balance at June 30, 2009	$	312,303	$	204,706	$	517,009

Noncontrolling interests includes interests in the Operating Partnership which represent (i) the limited partners' 642,272 Common OP Units at June 30, 2009 and December 31, 2008, (ii) 188 Series A Preferred OP Units at June 30, 2009 and December 31, 2008, with a stated value of $1,000 per unit, which are entitled to a preferred quarterly distribution of the greater of (a) $22.50 (9% annually) per Series A Preferred OP Unit or (b) the quarterly distribution attributable to a Series A Preferred OP Unit if such unit were converted into a Common OP Unit. Noncontrolling interests also include outside interests in partially owned affiliates and third-party interests in Fund I, II and III, and Mervyns I and II and three other entities.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS IN SUBSIDIARIES, (continued)

For the six months ended June 30, 2009, 107,331 employee Restricted Shares were cancelled to pay the employees' income taxes due on the value of the portion of the Restricted Shares that vested during the period. During the three and six months ended June 30, 2009, the Company recognized accrued Common Share and Common OP Unit-based compensation totaling 0.9 million and $2.0 million, respectively.

6. ACQUISITION AND DISPOSITION OF PROPERTIES AND DISCONTINUED OPERATIONS

Acquisition of Properties

On January 29, 2009, the Company purchased Cortlandt Towne Center for $78.0 million.

Discontinued Operations

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which requires discontinued operations presentation for disposals of a "component" of an entity, for all periods presented, the Company reclassified its consolidated statements of income to reflect income and expenses for properties that were sold or became held for sale prior to June 30, 2009, as discontinued operations and reclassified its consolidated balance sheets to reflect assets and liabilities related to such properties as assets and liabilities related to discontinued operations.

The combined assets and liabilities of properties held for sale for the periods ended June 30, 2009 and December 31, 2008 and the combined results of operations for these properties for the three and six months ended June 30, 2009 and June 30, 2008 are reported separately as discontinued operations. Discontinued operations include six Kroger Supermarket locations that were sold in February of 2009. In addition, 2008 discontinued operations included a residential complex located in North Carolina. The Company sold this complex in April 2008.

The combined assets and liabilities and results of operations of the properties classified as discontinued operations are summarized as follows:

(dollars in thousands)	December 31, 2008
ASSETS	
Net real estate	$ 3,652
Total assets of discontinued operations	$ 3,652
LIABILITIES	
Accounts payable and accrued expenses	$ 1,368
Other liabilities	83
Total liabilities of discontinued operations	$ 1,451

STATEMENTS OF OPERATIONS	Three months ended June 30,		Six months ended June 30,	
(dollars in thousands)	2009	2008	2009	2008

Total revenues	$ -	$ 888	$ 188	$ 2,550
Total expenses	-	648	10	1,563
Operating income	-	240	178	987
Gain on sale of property	-	7,182	5,637	7,182
Income from discontinued operations	-	7,422	5,815	8,169
Income from discontinued operations attributable to noncontrolling interests in subsidiaries	$ -	$ (273)	$ (4,865)	$ (472)
Income from discontinued operations attributable to Common Shareholders	$ -	$ 7,149	$ 950	$ 7,697

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ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. INVESTMENTS

A. Investments In and Advances to Unconsolidated Affiliates

Retailer Controlled Property Venture (“RCP Venture”)

During January of 2004, the Company commenced the RCP Venture with Klaff Realty, LP (“Klaff”) and Lubert-Adler Management, Inc., through a limited liability company (“KLA”), for the purpose of making investments in surplus or underutilized properties owned by retailers. As of June 30, 2009, the Company had invested $60.5 million through the RCP Venture on a non-recourse basis. Cash flow from any investment in which the RCP Venture participants elect to invest, is to be distributed to the participants until they have received a 10% cumulative return and a full return of all contributions. Thereafter, remaining cash flow is to be distributed 20% to Klaff and 80% to the partners (including Klaff).

The table below summarizes the Company’s invested capital and distributions received from its RCP Venture investments.

Mervyns Department Stores

During September of 2004, the RCP Venture invested in a consortium to acquire the Mervyns Department Store chain (“Mervyns”) consisting of 262 stores (“REALCO”) and its retail operation (“OPCO”) from Target Corporation. The gross acquisition price of $1.2 billion was financed with $800 million of debt and $400 million of equity. The Company contributed $23.2 million of equity and received an approximate 5.2% interest in REALCO and an approximate 2.5% interest in OPCO (which the Company sold in 2007). Subsequent to the initial acquisition, the Company made additional investments of $4.3 million. To date, REALCO has disposed of a significant portion of the portfolio.

During the six months ended June 30, 2009, REALCO recorded an impairment charge on its investment in certain Mervyns Department Store locations and leasehold interests of which Mervyns I and II recognized a combined loss of $3.1 million. The Operating Partnership’s share of this loss, net of taxes, was $0.6 million.

Through June 30, 2009, the Company made additional investments in locations that are separate from the original investment (“Add-On Investments”) in Mervyns totaling $3.4 million. The Company accounts for these Add-On Investments using the cost method due to the minor ownership interest and the inability to exert influence over KLA’s operating and financial policies.

Albertson’s

During June of 2006, the RCP Venture made its second investment as part of an investment consortium, acquiring Albertson’s and Cub Foods, of which the Company’s share was $20.7 million. Through June 30, 2009, the Company has received distributions from this investment totaling $63.8 million.

During 2007, the Company made Add-On Investments totaling $2.4 million and received distributions totaling $0.5 million. The Company accounts for these Add-On Investments using the cost method due to the minor ownership interest and the inability to exert influence over KLA’s operating and financial policies.

Other RCP Venture Investments

During 2006, the Company made investments of $1.1 million in Shopko, a regional multi-department retailer, and $0.7 million in Marsh, a regional supermarket chain, through the RCP Venture. During 2007, the Company received a $1.1 million cash distribution from the Shopko investment representing 100% of its invested capital. The Company made investments of $2.0 million in additional investments in Marsh and received distributions of $1.0 million from Marsh during 2008. During the three months ended June 30, 2009, the Company received additional distributions of $1.6 million from Marsh.

During July of 2007, the RCP Venture acquired a portfolio of 87 retail properties from Rex Stores Corporation. The Company's share of this investment was $2.7 million.

The Company accounts for these other investments using the cost method due to its minor ownership interest and the inability to exert influence over KLA's operating and financial policies.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. INVESTMENTS (continued)

A. Investments In and Advances to Unconsolidated Affiliates (continued)
The following table summarizes the Company's RCP Venture investments from inception through June 30, 2009:

(dollars in thousands)

					Operating Partnership Share	
Investor	Investment	Year Acquired	Invested Capital and Advances	Distributions	Invested Capital and Advances	Distributions
Mervyns I and Mervyns II	Mervyns	2004	$ 27,503	$ 45,966	$ 4,901	$ 11,251
Mervyns I and Mervyns II	Mervyns Add-On Investments	2005/2008	3,445	1,703	283	283
Mervyns II	Albertson's	2006	20,717	63,833	4,239	11,847
Mervyns II	Albertson's Add-On Investments	2006/2007	2,409	466	386	93
Fund II	Shopko	2006	1,100	1,100	220	220
Fund II	Marsh	2006	2,667	2,639	533	528
Mervyns II	Rex Stores	2007	2,701	-	535	-
Total			$ 60,542	$ 115,707	$ 11,097	$ 24,222

Brandywine Portfolio

The Company owns a 22.2% interest in a one million square foot retail portfolio located in Wilmington, Delaware (the "Brandywine Portfolio") that is accounted for using the equity method.

Crossroads

The Company owns a 49% interest in the Crossroads Joint Venture and Crossroads II (collectively, "Crossroads"), which collectively own a 311,000 square foot shopping center located in White Plains, New York that is accounted for using the equity method.

Other Investments

Fund I Investments

Fund I owns a 50% interest in the Sterling Heights Shopping Center which is accounted for using the equity method of accounting.

Fund II Investments

Fund II's approximately 25% investment in CityPoint is accounted for using the equity method. The Company has determined that CityPoint is a variable interest entity, and the Company is not the primary beneficiary. The Company's maximum exposure is the carrying value of its investment of $35.0 million. During the quarter ended June 30, 2009, the Company and Target Corporation (“Target”), as the retail anchor tenant, mutually agreed to terminate the purchase and sale agreement for the Target space.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. INVESTMENTS, (continued)

A. Investments In and Advances to Unconsolidated Affiliates (continued)

Summary of Investments in Unconsolidated Affiliates

The following tables summarize the Company's investments in unconsolidated affiliates as of June 30, 2009 and December 31, 2008. CityPoint is not reflected in the below Statements of Operations as there are no current operations at this redevelopment project.

	June 30, 2009					
(dollars in thousands)	RCP Venture	CityPoint	Brandywine Portfolio	Crossroads	Other Investments	Total
Balance Sheets						
Assets:						
Rental property, net	$ -	$ 164,023	$ 128,111	$ 5,189	$ 11,260	$ 308,583
Investment in unconsolidated affiliates	225,013	-	-	-	-	225,013
Other assets	-	4,397	9,251	4,815	1,983	20,446
Total assets	$ 225,013	$ 168,420	$ 137,362	$ 10,004	$ 13,243	$ 554,042
Liabilities and partners' equity						
Mortgage note payable	$ -	$ 34,000	$ 166,200	$ 62,737	$ 4,993	$ 267,930
Other liabilities	-	1,625	7,646	1,601	967	11,839
Partners' equity (deficit)	225,013	132,795	(36,484)	(54,334)	7,283	274,273
Total liabilities and partners' equity	$ 225,013	$ 168,420	$ 137,362	$ 10,004	$ 13,243	$ 554,042
Company's investment in and advances to unconsolidated affiliates	$ 14,309	$ 34,972	$ -	$ -	$ 3,686	$ 52,967
Share of distributions in excess of share of income and investment in unconsolidatedaffiliates	$ -	$ -	$ (8,428)	$ (12,353)	$ -	$ (20,781)

	December 31, 2008					
	RCP Venture	CityPoint	Brandywine Portfolio	Crossroads	Other Investments	Total
(dollars in thousands)						
Balance Sheets						
Assets						
Rental property, net	$ -	$ 159,922	$ 129,679	$ 5,143	$ 11,481	$ 306,225
	295,168	-	-	-	-	295,168

Investment in unconsolidated affiliates						
Other assets	-	3,983	8,769	5,283	2,770	20,805
Total assets	$ 295,168	$ 163,905	$ 138,448	$ 10,426	$ 14,251	$ 622,198
Liabilities and partners' equity						
Mortgage note payable	$ -	$ 34,000	$ 166,200	$ 63,176	$ 5,173	$ 268,549
Other liabilities	-	2,307	7,895	2,072	1,083	13,357
Partners equity (deficit)	295,168	127,598	(35,647)	(54,822)	7,995	340,292
Total liabilities and partners' equity	$ 295,168	$ 163,905	$ 138,448	$ 10,426	$ 14,251	$ 622,198
Company's investment in and advances to unconsolidated affiliates	$ 18,066	$ 33,445	$ -	$ -	$ 3,467	$ 54,978
Share of distributions in excess of share of income and investment in unconsolidated affiliates	$ -	$ -	$ (8,236)	$ (12,397)	$ -	$ (20,633)

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. INVESTMENTS, (continued)

A. Investments In and Advances to Unconsolidated Affiliates (continued)

Summary of Investments in Unconsolidated Affiliates (continued)

	Three Months Ended June 30, 2009				
(dollars in thousands)	RCP Venture	Brandywine Portfolio	Crossroads	Other Investments	Total
Statements of Operations					
Total revenue	$ -	$ 4,794	$ 2,217	$ 449	$ 7,460
Operating and other expenses	-	1,303	633	287	2,223
Interest expense	-	2,518	853	79	3,450
Equity in losses of affiliates	(2,070)	-	-	-	(2,070)
Depreciation and amortization	-	846	135	128	1,109
Loss on sale of property, net	-	-	-	-	-
Net (loss) income	$ (2,070)	$ 127	$ 596	$ (45)	$ (1,392)
Company's share of net (loss) income	$ (196)	$ 70	$ 292	$ (20)	$ 146
Amortization of excess investment	-	-	(97)	-	(97)
Company's share of net (loss) income	$ (196)	$ 70	$ 195	$ (20)	$ 49

	Three Months Ended June 30, 2008				
(dollars in thousands)	RCP Venture	Brandywine Portfolio	Crossroads	Other Investments	Total
Statements of Operations					
Total revenue	$ -	$ 4,729	$ 1,883	$ 577	$ 7,189
Operating and other expenses	-	1,206	853	63	2,122
Interest expense	-	2,518	864	111	3,493
Equity in earnings of affiliates	11,100	-	-	-	11,100
Depreciation and amortization	-	915	135	142	1,192
Gain on sale of property, net	-	-	-	6,838	6,838
Net income	$ 11,100	$ 90	$ 31	$ 7,099	$ 18,320
Company's share of net income	$ 1,049	$ 20	$ 16	$ 3,481	$ 4,566
Amortization of excess investment	-	-	(97)	-	(97)
Company's share of net income (loss)	$ 1,049	$ 20	$ (81)	$ 3,481	$ 4,469

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. INVESTMENTS, (continued)

A. Investments In and Advances to Unconsolidated Affiliates (continued)

Summary of Investments in Unconsolidated Affiliates (continued)

	Six Months Ended June 30, 2009				
(dollars in thousands)	RCP Venture	Brandywine Portfolio	Crossroads	Other Investments	Total
Statements of Operations					
Total revenue	$ -	$ 9,711	$ 4,326	$ 908	$ 14,945
Operating and other expenses	-	2,867	1,406	591	4,864
Interest expense	-	5,037	1,699	116	6,852
Equity in losses of affiliates	(34,264)	-	-	-	(34,264)
Depreciation and amortization	-	1,694	283	255	2,232
Loss on sale of property, net	-	-	-	(390)	(390)
Net (loss) income	$ (34,264)	$ 113	$ 938	$ (444)	$ (33,657)
Company’s share of net (loss) income	$ (3,577)	$ 113	$ 458	$ (58)	$ (3,064)
Amortization of excess investment	-	-	(194)	-	(194)
Company’s share of net (loss) income	$ (3,577)	$ 113	$ 264	$ (58)	$ (3,258)

	Six Months Ended June 30, 2008				
(dollars in thousands)	RCP Venture	Brandywine Portfolio	Crossroads	Other Investments	Total
Statements of Operations					
Total revenue	$ -	$ 9,885	$ 3,946	$ 1,818	$ 15,649
Operating and other expenses	-	2,823	1,651	1,341	5,815
Interest expense	-	5,037	1,731	355	7,123
Equity in earnings of affiliates	149,587	-	-	-	149,587
Depreciation and amortization	-	1,982	406	368	2,756
Gain on sale of property, net	-	-	-	6,838	6,838
Net income	$ 149,587	$ 43	$ 158	$ 6,592	$ 156,380
Company’s share of net income	$ 14,375	$ 9	$ 77	$ 3,437	$ 17,898
Amortization of excess investment	-	-	(194)	-	(194)
Company’s share of net income (loss)	$ 14,375	$ 9	$ (117)	$ 3,437	$ 17,704

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. NOTES RECEIVABLE AND PREFERRED EQUITY INVESTMENT

At June 30, 2009, the Company's preferred equity investment and notes receivable aggregated $124.5 million, and were collateralized by the underlying properties, the borrower's ownership interest in the entities that own the properties and/or by the borrower's personal guarantee. Interest rates on the Company's preferred equity investment and notes receivable ranged from 9.50% to in excess of 20% with maturities through January 2017. Notes receivable and preferred equity investments as of June 30, 2009 are as follows:

Description (dollars in thousands) Borrower	Effective interest Rate	Final maturity date	Periodic payment terms	Prior liens	Current balance
Mezzanine Loans:					
72nd Street	20.85%	7/18/2011	(1)	$ 185,000 (4)	$ 38,355
Georgetown A	10.25%	11/12/2010	(3)	8,576	8,000
Georgetown B	13.50%	6/27/2010	(2)	115,020	40,000
Notes individually less than 3%	10% to 22.33%	On demand to 1/1/2017			12,202
Total Mezzanine Loans					98,557
First Mortgages:					
East Shore Rd.	10.00%	On demand	(3)	-	6,150
Fairchild	12.75%	9/11/2010	(3)	-	10,000
Levitz	11.60%	7/17/2010	(3)	-	6,963
Union Plaza	9.50%	On demand			2,830
Total First Mortgages					25,943
Total					$ 124,500

Notes:
(1) Principal and interest, including a $7.5 million exit fee, are due upon maturity.
(2) Payable upon maturity. In accordance with SFAS No. 150, the preferred equity investment is treated as a debt instrument.
(3) Interest only payable monthly, principal due on maturity.
(4) The balance represents a construction loan when fully drawn.

9. DERIVATIVE FINANCIAL INSTRUMENTS

The following table summarizes the notional values and fair values of the Company's derivative financial instruments as of June 30, 2009. The notional value does not represent exposure to credit, interest rate or market risks.

Hedge Type (dollars in thousands)	Notional Value	Rate	Maturity	Fair Value

Interest rate swaps						
LIBOR Swap	$	4,429	4.71%	01/01/10	$	(96)
LIBOR Swap		10,847	4.90%	10/01/11		(782)
LIBOR Swap		8,115	5.14%	03/01/12		(682)
LIBOR Swap		9,800	4.47%	10/29/10		(457)
LIBOR Swap		15,000	3.79%	11/30/12		(781)
LIBOR Swap		15,000	3.41%	11/30/12		(600)
LIBOR Swap		10,000	2.65%	11/30/12		(157)
Interest rate swaps	$	73,191				(3,555)
Interest rate LIBOR Cap	$	30,000	6.0%	04/01/10		-
Net Derivative instrument liability (1)					$	(3,555)

(1) The derivatives liability is included in Other Liabilities in the Consolidated Balance Sheets.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. MORTGAGE LOANS

The Company completed the following transactions related to mortgage loans during the six months ended June 30, 2009:

i) borrowed $17.5 million on three existing construction loans

ii) paid off $4.8 million of self-amortizing debt

iii) closed on a $19.0 million loan that bears interest at a floating rate of LIBOR plus 150 basis points and matures on January 15, 2010. The proceeds of the loan were used to repay a maturing loan of $19.0 million

iv) extended a credit facility, with a balance of $53.7 million, that was to mature on March 1, 2009 for one year and adjusted the interest rate from LIBOR plus 100 basis points to LIBOR plus 250 basis points

v) extended a $11.4 million note that was to mature on May 18, 2009 to July 18, 2009. On July 18, 2009, this note was paid down by $0.9 million and extended to July 19, 2010 at an interest rate of LIBOR plus 325 basis points with a one year extension option

vi) closed on a $4.8 million loan that bears interest at a fixed rate of 6.35% and matures on July 1, 2014; and

vii) paid off $1.1 million of principal on an outstanding loan.

During the second quarter 2009, the Company paid down $41.9 million on existing lines of credit which increased the amount available under credit facilities.

The following table sets forth certain information pertaining to the Company's secured credit facilities:

(dollars in thousands) Borrower	Total available credit facilities	Amount borrowed as of December 31, 2008	2009 net borrowings (repayments) during the six months ended June 30, 2009	Amount borrowed as of June 30, 2009	Letters of credit outstanding as of June 30, 2009	Amount available under credit facilities as of June 30, 2009
Acadia Realty, LP	$ 72,250	$ 48,900	$ (18,900)	$ 30,000	$ 10,675	$ 31,575
Acadia Realty, LP	30,000	-	2,000	2,000	-	28,000
Fund II	70,000	34,681	19,000	53,681	600	15,719
Fund III	245,000	62,250	81,000	143,250	500	101,250
Total	$ 417,250	$ 145,831	$ 83,100	228,931	$ 11,775	$ 176,544

In June 2009, the servicer of two of the Company's loans alleged that non-monetary defaults had occurred for two construction loans for $31.0 million and $9.4 million collateralized by the Pelham Manor Shopping Center and Atlantic Avenue, respectively. The servicer contends that the Company did not substantially complete the improvements in accordance with the required completion dates as defined in the loan agreements and, accordingly, did not meet the requirements for the final draws. The Company does not believe the loans are in default and will vigorously defend its position and is currently in discussions with the servicer to resolve these issues. The Company believes that the ultimate resolution of this matter will not have a material adverse effect on the Company's financial condition or results of operations.

11. CONVERTIBLE NOTES PAYABLE

In December 2006 and January 2007, the Company issued $115.0 million of convertible notes with a fixed interest rate of 3.75% due 2026 (the "Convertible Notes"). The Convertible Notes were issued at par and require interest payments semi-annually in arrears on June 15th and December 15th of each year. The Convertible Notes are unsecured unsubordinated obligations and rank equally with all other unsecured and unsubordinated indebtedness. During the six months ended June 30, 2009, the Company purchased $53.6 million in principal amount of its Convertible Notes for $46.6 million resulting in a $7.0 million gain.

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. FAIR VALUE MEASUREMENTS

SFAS No. 157, "Fair Value Measurements" defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants.

SFAS No. 157's valuation techniques are based on observable or unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 - Quoted prices for identical instruments in active markets
Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant value drivers are observable
Level 3 - Valuations derived from valuation techniques in which significant value drivers are unobservable

The following describes the valuation methodologies the Company uses to measure financial assets and liabilities at fair value:

Derivative Instruments — The Company's derivative financial liabilities primarily represent interest rate swaps and a cap and are valued using Level 2 inputs. The fair value of these instruments is based upon the estimated amounts the Company would sell an asset or pay to transfer a liability in an orderly transaction between market participants at the reporting date and is determined using interest rate market pricing models. With the adoption of SFAS No. 157, the Company has amended the techniques used in measuring the fair value of its derivative positions. This amendment includes the impact of credit valuation adjustments on derivatives measured at fair value. The implementation of this amendment did not have a material impact on the Company's consolidated financial position or results of operations.

The following table presents the Company's liabilities measured at fair value based on level of inputs at June 30, 2009:

(dollars in thousands)	Level 1	Level 2	Level 3
Liabilities			
Derivatives	$ -	$ 3,555	$ -
Total liabilities measured at fair value	$ -	$ 3,555	$ -

Financial Instruments

During the second quarter 2009, the Company adopted FSP SFAS No. 107-1 and APB 28-1, "Interim Disclosures About Fair Value of Financial Instruments" which requires disclosures about fair value of financial instruments in both interim and annual financial statements (Note 2).

Certain of the Company's assets and liabilities are considered financial instruments. Fair value estimates, methods and assumptions are set forth below.

Cash and Cash Equivalents, Restricted Cash, Cash in Escrow, Rents Receivable, Prepaid Expenses, Other Assets, Accounts Payable and Accrued Expenses, Dividends and Distributions Payable, Due to Related Parties and Other Liabilities — The carrying amount of these assets and liabilities approximates fair value as of June 30, 2009 and December 31, 2008 due to the short-term nature of such accounts.

Notes Receivable and Preferred Equity Investments — As of June 30, 2009 and December 31, 2008, the Company has determined the estimated fair values of its preferred equity investments and notes receivable were $123.7 million and $122.3 million, respectively, by discounting future cash receipts utilizing a discount rate equivalent to the rate at which similar notes receivable would be originated at the reporting date.

Derivative Instruments — The fair value of these instruments is based upon the estimated amounts the Company would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the reporting date and is determined using interest rate market pricing models.

Mortgage Notes Payable and Notes Payable — As of June 30, 2009 and December 31, 2008, the Company has determined the estimated fair values of its mortgage notes payable, including those relating to discontinued operations, were $751.4 million and $731.8 million, respectively, by discounting future cash payments utilizing a discount rate equivalent to the rate at which similar mortgage notes payable would be originated at the reporting date.

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. RELATED PARTY TRANSACTIONS

The Company earns asset management, leasing, disposition, development and construction fees for providing services to an existing portfolio of retail properties and/or leasehold interests in which Klaff has an interest. Fees earned by the Company in connection with this portfolio were $0.05 million and $0.2 million for the three months ended June 30, 2009 and 2008, respectively, and $0.3 million and $0.5 million for the six months ended June 30, 2009 and 2008, respectively.

Lee Wielansky, the Lead Trustee of the Company, was paid a consulting fee of $25,000 for each of the three months ended June 30, 2009 and 2008, respectively and $50,000 for each of the six months ended June 30, 2009 and 2008, respectively.

14. SEGMENT REPORTING

The Company has four reportable segments: Core Portfolio, Opportunity Funds, Storage Portfolio, and Other. During 2008, the Company acquired a portfolio of self storage properties and later determined that it constitutes, as of year end 2008, a new reportable segment. “Other” consists primarily of management fees, interest income, preferred equity investment and notes receivable. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates property performance primarily based on net operating income before depreciation, amortization and certain nonrecurring items. Investments in the Core Portfolio are typically held long-term. Given the contemplated finite life of the Opportunity Funds, these investments are typically held for shorter terms. Fees earned by the Company as the general partner/member of the Opportunity Funds are eliminated in the Company’s consolidated financial statements. The following table sets forth certain segment information for the Company, reclassified for discontinued operations, as of and for the three and six months ended June 30, 2009 and 2008 (does not include unconsolidated affiliates):

Three Months Ended June 30, 2009

(dollars in thousands)	Core Portfolio	Opportunity Funds	Storage Portfolio	Other	Amounts Eliminated in Consolidation	Total
Revenues	$ 15,842	$ 11,636	$ 2,372	$ 11,488	$ (6,019)	$ 35,319
Property operating expenses and real estate taxes	5,470	3,637	2,336	-	(53)	11,390
Reserve for notes receivable	-	-	-	1,734	-	1,734
Abandonment of project costs	-	2,415	-	-	-	2,415
Other expenses	5,520	3,904	24	-	(4,240)	5,208
Income (loss) before depreciation and amortization	$ 4,852	$ 1,680	$ 12	$ 9,754	$ (1,726)	$ 14,572
Depreciation and amortization	$ 4,086	$ 4,305	$ 1,098	$ -	$ (1,021)	$ 8,468
Interest expense	$ 4,724	$ 1,871	$ 1,036	$ -	$ -	$ 7,631
Real estate at cost	$ 500,957	$ 510,323	$ 188,460	$ -	$ (10,169)	$ 1,189,571
Total assets	$ 568,534	$ 613,786	$ 190,211	$ 124,500	$ (101,737)	$ 1,395,294
Expenditures for real estate and improvements	$ 745	$ 9,270	$ 1,737	$ -	$ -	$ 11,752

Reconciliation to net income and net income attributable to ommon Shareholders	
Net property income before depreciation and amortization	$ 14,572
Gain on debt extinguishment	3,895
Depreciation and amortization	(8,468)
Equity in earnings of unconsolidated affiliates	49
Interest expense	(7,631)
Income tax provision	(1,096)
Income from discontinued operations	-
Net income	1,321
Net loss attributable to noncontrolling interests in subsidiaries	5,814
Net income attributable to Common Shareholders	$ 7,135

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ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. SEGMENT REPORTING (continued)

Six Months Ended June 30, 2009

(dollars in thousands)	Core Portfolio	Opportunity Funds	Storage Portfolio	Other	Amounts Eliminated in Consolidation	Total
Revenues	$ 34,659	$ 20,278	$ 4,124	$ 23,548	$ (12,179)	$ 70,430
Property operating expenses and real estate taxes	11,098	6,639	4,725	-	-	22,462
Reserve for notes receivable	-	-	-	1,734	-	1,734
Abandonment of project costs	-	2,415	-	-	-	2,415
Other expenses	12,441	8,058	68	-	(9,218)	11,349
Income (loss) before depreciation and amortization	$ 11,120	$ 3,166	$ (669)	$ 21,814	$ (2,961)	$ 32,470
Depreciation and amortization	$ 8,241	$ 7,693	$ 2,147	$ –	$ (1,021)	$ 17,060
Interest expense	$ 9,881	$ 3,343	$ 2,228	$ –	$ –	$ 15,452
Real estate at cost	$ 500,957	$ 510,323	$ 188,460	$ –	$ (10,169)	$ 1,189,571
Total assets	$ 568,534	$ 613,786	$ 190,211	$ 124,500	$ (101,737)	$ 1,395,294
Expenditures for real estate and improvements	$ 791	$ 105,276	$ 1,737	$ -	$ -	$ 107,804

Reconciliation to net income and net income attributable to Common Shareholders

Net property income before depreciation and amortization	$ 32,470
Gain on debt extinguishment	7,045
Depreciation and amortization	(17,060)
Equity in (losses) of unconsolidated affiliates	(3,258)
Interest expense	(15,452)
Income tax provision	(1,622)
Income from discontinued operations	5,815
Net income	7,938
Net loss attributable to noncontrolling interests in subsidiaries	9,496
Net income attributable to Common Shareholders	$ 17,434

Three Months Ended June 30, 2008

(dollars in thousands)	Core Portfolio	Opportunity Funds	Storage Portfolio	Other	Amounts Eliminated in	Total

									Consolidation			
Revenues	$	15,892	$	30,948	$	2,520	$	10,203	$	(7,921)	$	51,642
Property operating expenses and real estate taxes		4,624		2,682		1,228		-		-		8,534
Other expenses		6,623		5,486		10		-		(5,862)		6,257
Income (loss) before depreciation and amortization	$	4,645	$	22,780	$	1,282	$	10,203	$	(2,059)	$	36,851
Depreciation and amortization	$	4,313	$	2,112	$	655	$	-	$	-	$	7,080
Interest expense	$	4,780	$	1,783	$	814	$	-	$	-	$	7,377
Real estate at cost	$	490,068	$	386,200	$	192,378	$	-	$	(7,374)	$	1,061,272
Total assets	$	560,342	$	465,173	$	196,632	$	100,541	$	(88,584)	$	1,234,104
Expenditures for real estate and improvements	$	1,564	$	20,292	$	11,973	$	-	$	-	$	33,829

Reconciliation to net income and net income attributable to Common Shareholders

Net property income before depreciation and amortization	$	36,851
Depreciation and amortization		(7,080)
Equity in (losses) of unconsolidated affiliates		4,469
Interest expense		(7,377)
Income tax provision		(343)
Income from discontinued operations		7,422
Gain on sale of land		763
Net income		34,705
Net (income) attributable to noncontrolling interests in subsidiaries		(17,307)
Net income attributable to Common Shareholders	$	17,398

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. SEGMENT REPORTING (continued)

Six Months Ended June 30, 2008

(dollars in thousands)	Core Portfolio	Opportunity Funds	Storage Portfolio	Other	Amounts Eliminated in Consolidation	Total
Revenues	$ 33,148	$ 35,462	$ 3,939	$ 22,193	$ (15,079)	$ 79,663
Property operating expenses and real estate taxes	10,159	4,232	1,969	-	-	16,360
Other expenses	13,321	9,949	68	-	(11,028)	12,310
Net income before depreciation and amortization	$ 9,668	$ 21,281	$ 1,902	$ 22,193	$ (4,051)	$ 50,993
Depreciation and amortization	$ 8,238	$ 4,028	$ 1,035	$ –	$ -	$ 13,301
Interest expense	$ 9,561	$ 3,219	$ 1,193	$ –	$ -	$ 13,973
Real estate at cost	$ 490,068	$ 386,200	$ 192,378	$ –	$ (7,374)	$ 1,061,272
Total assets	$ 560,342	$ 465,173	$ 196,632	$ 100,541	$ (88,584)	$ 1,234,104
Expenditures for real estate and improvements	$ 2,581	$ 1,059	$ 185,293	$ -	$ -	$ 188,933

Reconciliation to net income and net income attributable to Common Shareholders

Net property income before depreciation and amortization	$ 50,993
Depreciation and amortization	(13,301)
Equity in earnings of unconsolidated partnerships	17,704
Interest expense	(13,973)
Income tax provision	(2,200)
Income from discontinued operations	8,169
Gain on sale of land	763
Net income	48,155
Net (income) attributable to noncontrolling interests in subsidiaries	(22,519)
Net income attributable to Common Shareholders	$ 25,636

15. LONG-TERM INCENTIVE COMPENSATION

On March 5, 2009, the Company issued 8,612 Restricted Shares and 200,574 LTIP Units to officers of the Company. Vesting with respect to these awards is recognized ratably over the next five annual anniversaries of the issuance date. The vesting on 50% of these awards is also generally subject to achieving certain total shareholder returns on the Company’s Common Shares or certain Company performance measures.

Also on March 5, 2009 and March 10, 2009, the Company issued a total of 36,347 Restricted Shares and 8,221 LTIP Units to employees of the Company. Vesting with respect to these awards is recognized ratably over the next five annual anniversaries of the issuance date. The vesting on 1,196 Restricted Shares and 6,258 LTIP Units vest 25% subject to achieving certain total shareholder returns on the Company's Common Shares or certain Company performance measures.

The total value of the above Restricted Shares and LTIP Units issued was $2.6 million. Compensation expense of $0.1 million and $0.3 million has been recognized in the accompanying financial statements related to these Restricted Shares and LTIP Units for the three and six months ended June 30, 2009, respectively. Total long-term incentive compensation expense, including the expense related to the above-mentioned plans, for the three and six months ended June 30, 2009 was $0.9 million and $2.0 million, respectively.

On May 13, 2009, the Company issued 6,522 unrestricted Common Shares to Trustees of the Company in connection with Trustee fees. In addition, on May 28, 2009, the Company issued an additional 1,299 unrestricted Common Shares to the Lead Trustee of the Company in connection with the Lead Trustee fee. The Company also issued 12,000 Restricted Shares to Trustees, which vest over three years with 33% vesting on each of the next three anniversaries of the issuance date. The Restricted Shares do not carry voting rights or other rights of Common Shares until vesting and may not be transferred, assigned or pledged until the recipients have a vested non-forfeitable right to such shares. Dividends are not paid currently on unvested Restricted Shares, but are paid cumulatively, from the issuance date through the applicable vesting date of such Restricted Shares vesting. Trustee fee expense of $0.1 million has been recognized for the six months ended June 30, 2009 related to these unrestricted Common Shares and Restricted Shares.

15. LONG-TERM INCENTIVE COMPENSATION, continued

In 2009, the Company adopted the Long Term Investment Alignment Program (the “Program”) pursuant to which the Company may award units for up to 25% of its Fund III Promote to senior executives when and if such Promote is ultimately realized. As of June 30, 2009, the Company has awarded units representing 60% of the Program, which were determined to have no value at issuance. In accordance with SFAS No. 123R, “Share-Based Payments,” compensation relating to these awards will be recorded based on the change in the estimated fair value at each reporting period.

16. DIVIDENDS AND DISTRIBUTIONS PAYABLE

On May 13, 2009, the Board of Trustees of the Company approved and declared a cash dividend for the quarter ended June 30, 2009 of $0.18 per Common Share and Common OP Unit. The dividend was paid on July 15, 2009 to shareholders of record as of June 30, 2009.

17. SUBSEQUENT EVENTS

On July 29, 2009, the Company closed on a $45.0 million loan secured by a property with interest of LIBOR plus 400 basis points, a maturity date of July 29, 2012 and two one-year extension options. The loan has a future advance option of up to $2.0 million to be drawn upon completion of tenant improvements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion is based on the consolidated financial statements of the Company as of June 30, 2009 and 2008 and for the three and six months then ended. This information should be read in conjunction with the accompanying consolidated financial statements and notes thereto.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this report constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results performance or achievements expressed or implied by such forward-looking statements. Such factors are set forth under the heading "Item 1A. Risk Factors" in our Form 10-K for the year ended December 31, 2008 and include, among others, the following: general economic and business conditions, including the current global financial crisis, which will, among other things, affect demand for rental space, the availability and creditworthiness of prospective tenants, lease rents and the availability of financing; adverse changes in our real estate markets, including, among other things, competition with other companies; risks of real estate development, acquisition and investment; risks related to our use of leverage; risks related to operating through a partnership structure; our limited control over joint venture investments; the risk of loss of key members of management; uninsured losses; REIT distribution requirements and ownership limitations; concentration of ownership by certain institutional investors; governmental actions and initiatives; and environmental/safety requirements. Except as required by law, we do not undertake any obligation to update or revise any forward-looking statements contained in this Form 10-Q.

OVERVIEW

As of June 30, 2009, we operated 78 properties, which we own or have an ownership interest in, within our Core Portfolio or within our three Opportunity Funds. Our Core Portfolio consists of those properties either 100% owned by, or partially owned through joint venture interests by the Operating Partnership, or subsidiaries thereof, not including those properties owned through our Opportunity Funds. These 78 properties consist of commercial properties, primarily neighborhood and community shopping centers, self-storage and mixed-use properties with a retail component. The properties we operate are located primarily in the Northeast, Mid-Atlantic and Midwestern regions of the United States. Our Core Portfolio consists of 33 properties comprising approximately 5.0 million square feet. Fund I has 21 properties comprising approximately 1.0 million square feet. Fund II has 10 properties, seven of which (representing 1.2 million square feet) are currently operating, one is under construction, and two are in design phase. The Fund II portfolio will approximate 2.0 million square feet upon completion of all current construction and anticipated