ACADIA REALTY TRUST
Form 10-Q
August 09, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _______ to _______

Commission File Number 1-12002

ACADIA REALTY TRUST

(Exact name of registrant in its charter)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Exchange Act Rule 12b-2).

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

As of August 9, 2006, there were 31,771,544 common shares of beneficial interest, par value $.001 per share, outstanding.

ACADIA REALTY TRUST AND SUBSIDIARIES

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Part I. Financial Information

Item 1. Financial Statements

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(unaudited)

	June 30, 2006	December 31, 2005
	(dollars in thousands)	
ASSETS		
Real estate:		
Land	$135,720	$146,240
Buildings and improvements	501,998	584,962
Construction in progress	12,058	4,016
	649,776	735,218
Less: accumulated depreciation	(139,578)	(135,891)
Net real estate	510,198	599,327
Cash and cash equivalents	55,114	91,398
Cash in escrow	7,500	7,799
Restricted cash	549	548
Investments in and advances to unconsolidated affiliates	37,658	10,320
Investment in management contracts, net of accumulated amortization of $2,431 and $1,938, respectively	2,745	3,178
Preferred equity investment		19,000
Rents receivable, net	8,069	13,505
Notes receivable	57,801	15,733
Prepaid expenses	4,376	5,199
Deferred charges, net	25,556	24,288
Acquired lease intangibles	6,785	8,941
Other assets	18,741	15,786
Assets of discontinued operations	26,099	26,836
	$761,191	$841,858
LIABILITIES AND SHAREHOLDERS EQUITY		
Mortgage notes payable	$361,890	$411,000
Accounts payable and accrued expenses	8,901	19,018
Dividends and distributions payable	6,161	6,088
Share of distributions in excess of share of income and investment in unconsolidated affiliates	23,131	10,315
Other liabilities	9,244	14,375
Liabilities of discontinued operations	13,963	14,221
Total liabilities	423,290	475,017
Minority interest in operating partnership	8,357	9,204
Minority interests in partially-owned affiliates	106,541	137,061

Total minority interests	114,898	146,265
Shareholders' equity:		
Common shares	31	31
Additional paid-in capital	223,920	223,199
Accumulated other comprehensive income (loss)	1,861	(12)
Deficit	(2,809)	(2,642)
Total shareholders' equity	223,003	220,576
	$761,191	$841,858

See accompanying notes

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Part I. Financial Information

Item 1. Financial Statements

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005

(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2006	**2005**	**2006**	**2005**
	(dollars in thousands, except per share amounts)			
Revenues				
Minimum rents	$ 17,448	$ 19,134	$ 35,236	$ 37,635
Percentage rents	126	150	311	351
Expense reimbursements	3,480	3,555	7,559	7,929
Other property income	251	175	462	505
Management fee income	1,281	982	2,482	1,557
Interest income	1,907	903	3,653	1,320
Total revenues	24,493	24,899	49,703	49,297
Operating Expenses				
Property operating	3,602	4,639	7,652	9,459
Real estate taxes	2,460	2,325	5,259	4,887
General and administrative	4,779	3,820	10,086	6,935
Depreciation and amortization	6,506	6,234	12,904	12,506
Total operating expenses	17,347	17,018	35,901	33,787
Operating income	7,146	7,881	13,802	15,510
Equity in earnings of unconsolidated affiliates	3,028	126	7,140	387
Interest expense	(5,654)	(4,352)	(10,839)	(8,285)
Minority interest	327	1,050	(754)	1,251
Income from continuing operations before income taxes	4,847	4,705	9,349	8,863
Income taxes	(363)		(812)	
Income from continuing operations	4,484	4,705	8,537	8,863
Discontinued operations:				
Operating income from discontinued operations	371	400	677	692
Impairment of real estate		(770)		(770)
Minority interest	(7)	10	(13)	5

Income (loss) from discontinued operations	364	(360)	664	(73)
Net income	$4,848	$4,345	$9,201	$8,790
Basic earnings per share				
Income from continuing operations	$0.14	$0.15	$0.26	$0.28
Income (loss) from discontinued operations	0.01	(0.01)	0.02	
Basic earnings per share	$0.15	$0.14	$0.28	$0.28
Diluted earnings per share				
Income from continuing operations	$0.14	$0.15	$0.26	$0.27
Income (loss) from discontinued operations	0.01	(0.01)	0.02	
Diluted earnings per common share	$0.15	$0.14	$0.28	$0.27

See accompanying notes

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ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005

(unaudited)

	June 30, 2006	June 30, 2005
	(dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$9,201	$8,790
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,465	12,338
Minority interests	767	(1,256)
Equity in earnings of unconsolidated affiliates	(7,140)	(387)
Amortization of derivative settlement included in interest expense	218	219
Distributions of operating income from unconsolidated affiliates	6,079	310
Restricted share compensation	2,543	542
Trustee share compensation	75	
Changes in assets and liabilities:		
Cash in escrow	(1,394)	3
Restricted cash	(1)	102
Rents receivable	2,887	(4,773)
Prepaid expenses	30	28
Other assets	(1,840)	(5,764)
Accounts payable and accrued expenses	(3,694)	(208)
Other liabilities	2,949	889
Net cash provided by operating activities	24,145	10,833
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for real estate and improvements	(49,268)	(31,633)
Investments in and advances to unconsolidated affiliates	(23,822)	(1,398)
Distributions from unconsolidated affiliates	26,758	489
Expenditures for deferred costs	(4,144)	(3,984)
Increase in notes receivable	(42,068)	(6,489)
Preferred equity investment	19,000	(19,500)
Net cash used in investing activities	(73,544)	(62,515)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on mortgages	(87,678)	(6,029)
Additional borrowings under mortgage notes	107,291	52,000
Dividends paid	(11,956)	(10,940)
Increase in dividend payable	73	78
Redemption of Operating Partnership Units	(100)	
Minority interest share of Operating Partnership Unit redemption	(146)	
Distributions to minority interests in Operating Partnership	(240)	(256)
Preferred distributions on Operating Partnership units	(124)	(178)
Distributions to minority interests in partially-owned affiliates	(34,225)	
Contributions from minority interests in Operating Partnership	40,124	37,303

Exercise of options	43	333
Common Shares issued under Employee Stock Purchase Plan	53	47
Net cash provided by financing activities	13,115	72,358
(Decrease) increase in cash and cash equivalents	(36,284)	20,676
Cash and cash equivalents, beginning of period	91,398	16,043
Cash and cash equivalents, end of period	$55,114	$36,719
Supplemental disclosure of cash flow information:		
Cash paid for interest	$10,971	$9,189
Supplemental disclosure of non-cash investing and financing activities:		
Acquisition of management contract rights through issuance of Preferred Operating Partnership Units	$	$4,000
Increase in share of distributions in excess of share of income and investment in unconsolidated affiliates as a result of the Brandywine recapitalization (Note 2)	$10,428	$

See accompanying notes

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ACADIA REALTY TRUST

ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. THE COMPANY

Acadia Realty Trust (the Company) is a fully integrated and self-managed real estate investment trust (REIT) focused primarily on the ownership, acquisition, redevelopment and management of neighborhood and community shopping centers.

All of the Company s assets are held by, and all of its operations are conducted through, Acadia Realty Limited Partnership (the Operating Partnership or OP) and partnerships in which the OP owns a controlling interest. As of June 30, 2006, the Company controlled 98% of the Operating Partnership as the sole general partner.

In 2001, the Company formed a partnership, Acadia Strategic Opportunity Fund I, LP (Fund I), and in 2004 formed a limited liability company, Acadia Mervyn I, LLC (Mervyns I), with four institutional investors. The Company 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 a total of approximately $300.0 million in investments. As of June 30, 2006, the Company has contributed $16.2 million to Fund I and $2.7 million to Mervyns I.

The Company is the sole general partner or managing member, with a 22% interest in both Fund I and Mervyns I and is also entitled to a profit participation in excess of its invested capital based on certain investment return thresholds. Decisions made by the general partner, as it relates to purchasing, financing, and disposition of properties, are subject to the unanimous disapproval of the Advisory Committee of Fund I, which is comprised of representatives from each of the four institutional investors. Cash flow is distributed pro-rata to the partners (including the Company) until they have received a 9% cumulative return, and the return of all capital contributions. Thereafter, remaining cash flow is to be distributed 80% to the partners (including the Company) and 20% to the Company as a carried interest (Promote). Through December 31, 2005, the Company also earned a fee for asset management services equal to 1.5% of the allocated equity in the remaining Fund I assets, as well as market-rate fees for property management, leasing and construction services. Effective January 1, 2006, the Company converted the asset management fee to a priority distribution of the same amount as the fee, which entitles the Company to a special allocation of income equal to the amount of the priority distribution. Thereafter, cash flow is distributed as previously mentioned and the Company continues to earn the market rate property management, leasing and construction fees. Following the recapitalization of the Brandywine Portfolio in January 2006, all capital contributions and the required 9% cumulative preferred return have been distributed to the institutional investors. Accordingly, the Company is now entitled to a Promote on all future earnings and distributions.

In June of 2004, the Company formed a limited liability company, Acadia Strategic Opportunity Fund II, LLC (Fund II), and in August 2004 formed another limited liability company, Mervyn II, LLC (Mervyns II), with the investors from Fund I as well as two additional institutional investors. With $300.0 million of committed discretionary capital, Fund II and Mervyns II expect to be able to acquire up to $900.0 million of investments on a leveraged basis. The Company s share of committed capital is $60.0 million. The Company is the sole managing member with 20% interest in the limited liability companies and is also entitled to a profit participation in excess of its invested capital based on certain investment return thresholds. The terms and structure of Fund II are substantially the same as Fund I with the exceptions that the preferred return is 8%. As of June 30, 2006, the Company has contributed $16.2 million to Fund II and $6.7 million to Mervyns II.

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, including the Operating Partnership, and 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. Non-controlling investments in partnerships are accounted for under the equity method of accounting as the Company exercises significant influence. 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.

The preparation of the 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, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2006. 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, 2005.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PRESENTATION (continued)

In 2005, the Emerging Issues Task Force (EITF) reached a consensus that the general partners in a limited partnership should determine whether they control a limited partnership based on the application of the framework as discussed in EITF 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights . Under EITF 04-5, the general partners in a limited partnership are presumed to control that limited partnership regardless of the extent of the general partner s ownership interest in the limited partnership. The assessment of whether the rights of the limited partners should overcome the presumption of control by the general partners is a matter of judgment that depends on facts and circumstances. If the limited partners have either (a) the substantive ability to dissolve (liquidate) the limited partnership or otherwise remove the general partners without cause or (b) substantive participating rights, the general partners do not control the limited partnership. EITF 04-5 was effective immediately for new partnerships formed and existing limited partnerships for which the partnership agreements were modified on or after June 29, 2005, and for all other partnerships, EITF 04-5 is effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. The provisions of EITF 04-5 may be initially applied through either one of two methods: (1) similar to a cumulative effect of a change in accounting principle or (2) retrospective application. The Company assessed the impact of EITF 04-5 as it related to the method of accounting utilized for its equity investments and determined that its investments in Fund I**,** Fund II, Mervyns I and Mervyns II which were accounted for under the equity method of accounting, should be consolidated, effective upon adoption of EITF 04-5 on January 1, 2006. The Company utilized the retrospective approach in the application of EITF 04-5 and has presented all historical periods prior to 2006 on a consistent basis with 2006 and thereafter. There was no impact on net income or shareholders equity for any of the reported periods in the accompanying consolidated financial statements due to the consolidation of these investments.

On January 4, 2006, Fund I recapitalized its investment in a one million square foot shopping center portfolio located in Wilmington, Delaware (Brandywine Portfolio). The recapitalization was effected through the conversion of the 77.8% interest which was previously held by the institutional investors in Fund I to an affiliate of GDC Properties (GDC) through a merger of interests in exchange for cash. The Company has retained its existing 22.2% interest in the Brandywine Portfolio in partnership with GDC and continues to operate the portfolio and earn fees for such services.

Pursuant to EITF 04-5, the Company has presented the 2005 financial statements to reflect the consolidation of Fund I, including the Brandywine Portfolio which, at the time, was a wholly-owned investment of Fund I. Following the January 2006 recapitalization of the Brandywine Portfolio, the Company no longer has a controlling interest in this investment and, accordingly, currently accounts for this investment under the equity method of accounting.

3. EARNINGS PER COMMON SHARE

Basic earnings per share was determined by dividing net income for the period by the weighted average number of common shares of beneficial interest (Common Shares) outstanding during each period consistent with Statement of Financial Accounting Standards (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,**	
	2006	**2005**	**2006**	**2005**
	(dollars in thousands, except per share amounts)			
Numerator:				
Income from continuing operations basic and diluted	$4,484	$4,705	$8,537	$8,863

Denominator:				
Weighted average shares basic earnings per share	32,509	31,899	32,489	31,883
Effect of dilutive securities:				
Employee stock options	302	246	300	259
Denominator for diluted earnings per share	32,811	32,145	32,789	32,142
Basic earnings per share from continuing operations	$0.14	$0.15	$0.26	$0.28
Diluted earnings per share from continuing operations	$0.14	$0.15	$0.26	$0.27

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. EARNINGS PER COMMON SHARE (continued)

The effect of the conversion of common units in the Operating Partnership (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 minority interest 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 effect of the conversion of Series A and B Preferred OP Units (Preferred OP Units) which would result in 337,079 and 522,679 additional Common Shares for each of the three and six months ended June 30, 2006 and 2005, respectively, is not reflected in the above table as such conversions would be anti-dilutive.

4. COMPREHENSIVE INCOME

The following table sets forth comprehensive income for the three and six months ended June 30, 2006 and 2005:

	Three months ended June 30,		**Six months ended June 30,**	
	2006	**2005**	**2006**	**2005**
	(dollars in thousands)			
Net income	$4,848	$4,345	$9,201	$8,790
Other comprehensive income (loss) [1]	775	(1,419)	1,873	623
Comprehensive income	$5,623	$2,926	$11,074	$9,413

Notes:

1 Relates to the changes in the fair value of derivative instruments accounted for as cash flow hedges.

	(dollars in thousands)
Accumulated other comprehensive income (loss)	
Balance at December 31, 2005	$(12)
Unrealized gain on valuation of swap and cap agreements	1,873
Balance at June 30, 2006	$1,861

As of June 30, 2006 the balance in accumulated other comprehensive income was comprised of unrealized gains on the valuation of current swap and cap agreements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. SHAREHOLDERS EQUITY AND MINORITY INTERESTS

The following table summarizes the change in the shareholders equity and minority interests since December 31, 2005:

	Shareholders Equity	**Minority Interest in Operating Partnership**	**Minority Interest in partially-owned Affiliates**
	(dollars in thousands)		
Balance at December 31, 2005	$220,576	$9,204	$137,061
Dividends and distributions declared of $0.37 per Common Share and Common OP Unit	(11,956)	(240)	
Net income for the period January 1 through June 30, 2006	9,201	198	569
Distributions paid			(71,088)
Conversion of Series A Preferred OP Units	696	(696)	
Acquisition of partnership interest			2,246
Other comprehensive income Unrealized gain on valuation of swap agreements	1,655	37	
Other comprehensive income adjustment of swap value included in net income	218		
Employee stock-based compensation	2,595		
Exercise of Options	43		
Redemption of 11,105 Restricted Common OP Units	(101)	(146)	
Issuance of Common Stock to Trustees	76		
Minority Interest contributions			37,753
Balance at June 30, 2006	$223,003	$8,357	$106,541

Notes:

Minority interest in the Operating Partnership represents (i) the limited partners interest of 642,272 and 653,360 Common OP Units at June 30, 2006 and December 31, 2005, respectively, (ii) 188 and 884 Series A Preferred OP Units at June 30, 2006 and December 31, 2005, respectively, with a nominal value of $1,000 per unit, which are entitled to a preferred quarterly distribution of the greater of (a) $22.50 per unit (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, and (iii) 4,000 Series B Preferred OP Units at June 30, 2006 and December 31, 2005, respectively, with a nominal value of $1,000 per unit, which are entitled to a preferred quarterly distribution of the greater of (a) $13.00 (5.2% annually) per unit or (b) the quarterly distribution attributable to a Series B Preferred OP Unit if such unit were converted into a Common OP Unit.

During the first quarter of 2006, holders of 696 Series A Preferred OP Units converted these into Common OP Units and ultimately into Common Shares.

During the second quarter of 2006, the Company redeemed 11,105 Restricted Common OP Units issued during July 2005 in connection with the purchase of 4343 Amboy Road.

Minority interests in partially-owned partnerships represent third-party interests. During January 2006, Fund I recapitalized the Brandywine Portfolio, and as a result, $35.5 million was distributed to the institutional investors in Fund I. During the six months ended June 30, 2006, minority interests in Mervyns I and Mervyns II received distributions of $16.5 million and $18.4 million, respectively. In the second quarter of 2006, minority interests in Fund II and Mervyns II made contributions of $20.8 million and $17.0 million, respectively. During January 2006, the Company acquired a 60% interest in the A&P Shopping Plaza located in Boonton, New Jersey, as discussed in Note 6. The remaining 40% interest is owned by a third party and is reflected as minority interest in the accompanying Consolidated Balance Sheet as of June 30, 2006.

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ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. PROPERTY ACQUISITIONS

On January 12, 2006, the Company closed on a 19,265 square foot retail building in the Lincoln Park district in Chicago. The property was acquired from an affiliate of Klaff for a purchase price of $9.9 million, including the assumption of existing mortgage debt in the principal amount of $3.8 million.

On January 24, 2006, the Company acquired a 60% interest in the A&P Shopping Plaza located in Boonton, New Jersey. The property, which is 100% occupied and located in northeastern New Jersey, is a 63,000 square foot shopping center anchored by a 49,000 square foot A&P Supermarket. A portion of the remaining 40% interest is owned by a principal of P/A Associates, LLC (P/A). The interest was acquired for $3.2 million. There is an existing first mortgage debt of $8.7 million encumbering the property.

On June 16, 2006, the Company purchased 8400 and 8625 Germantown Road in Philadelphia, Pennsylvania for $16.0 million. The Company assumed a $10.1 million first mortgage loan which has a maturity date of June 11, 2013. The 40,570 square foot property is 100% occupied.

7. INVESTMENTS

A. Investments In and Advances to Unconsolidated Affiliates

	June 30, 2006				**December 31, 2005**
	Mervyns (1)	**Brandywine Portfolio**	**Other Investments**	**Total**	**Total**
	(dollars in thousands)				
Balance Sheets					
Assets:					
Rental property, net	$	$125,416	$46,777	$172,193	$165,024
Investment in unconsolidated affiliates	393,955			393,955	9,401
Other assets		6,165	12,757	18,922	17,181
Total assets	$393,955	$131,581	$59,534	$585,070	$191,606
Liabilities and partners equity					
Mortgage note payable	$	$166,200	$87,234	$253,434	$150,462
Other liabilities		13,069	7,718	20,787	54,544
Partners equity (deficit)	393,955	(47,688)	(35,418)	310,849	(13,400)
Total liabilities and partners equity	$393,955	$131,581	$59,534	$585,070	$191,606
Company s investment in unconsolidated affiliates	$25,467	$	$12,191	$37,658	$10,320
Share of distributions in excess of share of income and investment in unconsolidated affiliates	$	$(12,444)	$(10,687)	$(23,131)	$(10,315)

(1) Represents the Company s investment in unconsolidated affiliates through its RCP Venture investments.

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ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. INVESTMENTS (continued)

	Three Months Ended				
	June 30, 2006				**June 30, 2005 (2)**
	Mervyns (1)	**Brandywine Portfolio**	**Other Investments**	**Total**	**Total**
	(dollars in thousands)				
Statements of Operations:					
Total revenue	$	$4,591	$3,726	$8,317	$2,643
Operating and other expenses		1,145	1,227	2,372	809
Interest expense		1,965	1,347	3,312	999
Equity in earnings of affiliates	23,852			23,852	
Depreciation and amortization		784	417	1,201	158
Net income	$23,852	$697	$735	$25,284	$677
Company s share of net income	$2,414	$269	$345	$3,028	$126

	Six Months Ended				
	June 30, 2006				**June 30, 2005 (2)**
	Mervyns (1)	**Brandywine Portfolio**	**Other Investments**	**Total**	**Total**
	(dollars in thousands)				
Statements of Operations:					
Total revenue	$	$9,105	$6,814	$15,919	$5,351
Operating and other expenses		2,359	2,555	4,914	1,484
Interest expense		6,974	2,451	9,425	2,184
Equity in earnings of affiliates	55,414			55,414	
Depreciation and amortization		1,508	840	2,348	320
Net income (loss)	$55,414	$(1,736)	$968	$54,646	$1,363
Company s share of net income	$5,730	$991	$419	$7,140	$387

(1) Represents the Company s investment in unconsolidated affiliates through its RCP Venture investments.
(2) The Brandywine Portfolio was consolidated with Fund I for the three and six months ended June 30, 2005. There were no Mervyns or Albertsons activity for the three and six months ended June 30, 2005.

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ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. INVESTMENTS (continued)
Retailer Controlled Property Venture

On January 27, 2004, the Company entered into the Retailer Controlled Property Venture (RCP Venture) with Klaff Realty, L.P. (Klaff) and Klaff s long-time capital partner Lubert-Adler Management, Inc. (Lubert-Adler) for the purpose of making investments in surplus or underutilized properties owned by retailers. On September 2, 2004, affiliates of Fund I and Fund II, through separately organized, newly formed limited liability companies on a non-recourse basis, invested in the acquisition of Mervyns through the RCP Venture, which, as part of an investment consortium of Sun Capital and Cerebus, acquired Mervyns from Target Corporation. The total acquisition price was $1.2 billion, with such affiliates combined $23.5 million share of the investment divided equally between them. The Company s share of the Mervyns investment totaled $5.0 million. For the six months ended June 30, 2006, the Company s share of net income from the investments made through the RCP Venture amounted to $5.7 million.

During June of 2006, the RCP Venture made its second investment with its participation in the acquisition of Albertson s. Affiliates of Fund II, through the same limited liability companies which were formed for the investment in Mervyns, invested $21.2 million in the acquisition of Albertson s through the RCP Venture, along with others as part of an investment consortium. The Company s share of the invested capital was $4.2 million.

Brandywine Portfolio

On January 4, 2006, the institutional investors of Fund I merged their 77.8% interest in the Brandywine Portfolio into affiliates of GDC in exchange for cash. The Company merged its 22.2% share of the Brandywine Portfolio into affiliates of GDC in exchange for a 22.2% interest in such affiliates. Prior to the closing of this transaction, the Company provided $17.6 million of mortgage financing secured by certain properties within the Brandywine Portfolio. This financing was repaid in June 2006. For the six months ended June 30, 2006, the Company s share of net income of $1.0 million included $1.1 million for reimbursement of the Company s share of certain fees incurred by the Brandywine Portfolio by the institutional investors of Fund I. As of June 30, 2006, the Company s share of distributions in excess of its share of income and investment in Brandywine amounted to $12.4 million.

Fund I Investments

Fund I has joint ventures with third party investors in the ownership and operation of Hitchcock Plaza, Pine Log Plaza, Sterling Heights Shopping Center, Haygood Shopping Center, and Tarrytown Centre. The Hitchcock Plaza is a 235,000 square foot shopping center located in Aiken, South Carolina. Adjacent to the Hitchcock Plaza is the 35,000 square foot Pine Log Plaza. Sterling Heights Shopping Center, is a 155,000 square foot community shopping center located in Detroit, Michigan. Haygood Shopping Center is a 162,000 square foot center located in Virginia Beach, Virginia. Lastly, the 35,000 square foot Tarrytown Centre is located in Westchester, New York. These properties are accounted for using the equity method of accounting.

Crossroads

The Company owns a 49% interest in the Crossroads Joint Venture and Crossroads II Joint Venture (collectively Crossroads), which collectively own a 311,000 square foot shopping center in White Plains, New York. The Company accounts for Crossroads using the equity method of accounting. As of June 30, 2006, the Company s share of distributions in excess of its share of income and investment in Crossroads amounted to $10.7 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. INVESTMENTS (continued)

B. Preferred Equity Investment

In March of 2005, the Company invested $20.0 million in a preferred equity position (Preferred Equity Investment) with Levitz SL, L.L.C. (Levitz SL), the owner of fee and leasehold interests in 30 locations (the Properties) totaling 2.5 million square feet, of which the majority are currently leased to Levitz Furniture Stores. Klaff Realty L.P. (Klaff) is a managing member of Levitz SL. The Preferred Equity Investment received a return of 10%, plus a minimum return of capital of $2.0 million per annum. During March 2006, the rate of return was reset to the six-month LIBOR plus 644 basis points or approximately 11.5%. In October 2005, Levitz Furniture filed for bankruptcy under Chapter 11.

On June 1, 2006, the Company converted the Preferred Equity Investment to a mortgage loan in the amount of $31.3 million. The loan has a maturity date of May 31, 2008 and has an interest rate of 10.5%. The loan is secured by fee and leasehold mortgages as well as a pledge of the entities owning 19 of the above remaining locations totaling 1.8 million square feet. Management believes that the underlying value of the real estate is sufficient to recover the mortgage and accordingly, no reserve is required at June 30, 2006.

8. DERIVATIVE FINANCIAL INSTRUMENTS

The following table summarizes the notional values and fair values of the Company s derivative financial instruments as of June 30, 2006. The notional value does not represent exposure to credit, interest rate or market risks.

Hedge Type	**Notional Value**	**Interest Rate**	**Forward Start Date**	**Interest Maturity**	**Fair Value**
	(dollars in thousands)				
Current Interest Rate Swaps:					
LIBOR Swap	$36,111	4.35%	n/a	1/1/11	$1,516
LIBOR Swap	20,000	4.53%	n/a	10/1/06	45
LIBOR Swap	15,023	4.32%	n/a	1/1/07	89
LIBOR Swap	11,621	4.11%	n/a	1/1/07	81
LIBOR Swap	8,657	4.47%	n/a	6/1/07	80
	$91,412				
Forward-starting Interest Rate Swaps:					
LIBOR Swap	$4,640	4.71%	1/1/10	1/10/11	101
LIBOR Swap	11,410	4.90%	10/2/06	10/1/11	285
LIBOR Swap	8,434	5.14%	6/1/07	3/1/12	114
	$24,484				
Interest Rate Caps:					
LIBOR Cap	$30,000	6.00%	n/a	4/1/08	10
Derivatives receivable (1)					$2,321

(1) The derivatives receivable is included in Other Assets in the Consolidated Balance Sheets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. MORTGAGE LOANS

Due to the adoption of EITF 04-5 (Note 2), all of the Fund I and Fund II loans are now included as part of the Company s consolidated mortgage indebtedness.

On January 12, 2006, in conjunction with the purchase of a property, the Company assumed a loan of $3.8 million which bears interest at a fixed rate of 8.5%.

On January 18, 2006, the Company drew an additional $1.8 million on an existing credit facility. On April 21, 2006, the Company paid down $15.0 million on this facility. On June 1, 2006, the Company drew an additional $19.2 million on this facility. On June 22, 2006 the entire existing balance of $30.4 million was paid off by the Company.

On January 24, 2006, in conjunction with the purchase of a partnership interest, the Company assumed a loan of $8.7 million which bears interest at a fixed rate of 6.4%.

On February 22, 2006, the Company financed a property within its existing portfolio for $20.5 million. This loan bears interest at a fixed rate of 5.4%. A portion of the proceeds were used to pay down $10.9 million on an existing credit facility.

On March 27, 2006, the Company refinanced a property for $30.0 million. This loan bears interest at LIBOR plus 140 basis points. A portion of the proceeds were used to pay down the existing $12.1 million of debt on this property.

On May 31, 2006, the Company borrowed an additional $13.0 million on an existing $65.0 million revolving credit facility. This additional draw was repaid on June 30, 2006. The existing balance as of June 30, 2006 is $22.0 million.

On June 16, 2006, in conjunction with the purchase of a property, the Company assumed a loan of $10.1 million which bears interest at a fixed rate of 5.45%.

10. RELATED PARTY TRANSACTIONS

In February 2005, the Company issued $4.0 million of Restricted Common OP Units to Klaff for the balance of certain management contract rights as well as the rights to certain potential future revenue streams.

In June 2006, the Company converted its Preferred Equity Investment with Levitz SL, in which Klaff has an interest, into a mortgage loan (Note 7).

The Company also earns fees in connection with its rights to provide asset management, leasing, disposition, development and construction services for an existing portfolio of retail properties and/or leasehold interests in which Klaff has an interest. Net fees earned by the Company in connection with this portfolio were $1.0 million for the three months ended June 30, 2006 and 2005, respectively, and $2.1 million and $1.6 million for the six months ended June 30, 2006 and 2005, respectively. The amount is net of the payment of sub-management fees to Klaff of $0.3 million for the six months ended June 30, 2005.

Lee Wielansky, the Lead Trustee of the Company, was paid a consulting fee of $25,000 for the three months ended June 30, 2006 and 2005, respectively, and $50,000 for the six months ended June 30, 2006 and 2005, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. SEGMENT REPORTING

The Company has two reportable segments: retail properties and multi-family properties. The accounting policies of the segments are the same as those described in the summary of significant accounting policies as discussed in the Company s Annual Report on Form 10-K for the year ended December 31, 2005. The Company evaluates property performance primarily based on net operating income before depreciation, amortization and certain nonrecurring items. The reportable segments are managed separately due to the differing nature of the leases and property operations associated with the retail versus residential tenants. The following tables set forth certain segment information for the Company for continuing operations for the three and six months ended June 30, 2006 and 2005 and does not include activity related to unconsolidated partnerships:

	Six months ended June 30, 2006			
	Retail Properties	**Multi-Family Properties**	**All Other**	**Total**
	(dollars in thousands)			
Revenues	$39,568	$4,000	$6,135	$49,703
Property operating expenses and real estate taxes	10,824	2,087		12,911
Other expenses	7,830	1,014	1,242	10,086
Net property income before depreciation, amortization and certain nonrecurring items	$20,914	$899	$4,893	$26,706
Depreciation and amortization	$11,917	$753	$234	$12,904
Interest expense	$10,110	$729	$	$10,839
Real estate at cost	$607,771	$42,005	$	$649,776
Total assets	$722,186	$39,005	$	$761,191
Expenditures for real estate and improvements	$48,897	$371	$	$49,268

Reconciliation to net income	
Net property income before depreciation and amortization	$26,706
Depreciation and amortization	(12,904)
Income from discontinued operations	664
Equity in earnings of unconsolidated affiliates	7,140
Interest expense	(10,839)
Income taxes	(812)
Minority interest	(754)
Net income	$9,201

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ACADIA REALTY TRUST AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. SEGMENT REPORTING (continued)

	Three months ended June 30, 2006			
	Retail Properties	**Multi-Family Properties**	**All Other**	**Total**
	(dollars in thousands)			
Revenues	$19,341	$1,964	$3,188	$24,493
Property operating expenses and real estate taxes	5,030	1,032		6,062
Other expenses	3,572	585	622	4,779
Net property income before depreciation, amortization and certain nonrecurring items	$10,739	$347	$2,566	$13,652
Depreciation and amortization	$6,012	$377	$117	$6,506
Interest expense	$5,279	$375	$	$5,654
Real estate at cost	$607,771	$42,005	$	$649,776