

ACADIA REALTY TRUST  
ANNUAL REPORT 2003

CHANGE

# MAKING

A YEAR OF EXTRAORDINARY ACHIEVEMENT

Before Redevelopment...



...During...



...After Redevelopment



**Making Change** has been the key to our success. Following the formation of Acadia in 1998, we launched a multi-year plan focused on building the three core components of our business. Five years later, we have achieved our goals in these three key areas through aggressive change:

- We have built a strong **Core Portfolio** of shopping centers.
- We have built a solid **Balance Sheet**.
- We have built a highly accretive **External Growth Platform**.

Please Open

At Acadia, we **Plan Change**. We operate in a competitive and dynamic industry that requires proactive and flexible strategies. **Making Change** has been fundamental to our past success — it remains the key to our **Future Success**.

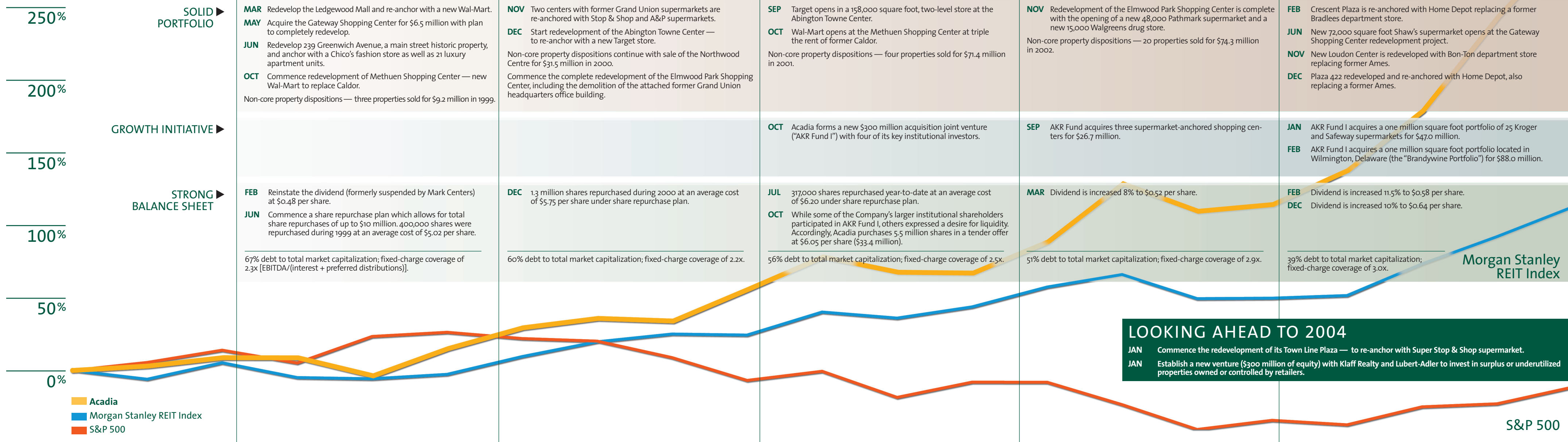
**On the cover:**

**Making change within our portfolio** — The redevelopment of the Gateway Shopping Center in South Burlington, Vermont, included the demolition of 90% of this formerly outdated, partially enclosed mall anchored by an undersized Grand Union supermarket. In its place, we built a contemporary, open-air shopping center anchored by a 72,000 square foot state-of-the-art Shaw's supermarket.

# FIVE YEARS OF EXTRAORDINARY PERFORMANCE AND RETURNS

Acadia

Cumulative returns versus major indices



**SOLID PORTFOLIO**

**GROWTH INITIATIVE**

**STRONG BALANCE SHEET**

67% debt to total market capitalization; fixed-charge coverage of 2.3x [EBITDA/(interest + preferred distributions)].

60% debt to total market capitalization; fixed-charge coverage of 2.2x.

56% debt to total market capitalization; fixed-charge coverage of 2.5x.

51% debt to total market capitalization; fixed-charge coverage of 2.9x.

39% debt to total market capitalization; fixed-charge coverage of 3.0x.

**MAR** Redevelop the Ledgewood Mall and re-anchor with a new Wal-Mart.  
**MAY** Acquire the Gateway Shopping Center for \$6.5 million with plan to completely redevelop.  
**JUN** Redevelop 239 Greenwich Avenue, a main street historic property, and anchor with a Chico's fashion store as well as 21 luxury apartment units.  
**OCT** Commence redevelopment of Methuen Shopping Center — new Wal-Mart to replace Caldor.  
 Non-core property dispositions — three properties sold for \$9.2 million in 1999.

**NOV** Two centers with former Grand Union supermarkets are re-anchored with Stop & Shop and A&P supermarkets.  
**DEC** Start redevelopment of the Abington Towne Center — to re-anchor with a new Target store.  
 Non-core property dispositions continue with sale of the Northwood Centre for \$31.5 million in 2000.  
 Commence the complete redevelopment of the Elmwood Park Shopping Center, including the demolition of the attached former Grand Union headquarters office building.

**SEP** Target opens in a 158,000 square foot, two-level store at the Abington Towne Center.  
**OCT** Wal-Mart opens at the Methuen Shopping Center at triple the rent of former Caldor.  
 Non-core property dispositions — four properties sold for \$71.4 million in 2001.

**NOV** Redevelopment of the Elmwood Park Shopping Center is complete with the opening of a new 48,000 Pathmark supermarket and a new 15,000 Walgreens drug store.  
 Non-core property dispositions — 20 properties sold for \$74.3 million in 2002.

**FEB** Crescent Plaza is re-anchored with Home Depot replacing a former Bradlees department store.  
**JUN** New 72,000 square foot Shaw's supermarket opens at the Gateway Shopping Center redevelopment project.  
**NOV** New Loudon Center is redeveloped with Bon-Ton department store replacing former Ames.  
**DEC** Plaza 422 redeveloped and re-anchored with Home Depot, also replacing a former Ames.

**FEB** Reinstated the dividend (formerly suspended by Mark Centers) at \$0.48 per share.  
**JUN** Commence a share repurchase plan which allows for total share repurchases of up to \$10 million. 400,000 shares were repurchased during 1999 at an average cost of \$5.02 per share.

**DEC** 1.3 million shares repurchased during 2000 at an average cost of \$5.75 per share under share repurchase plan.

**OCT** Acadia forms a new \$300 million acquisition joint venture ("AKR Fund I") with four of its key institutional investors.  
**JUL** 317,000 shares repurchased year-to-date at an average cost of \$6.20 under share repurchase plan.  
**OCT** While some of the Company's larger institutional shareholders participated in AKR Fund I, others expressed a desire for liquidity. Accordingly, Acadia purchases 5.5 million shares in a tender offer at \$6.05 per share (\$33.4 million).

**SEP** AKR Fund acquires three supermarket-anchored shopping centers for \$26.7 million.  
**MAR** Dividend is increased 8% to \$0.52 per share.

**JAN** AKR Fund I acquires a one million square foot portfolio of 25 Kroger and Safeway supermarkets for \$47.0 million.  
**FEB** AKR Fund I acquires a one million square foot portfolio located in Wilmington, Delaware (the "Brandywine Portfolio") for \$88.0 million.  
**FEB** Dividend is increased 11.5% to \$0.58 per share.  
**DEC** Dividend is increased 10% to \$0.64 per share.

1999 2000 2001 2002 2003

**AUG 1998** RD Capital, Inc. acquires control of Mark Centers Trust and renames Acadia Realty Trust. New management arranges \$100 million cash equity infusion and contributes \$265 million of property. \$70.5 million of the cash was used to deleverage the balance sheet.  
**1998-2002** Commence our non-core property disposition initiative.

**JAN** Advisors are engaged to review strategic alternatives.  
**JAN** Kenneth Bernstein is appointed Chief Executive Officer.  
**OCT** The Company and its advisors conclude to continue with the ongoing business plan as the best means to maximize shareholder value.

Non-core disposition is completed. A total of 28 properties consisting of 4.6 million square feet of retail square footage and 800 apartment units are sold for an aggregate \$186.4 million. Total debt retired from the balance sheet as a result of the initiative is \$103.3 million.

Board appoints Lee S. Wielansky as Lead Independent Trustee. The Board also adopts various new corporate governance initiatives. Douglas Crocker II, former CEO of Equity Residential, and Lorrence T. Kellar, former Head of Kroger Co. Finance and Real Estate, elected to the Board.

Morgan Stanley REIT Index

S&P 500



# FINANCIAL HIGHLIGHTS

	2003	2002	2001 <sup>1</sup>	2000 <sup>1</sup>	1999 <sup>1</sup>
In thousands					
Total Revenues	\$ 69,445	\$ 69,347	\$ 61,282	\$ 63,450	\$ 58,933
Funds from Operations <sup>2</sup>	\$ 27,664	\$ 30,162	\$ 13,487	\$ 31,789	\$ 31,160
Real Estate Owned, at Cost	\$427,628	\$413,878	\$398,416	\$387,729	\$389,111
Common Shares Outstanding	27,409	25,257	28,698	28,150	25,724
Operating Partnership Units Outstanding	1,139	3,163	5,250	6,804	10,484

<sup>1</sup>Amounts for 1999 through 2001 have been restated to reflect the activity and balances from continuing operations only. A significant component of our business plan since 1998 was the disposition of non-core properties. We sold 28 properties under this initiative, which was completed during 2002. Consistent with Statement of Financial Accounting Standards No. 144, the results of operations as well as the assets and liabilities of the sold properties are reported separately as discontinued operations in the Company's consolidated financial statements.

<sup>2</sup>We consider funds from operations ("FFO") as defined by the National Association of Real Estate Investment Trusts ("NAREIT") to be an appropriate supplemental disclosure of operating performance for an equity REIT due to its widespread acceptance and use within the REIT and analyst communities. FFO is presented to assist investors in analyzing our performance. It is helpful as it excludes various items included in net income that are not indicative of the operating performance, such as gains (or losses) from sales of property and depreciation and amortization. However, our method of calculating FFO may be different from methods used by other REITs and, accordingly, may not be comparable to such other REITs. FFO does not represent cash generated from operations as defined by generally accepted accounting principles ("GAAP") and is not indicative of cash available to fund all cash needs, including distributions. It should not be considered as an alternative to net income for the purpose of evaluating our performance or to cash flows as a measure of liquidity. Consistent with the NAREIT definition, we define FFO as net income (computed in accordance with GAAP), excluding gains (or losses) from sales of depreciated property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. We have historically added back impairments in real estate in calculating FFO, in accordance with prior NAREIT guidance. However, NAREIT, based on discussions with the SEC, has provided revised guidance that provides that impairments should not be added back to net income in calculating FFO. As such, historical FFO has been restated consistent with this revised guidance. See *Management's Discussion and Analysis of Financial Condition and Results of Operations – Funds from Operations* for the reconciliation of net income to FFO.

Ledgewood Mall, Ledgewood, NJ



Elmwood Park Shopping Center, Elmwood Park, NJ



Our properties are anchored by necessity-based and value-oriented retailers like Shaw's and Super Stop & Shop supermarkets, Wal-Mart and Target department stores, and Walgreens drugstores.

Acadia Realty Trust (NYSE: AKR), headquartered in White Plains, NY, is a fully integrated and self-managed real estate investment trust ("REIT") which specializes in the acquisition, redevelopment and operation of shopping centers which are anchored by necessity-based and value-oriented retail. Acadia currently owns, or has ownership interests in, and operates 62 properties totaling approximately nine million square feet, located primarily in the Northeast, Mid-Atlantic and Midwest United States.



# A YEAR OF EXTRAORDINARY ACHIEVEMENT

2003 was a year of extraordinary achievement and a critical turning point for Acadia and its shareholders. We continued to maximize the value of our existing portfolio with several exciting redevelopments, and further enhanced our asset base with two significant portfolio acquisitions. 2003 was also the year in which our stock price significantly appreciated — gaining important recognition in the investment community for the successful completion of our multi-year turnaround. It has been the culmination of several years of hard work, tough decisions, solid execution and development of long-term relationships.

In 2003, Acadia's stock was one of the best performing in the REIT industry, with a total return of 76%. As pleased as I am with this return, I am more proud of the fact that over the past five years, our total return averaged 28% per year, making us one of the top performing shopping center REIT stocks over that more extended period.

Although we certainly care about quarter-to-quarter success, looking forward, our primary objective is to provide our shareholders with superior risk adjusted returns on a long-term

basis. As we have said in the past, the key to achieving this goal is to effectively execute our three-pronged core strategy of focusing on creating and maintaining a solid portfolio, a strong balance sheet, and a profitable external growth program. Combining this strategy with a dedicated and experienced management team has enabled us to deliver on the business plan we initiated over five years ago.

**SOLID PORTFOLIO.** While 2002 was a year of aggressive, non-core dispositions, 2003 was a year in which we refined and enhanced the

quality of our portfolio. We launched and/or completed several important redevelopments, most notably the Gateway Shopping Center, the Plaza 422 and the New Loudon Shopping Center. In total, over the course of our multi-year program, we have redeveloped and/or re-anchored over 50% of our current portfolio. Whether it was turning an underperforming Ames department store into a new Home Depot anchored center, or converting an enclosed mall anchored by an undersized Grand Union supermarket into a new state-of-the-art Shaw's supermarket, our redevelopments and re-anchoring have driven growth in both the cash flow as well as the overall value of our properties.

**STRONG BALANCE SHEET.** The second key foundation of our company's strategy has been the highly disciplined maintenance of a strong balance sheet. Along with conservative debt levels and minimal exposure to floating rate debt, we have one of the safest dividend payout ratios in our sector at 61% for 2003. To our shareholders this means that, while other companies may be considering cutting their dividend, our dividend is safe and has the

opportunity to continue to grow as our earnings grow. Even after raising our dividend 33% over the past three years, we still have one of the most conservative dividends in our sector.

**EXTERNAL GROWTH.** The final component to providing stability and growth is our external growth initiative. We have been extremely fortunate to have the backing of several prominent institutional investors to fuel our acquisition program. The ability to utilize a highly accretive discretionary investment fund as our acquisition platform provides our shareholders with a way to maximize their return on invested capital and create powerful earnings growth without having to weaken our balance sheet or continually go to the public markets to raise capital. We believe that effective capital recycling, along with leveraging our skills and relationships, provides for a more powerful external growth program than simply acquiring, or "aggregating" assets. We have never believed in growth for growth's sake alone.

Through our acquisition fund, Acadia Strategic Opportunity Fund ("AKR Fund I"), we acquired two important portfolios in 2003. These two portfolios, the Brandywine portfolio and the Kroger/Safeway portfolio, helped contribute approximately 10% to our earnings in 2003. This growth is strong evidence that selective

acquisitions, correctly structured, can dramatically enhance the earnings of a company of our size. As of year-end, we had acquired three portfolios in AKR Fund I. The fund is already providing a 16% current return on the equity invested with the majority of the income coming from creditworthy tenants such as Target Department Store, Lowe's Home Improvement, Kroger Supermarket, Bed Bath & Beyond, and Safeway Supermarket. In addition, substantially all of the mortgage debt is fixed rate, thus reducing exposure to the risk of rising interest rates.

Along with the exciting acquisitions discussed above, we also laid the groundwork for our retailer-controlled property venture ("RCP Venture"), which we announced in January of 2004. The focus of the RCP Venture is to acquire real estate or leasehold interests controlled by retailers who are either in need of capital or wish to maximize the value of their real estate assets. We formed this venture with two of the dominant players in this field of the real estate industry: the Klaff Organization and its long time investment partner, Lubert-Adler. We will jointly capitalize the RCP Venture with \$300 million of equity, with \$60 million coming from either Acadia or AKR Fund I. We expect this venture to be both highly profitable and complementary to our core competency.

**STRONG MANAGEMENT TEAM.** The only way to successfully execute our aggressive value-added approach is with a strong management team. Our goal is to bring intelligence, intensity and integrity to all that we do. We have assembled a team with the experience and depth to continue to drive Acadia's progress. While markets will go up and down, the quality, integrity and creativity of our management team is what will ensure the long-term success of our company.

**STRONG RELATIONSHIPS.** I am a firm believer in the merits of hard work and the building of relationships as the foundation of success. Over the last five years we have built on existing long-term relationships as well as developed new partners within all our major constituent groups including retailers, developers, entrepreneurs, lenders and investors. For instance, our success in the releasing and redevelopment of our Plaza 422 property was the direct result of the strong tenant relationships that our Director of Leasing, Joe Povinelli, and his team have formed with Home Depot over the many years that they have worked in the industry. As a result of our strong multi-year and multi-deal relationships with several developers and entrepreneurs, we have been fortunate enough to be presented with opportunities that were far

more attractive and profitable than the average investments which were widely marketed to us as well as many of our competitors. We believe that we have built a reputation as a company that sellers and developers can partner with and rely upon to successfully complete complex and profitable transactions.

We also consider ourselves fortunate to have achieved the recognition and support of the investment community. We have earned the trust necessary for this support by diligently working to present clear, digestible information in all of our public documents and filings. And it has resulted in investors' strong support for our stock.

Our focus going forward will be to remain disciplined, opportunistic and strategic. We realize that Acadia will not be all things to all people. We have a strong view that bigger is not better — better is better. Profits are not made simply by size, but rather by sticking to the fundamentals and creating value for our shareholders.

  
**KENNETH F. BERNSTEIN**  
 PRESIDENT AND CEO

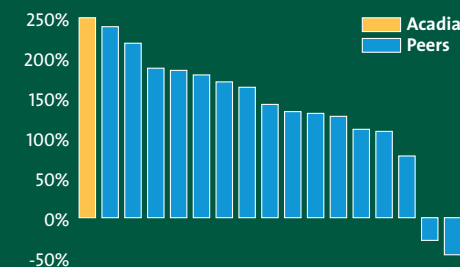


KENNETH F. BERNSTEIN  
 PRESIDENT AND CEO

Acadia's Annual Dividend



Acadia's Five-Year Total Returns vs. Shopping Center REIT Sector



Greenridge Shopping Center, Scranton, PA



Abington Towne Center, Abington, PA





# MAKING CHANGE...BUILDING A STRONG CORE PORTFOLIO

## Five Years of Continued Success

After integrating the newly acquired Mark Centers Trust portfolio with existing Acadia properties in 1998, we set into action an aggressive strategy to build a high quality shopping center portfolio. The first component of our plan was to sell properties which did not meet our core portfolio criteria of well-located assets in high barrier-to-entry markets. At the completion of this non-core disposition initiative in 2002, we had sold 28 properties (mostly assets from the former Mark portfolio) comprising 4.6 million square feet of retail and 800 apartment units for an aggregate sales price of \$186.4 million.

Over the past five years, we have created significant shareholder value by "making change" at the real estate level — turning our former Ames and Grand Unions into Home Depots and Shaw's supermarkets. To date, we have redeveloped and/or re-anchored over 50% of our current portfolio.

The second key component of our portfolio strategy was, and continues to be, to redevelop and re-anchor select core assets. These activities have been the crucial factors in building our **solid portfolio**, and in promoting ongoing **strong internal growth** in our current assets. By continually assessing the physical life cycle of our assets, the competitive environments within the local markets we serve and the needs of our tenants, we proactively identify opportunities to strengthen our shopping centers through redevelopment and re-anchoring throughout our portfolio.

We have built a **solid portfolio** through the redevelopment and re-anchoring of over 50% of our current assets over the last five years. We've discussed some of these in previous annual reports, including:

- Installing a two-story Target department store in conjunction with the de-malling of the Abington Town Center outside of Philadelphia.
- Replacing Caldor with a new Wal-Mart, tripling the rent, at our Methuen Shopping Center outside of Boston.
- Demolishing an attached, multi-story Grand Union headquarters office building and replacing the undersized supermarket with an expanded Walgreen's drugstore and a new full sized Pathmark supermarket at the Elmwood Park Shopping Center located outside of New York City.

Our activity this year was on pace with that of previous years. The following are key 2003 highlights of our continued successful execution in our redevelopment program:

**HOME DEPOT REPLACES FORMER AMES AT THE PLAZA 422.** Home Depot held its grand opening during 2003 at our Plaza 422 redevelopment project located in Lebanon, Pennsylvania. We recaptured an 83,000 square foot former Ames department store and demolished the structure as well as the attached enclosed mall portion of the old shopping center. We installed a new 104,000 square foot Home Depot in its place and are now collecting rent from Home Depot at a level three times that of the former Ames. We also recaptured another 48,000 square feet at the center and are actively re-tenanting this space.

**BON-TON DEPARTMENT STORE REPLACES ANOTHER AMES AT THE NEW LOUDON CENTER.** During 2003 we installed a 66,000 square foot Bon-Ton Department Store at our

New Loudon Center redevelopment project located in Latham, New York. Bon-Ton, which replaced a former Ames, is paying rent at a 15% increase over that of Ames. In addition, we leased the remaining portion of the former Ames space to Marshall's, an existing tenant at the center, which is expanding its current 26,000 square foot store to 37,000 square feet. We are also currently installing a new 49,000 square foot Raymour and Flanigan Furniture store at this center. Following the completion of this project in mid-2004, this community shopping center will be 100% occupied.

**GATEWAY SHOPPING CENTER CONVERTED TO A MODERN, OPEN-AIR SHOPPING CENTER.** Our redevelopment of the Gateway Shopping Center in South Burlington, Vermont, included the demolition of

90% of this formerly outdated, partially enclosed mall which was anchored by an undersized Grand Union supermarket. In its place, we built a contemporary, open-air shopping center anchored by a 72,000 square foot state-of-the-art Shaw's supermarket which opened its doors for business during 2003.

Over the last five years, we have created a **solid portfolio** through our non-core disposition, property redevelopment and re-anchoring programs. We now continue to harvest **strong internal growth** from our assets through accretive redevelopment, as well as an aggressive leasing program that has resulted in overall portfolio occupancy gains and increases in rents on new and renewal leases.

The Gateway Shopping Center, South Burlington, VT



Crescent Plaza, Brockton, MA



New Loudon Center, Latham, NY





# A YEAR OF EXTRAORDINARY ACHIEVEMENT...

## 2003 Acquisitions Totaling \$135 Million

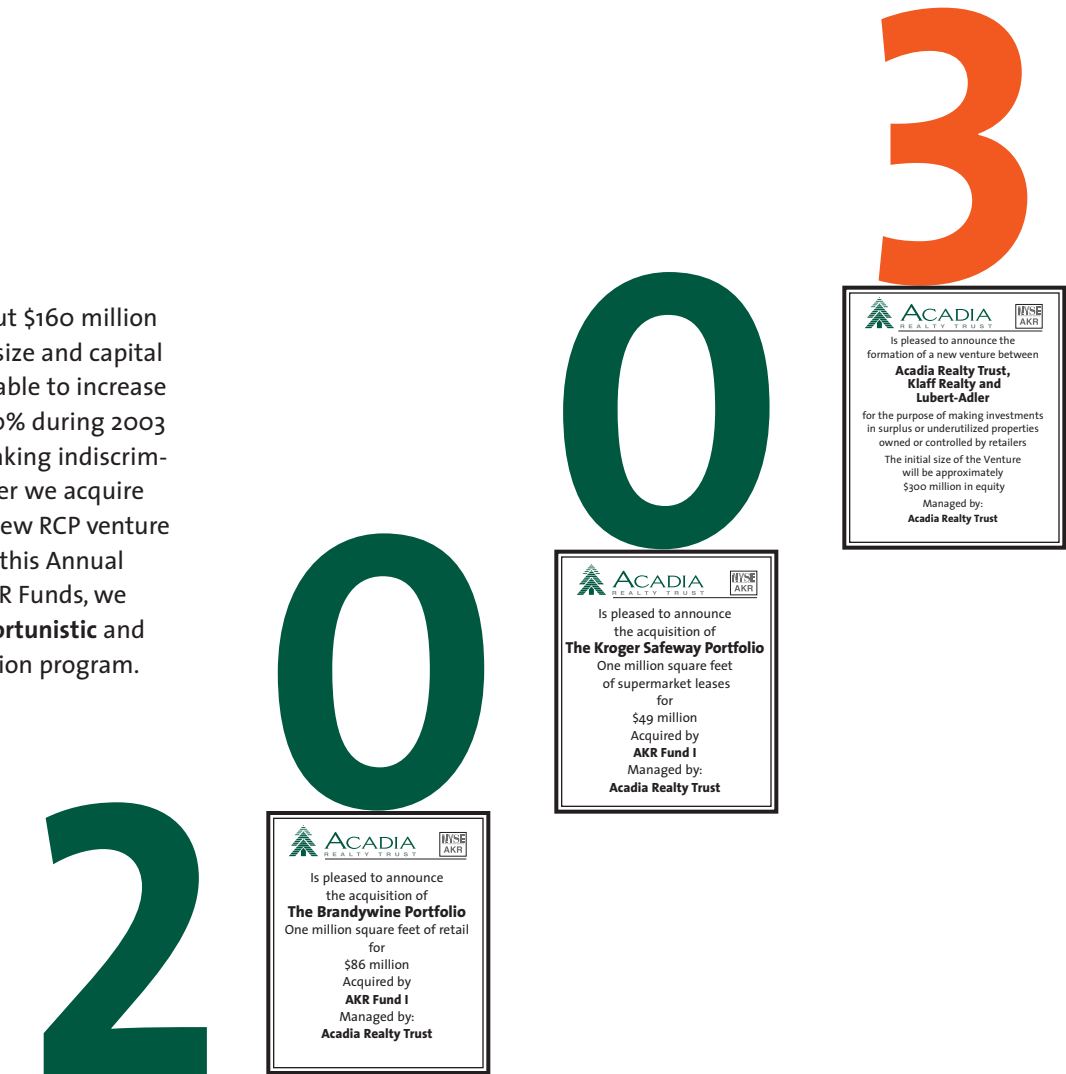
In 2001, we formulated an external growth strategy which focused on acquiring assets through a new joint venture formed with four of our institutional investors (“AKR Fund I”). We purchased a \$27 million portfolio in 2002, consisting of three supermarket-anchored shopping centers located in Cleveland and Columbus Ohio. At the beginning of 2003, we sought to acquire \$100 million in new assets — an ambitious goal given the extremely competitive acquisition environment for retail properties. Another potential hurdle in meeting our acquisition target was our insistence that acquisitions be **highly accretive**, in terms of both earnings and net asset value. Adhering to our **opportunistic yet disciplined** acquisition philosophy, we not only met, but exceeded our goals for 2003 by acquiring two portfolios totaling \$135 million.

**TWO HIGHLY ACCRETIVE PORTFOLIO ACQUISITIONS.** During 2003, we acquired the Brandywine Portfolio, a one-million square foot, open-air retail complex located in Wilmington, Delaware for an initial purchase price of \$89 million, or \$89 per square foot. The seller of the property had invested \$200 per square foot in the recent construction of this center, which is anchored by Target, Lowe’s and Bed Bath & Beyond. We structured this transaction with an earn-out component related to the future lease-up of a portion of this center. This offers us the opportunity to create additional value without risking capital. Not only does the 10.25% capitalization rate on this transaction represent an attractive initial yield, but given the high-quality tenants and the earnout feature, it is an ideal blend of strong location, high credit quality and future growth potential.

We also acquired the Kroger-Safeway Portfolio, a one million square foot Kroger and Safeway supermarket portfolio for \$48 million, or \$48 per square foot. The projected cash flow on Acadia’s portion of its equity investment is anticipated to yield in excess of a 15% return, after fully amortizing the \$35 million related mortgage debt over the next six years. At the end of the lease term in 2009, AKR Fund I will control one million square feet free of debt with tremendous redevelopment and recycle opportunities — providing additional upside in addition to the attractive current yield.

**CREATING VALUE THROUGH EXPERTISE AND FLEXIBILITY.** Both of these major transactions highlight our ability to use our skills, flexibility and joint venture structures to create significant value within our acquisition program. Of the \$300 million of purchasing power in AKR

Fund I, we have already put \$160 million to work. Due to both our size and capital efficient model, we were able to increase our earnings growth by 10% during 2003 without overpaying or making indiscriminate acquisitions. Whether we acquire assets in AKR Fund I, our new RCP venture (See “Looking Forward” in this Annual Report), or subsequent AKR Funds, we intend on remaining **opportunistic** and **disciplined** in our acquisition program.



Market Square Shopping Center, Wilmington, DE



Brandywine Town Center, Wilmington, DE



The Market Square Shopping Center and Brandywine Town Center along with an additional component for which initial leasing is underway comprise the Brandywine Portfolio, a one-million square foot, open-air retail complex located in Wilmington, Delaware. The portion currently undergoing lease-up is to be paid for on an “earn-out” basis — reflective of the innovative and flexible “deal structuring” capabilities of Acadia.

The Kroger/Safeway Portfolio is comprised of 25 Safeway and Kroger supermarket leases. Acadia has been able to generate superior investment returns on this acquisition by taking advantage of the structure of AKR Fund I.





# BY ANY STANDARD OF MEASUREMENT...

## Our Balance Sheet Is Strong

Along with developing a strong portfolio over the last five years, we have also concentrated on building a **strong balance sheet** through three key areas of focus: **disciplined use of debt, access to capital and reliable and growing dividends**. As a result, we now have one of the strongest balance sheets in our peer group.

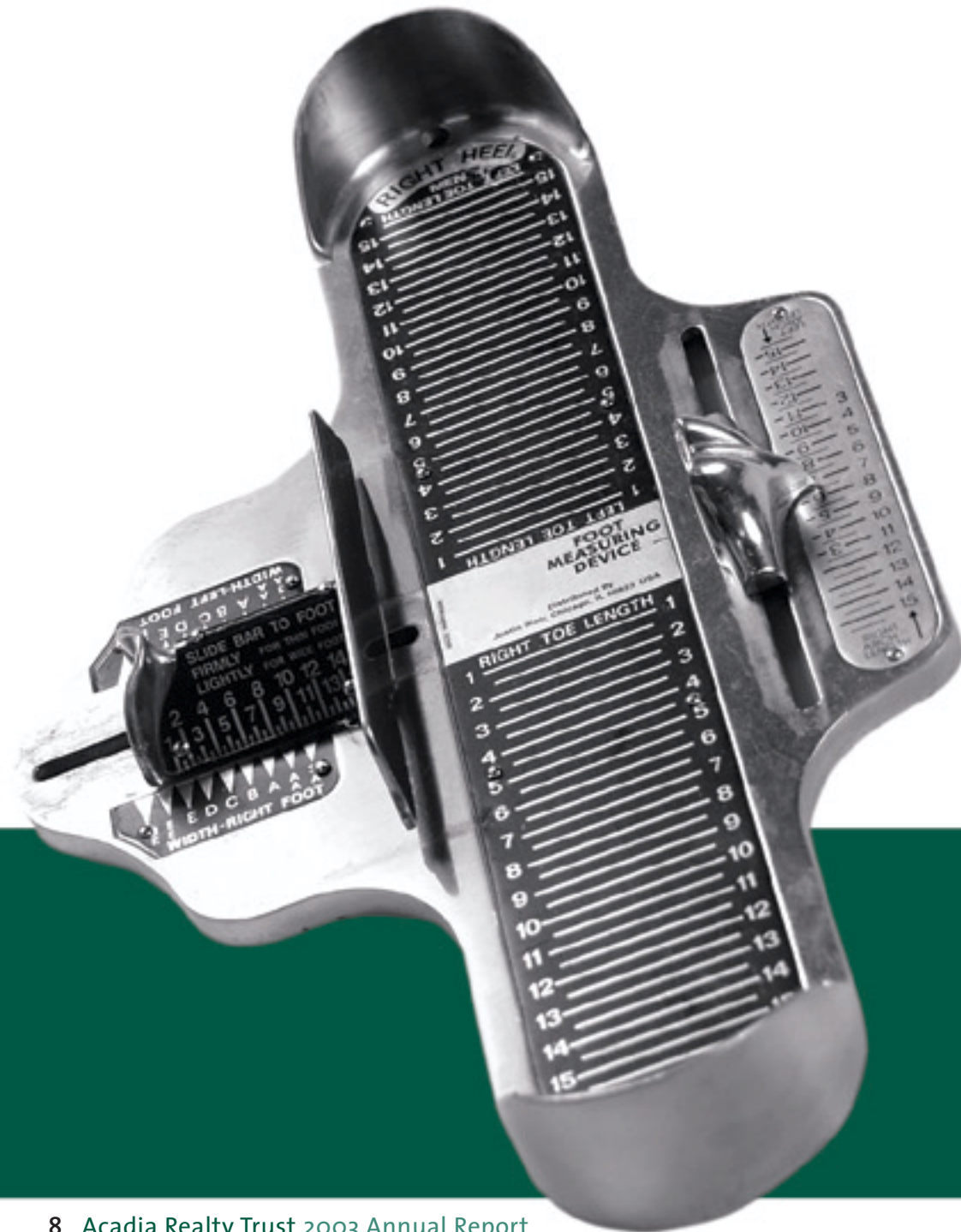
**DISCIPLINED USE OF DEBT.** In 1999, our debt was 67% of our total market capitalization — it is now 39%. Similarly, our fixed-charge coverage ratio (EBITDA / Interest expense and preferred distributions) was 2.3 times in 1999 — now it is 3.0 times. We have also eliminated a substantial amount of our exposure to future increases in interest rates. Currently, 85% of our debt is fixed-rate, including our pro-rata share of joint venture debt. Our current average cost of debt is only 6%, and we have locked in long-term, low rates on \$62 million, or one third of our debt, through the use of interest rate swap agreements with terms extending through 2012.

**BUILDING SUFFICIENT ACCESS TO CAPITAL.** Along with the prudent and efficient use of debt, we have also ensured sufficient **access to equity** to fund our various external growth initiatives as well as our ongoing portfolio redevelopment program. One such source is the public equity market. Many REITs have tapped this source recently as their stocks are trading at healthy earnings multiples. Since Acadia is currently rewarded with one of the highest earnings multiples in our sector, we will consider using market equity when we are confident we can deploy our investors' capital quickly and in **highly accretive deals**.

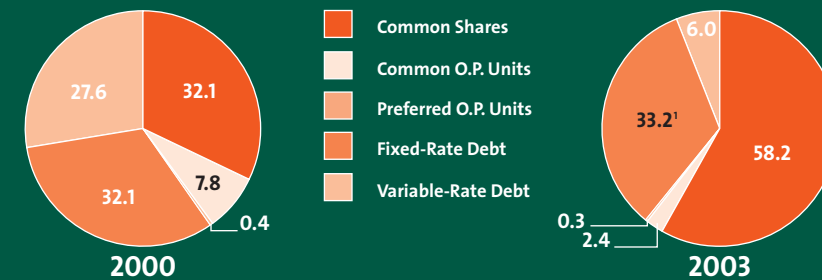
As the public markets are cyclical, we think it is essential to arrange for alternative sources of capital. As mentioned in the previous section of this report, we formed AKR Fund I with several of our largest institutional shareholders, resulting in a strong alignment of interest between the joint venture and our shareholders. Because this capital can be accessed on a discretionary basis and is non-dilutive, even on a temporary basis, we have been able to invest it with **discipline** and on an **opportunistic** basis. As a result our investments have all generated yields ranging from 15% to 20%.

**CONSERVATIVE DIVIDEND POLICY — GROWTH COMMENSURATE WITH EARNINGS.** The final component in managing our capital is a rational dividend policy. We have grown our dividend over 30% over the last three years while maintaining one of the most **reliable dividends** in our sector. Our dividend, with a coverage ratio of 61% of funds from operations for 2003, was significantly safer than the average of our peers at 71%.

We have achieved our goals in all three key balance sheet initiatives and, consequently, we now have a capital structure better able to withstand uncertain times and ready access to capital for our future growth.



Total Market Capitalization as of December 31

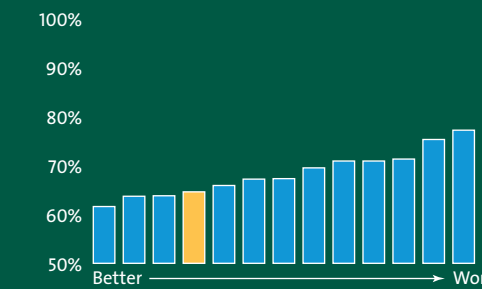


## Acadia versus Shopping Center REIT Sector

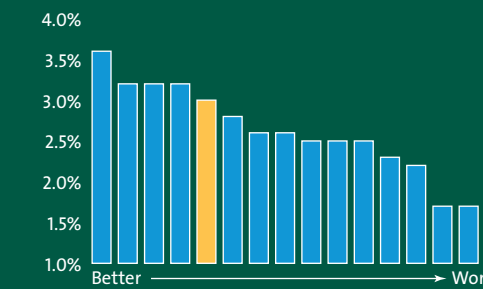
Using any of the balance sheet metrics commonly used in our industry, Acadia ranks among the strongest in our peer group.

Acadia  
Peers

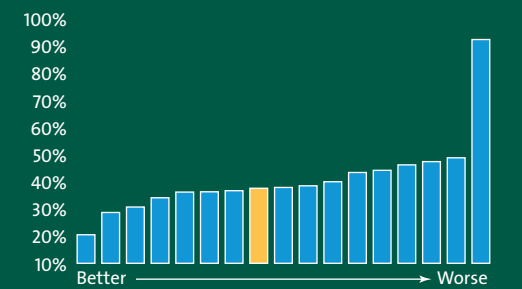
FFO Payout Ratios



Debt Service Coverage Ratio



Debt to Total Market Capitalization (includes preferred equity and pro-rata JV debt)



<sup>1</sup>Fixed-rate debt includes \$86.7 million of notional principal fixed through interest rate swap transactions and conversely, variable-rate debt excludes this amount.



# LOOKING FORWARD...CONTINUING TO MAKE CHANGE

## Acadia New Retail Venture — Additional Pipeline for External Growth

In January 2004, we added an external growth platform with the formation of a new retailer-controlled property venture (the “RCP Venture”). Our focus is to acquire properties, leases and designation rights associated with retailers. To maximize the opportunity for success, we have teamed up with one of the dominant players in the distressed retail business.

The initial size of the RCP Venture will be approximately \$300 million in equity, with Acadia, either directly or through its fund(s), investing a total of 20% of the equity. As a component to this transaction, Acadia also acquired the rights to provide asset management, leasing, disposition, development and construction services for an existing portfolio of retail properties.

Over the past five years, we have created significant shareholder value turning our Caldor, Ames and Grand Unions into Wal-Marts, Home Depots and Shaw’s. Through the RCP Venture, we look forward to creating further shareholder value in this arena on a more proactive basis. Retailer-controlled real estate will be a continuing source of attractive investment opportunities, consistent with our value-added focus.

**TOWN LINE PLAZA ADDED TO REDEVELOPMENT PIPELINE.** Also in January 2004, we announced another redevelopment pipeline addition. We are now re-anchoring the Town Line Plaza, located in Rocky Hill, Connecticut, with a new Super Stop & Shop supermarket, replacing a former GU Markets. The existing building is being demolished and will be replaced with a 66,000 square foot Super Stop & Shop. The new supermarket anchor is paying rent, even during construction, at a 33% increase over that of the former tenant.

**CONTINUED CORPORATE GOVERNANCE INITIATIVES.** During 2003, we enacted several corporate governance initiatives. These included naming Lee Wielansky to the position of Independent Lead Trustee as well as adding Douglas Crocker II and Lorrence Kellar as independent members

to our Board of Trustees. In addition, our Audit, Compensation and Nominating/Corporate Governance committees are now comprised entirely of independent trustees. We also created and published charters for each of the committees as well as a Senior Officer Code of Conduct, a Whistleblower Policy and a Code of Business Ethics.

In 2004, we continued our corporate governance initiatives by nominating Suzanne Hopgood and Wendy Luscombe to our Board as **Independent Trustees**. Their election at our next Annual Meeting of Shareholders would result in a Board comprised of six fully independent trustees and Mr. Bernstein, our President and CEO, who together will guide Acadia in **making change** during 2004 and beyond.



New Loudon Center, Latham, NY



Abington Towne Center, Abington, PA



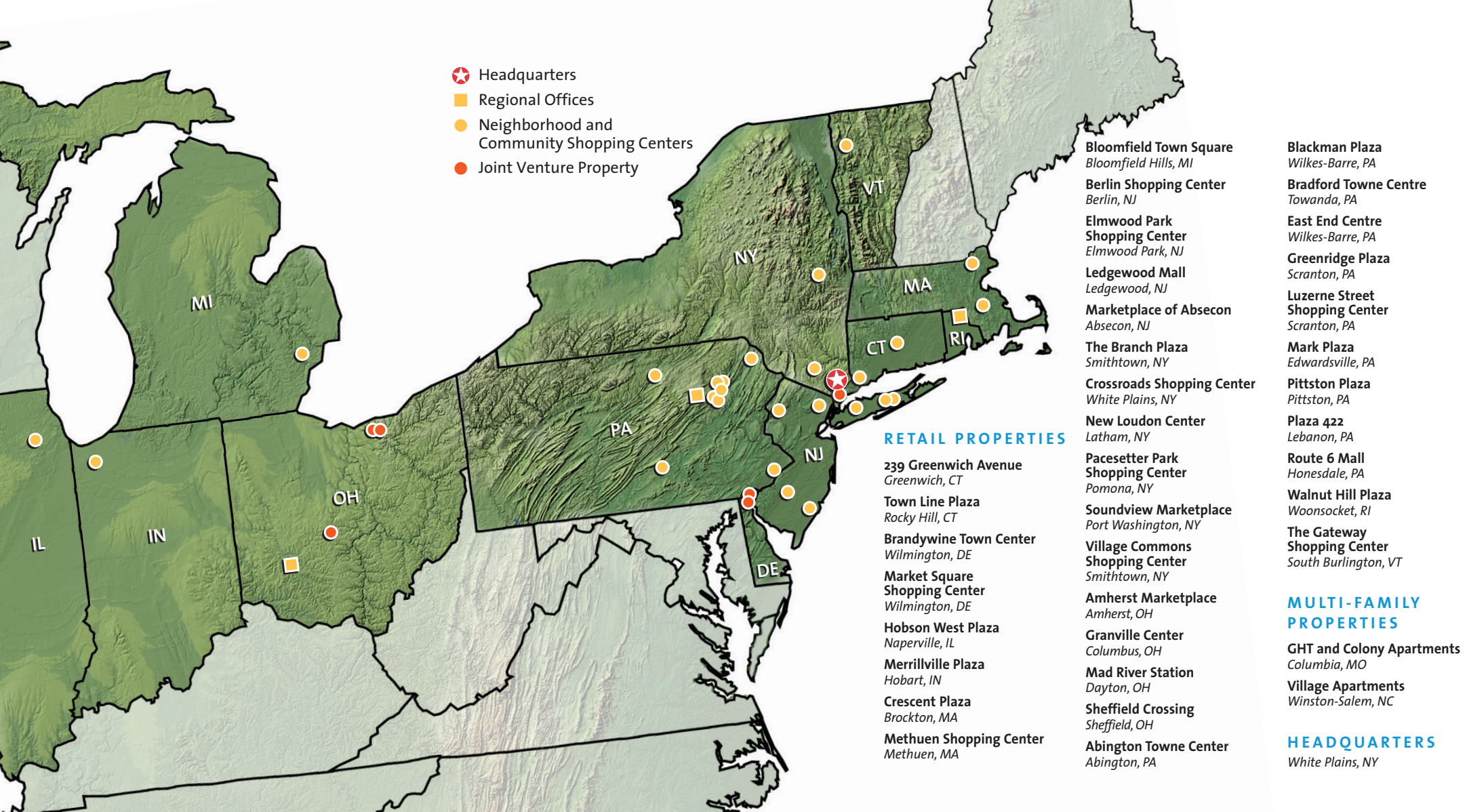
Walnut Hill Plaza, Woonsocket, RI



As part of the redevelopment of the Town Line Plaza, we are replacing the existing anchor with a new 66,000 square foot Super Stop & Shop supermarket.







## TRUSTEES AND CORPORATE OFFICERS

### TRUSTEES

**Kenneth F. Bernstein**  
President and Chief Executive Officer

**Douglas Crocker II**  
Former Chief Executive Officer, Equity Residential

**Martin L. Edelman, Esq.**  
Of Counsel to Paul, Hastings, Janofsky & Walker, LLP

**Alan S. Forman**  
Director of Investments Office  
Yale University

**Lorrence T. Kellar**  
Vice President of Retail Development,  
Continental Properties

**Marvin J. Levine, Esq.**  
Of Counsel to Wachtel & Masyr, LLP

**Lawrence J. Longua**  
Sr. Vice President  
Newmark & Company  
Real Estate, Inc.

**Lee S. Wielansky**  
Chairman of the Board and  
Chief Executive Officer  
Midland Development  
Group Inc.

### SENIOR OFFICERS

**Kenneth F. Bernstein**  
President and  
Chief Executive Officer

**Joel Braun**  
Sr. Vice President,  
Chief Investment Officer

**Joseph Hogan**  
Sr. Vice President,  
Director of Construction

**Robert Masters, Esq.**  
Sr. Vice President,  
General Counsel and  
Corporate Secretary

**Joseph M. Napolitano**  
Sr. Vice President  
Director of Operations

**Michael Nelsen**  
Sr. Vice President,  
Chief Financial Officer

**Joseph Povinelli**  
Sr. Vice President,  
Director of Leasing





# SHAREHOLDER INFORMATION

## CORPORATE HEADQUARTERS

**Acadia Realty Trust**  
1311 Mamaroneck Avenue  
Suite 260  
White Plains, NY 10605  
Tel: 914.288.8100

## INTERNET ADDRESS

Visit us online at [www.acadiarealty.com](http://www.acadiarealty.com) for more information about Acadia Realty Trust and its real estate portfolio. The 2003 Annual Report is available online, as well as current news and quarterly financial and operational supplementary information.

## LEGAL COUNSEL

**Paul, Hastings, Janofsky & Walker, LLP**  
Park Avenue Tower  
75 East 55th Street  
New York, NY 10022

## ANNUAL MEETING

The annual meeting will be held on May 6, 2004 at 10:00 am at the offices of Paul, Hastings, Janofsky & Walker, LLP, Park Avenue Tower, 75 East 55th Street, New York, NY 10022.

## INDEPENDENT AUDITORS

**Ernst & Young LLP**  
5 Times Square  
New York, NY 10036

## STOCK EXCHANGE

**New York Stock Exchange**  
Symbol: AKR

## TRANSFER AGENT AND REGISTRAR

**American Stock Transfer & Trust Company**  
59 Maiden Lane  
Plaza Level  
New York, NY 10038  
Tel: 877.777.0800  
website: [www.amstock.com](http://www.amstock.com)  
email: [info@amstock.com](mailto:info@amstock.com)

## INVESTOR RELATIONS

**Jon Grisham**  
Vice President  
Tel: 914.288.8100  
email: [jgrisham@acadiarealty.com](mailto:jgrisham@acadiarealty.com)

A copy of the Company's annual report and Form 10-K filed with the Securities and Exchange Commission may be obtained without charge by contacting Investor Relations.

## DIVIDEND REINVESTMENT

Acadia Realty Trust offers a dividend reinvestment plan that enables its shareholders to automatically reinvest dividends as well as make voluntary cash payments toward the purchase of additional shares. To participate, contact Acadia Realty Trust's dividend reinvestment agent at 800.937.5449 ext. 6820 or write to:

**American Stock Transfer & Trust Company**  
Attn: Dividend Reinvestment Dept.  
59 Maiden Lane  
Plaza Level  
New York, NY 10038

For further information contact Investor Relations.



1311 Mamaroneck Avenue  
Suite 260  
White Plains, NY 10605  
Tel: 914.288.8100

**Pacesetter Park Shopping Center**  
*Pomona, NY*

**Village Commons Shopping Center**  
*Smithtown, NY*

**Mad River Station**  
*Dayton, OH*



ACADIA REALTY TRUST  
SELECTED FINANCIALS 2003

CHANGE

MAKING

A YEAR OF EXTRAORDINARY ACHIEVEMENT

Before Redevelopment...



...During...



...After Redevelopment



## CONTENTS

- 1 Management's Discussion and Analysis
- 13 Report of Independent Auditors
- 14 Consolidated Balance Sheets
- 15 Consolidated Statements of Income
- 17 Consolidated Statements of Shareholders' Equity
- 18 Consolidated Statements of Cash Flows
- 20 Notes to Consolidated Statements



**ON THE COVER:**

FROM LEFT TO RIGHT

**Elmwood Park Shopping Center**  
*Elmwood Park, NJ*

**Marketplace of Absecon**  
*Absecon, NJ*

**Abington Towne Center**  
*Abington, PA*

**Walnut Hill Plaza**  
*Woonsocket, RI*

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Financial Condition and Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements (including the related notes thereto) of Acadia Realty Trust (the "Company") appearing elsewhere in this Annual Report. Certain statements contained in this Annual Report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities and Exchange Act of 1934 and as such may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements, which are based on certain assumptions and describe the Company's future plans, strategies and expectations are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "intend" or "project" or the negative thereof or other variations thereon or comparable terminology. Factors which could have a material adverse effect on the operations and future prospects of the Company include, but are not limited to those set forth under the heading "Risk Factors" in the Company's Annual Report on Form 10-K. These risks and uncertainties should be considered in evaluating any forward-looking statements contained or incorporated by reference herein.

### Overview

The Company currently operates 62 properties, which it owns or has an ownership interest in, consisting of 58 neighborhood and community shopping centers, one enclosed mall, one mixed-use property (retail/residential) and two multi-family properties, which are located primarily in the Northeast, Mid-Atlantic and Midwestern regions of the United States and, in total, comprise approximately nine million square feet. The Company receives income primarily from the rental revenue from its properties, including recoveries from tenants, offset by operating and overhead expenses.

The Company focuses on three primary areas in executing its business plan as follows:

- Focus on maximizing the return on its existing portfolio through leasing and property redevelopment activities. The Company's redevelopment program is a significant and ongoing component of managing its existing portfolio and focuses on selecting well-located neighborhood and community shopping centers and creating significant value through re-tenanting and property redevelopment.
- Pursue above-average returns through a disciplined and opportunistic acquisition program. The primary conduits for the Company's acquisition program are through its existing acquisition joint venture, ASOF, as well as the new venture established to invest in surplus or underutilized properties owned or controlled by retailers as discussed in the Company's Annual Report on Form 10-K.
- Maintain a strong balance sheet, which provides the Company with the financial flexibility to fund both property redevelopment and acquisition opportunities.

## Results of Operations

### COMPARISON OF THE YEAR ENDED DECEMBER 31, 2003 ("2003") TO THE YEAR ENDED DECEMBER 31, 2002 ("2002")

Total revenues increased \$98,000 to \$69.4 million for 2003 compared to \$69.3 million for 2002.

Minimum rents increased \$1.7 million, or 3%, to \$50.2 million for 2003 compared to \$48.5 million for 2002. This increase was attributable to an increase in rents following the redevelopment of the Elmwood Park and Gateway shopping centers and an increase in rents from re-tenanting activities and renewals of tenant leases across the portfolio. These increases were partially offset by a decrease in rents following Ames Department Stores' bankruptcy.

In total, expense reimbursements increased \$2.1 million, or 19%, from \$11.4 million for 2002 to \$13.5 million for 2003. CAM expense reimbursements increased \$1.6 million, or 34%, from \$4.7 million in 2002 to \$6.3 million in 2003. This resulted primarily from tenant reimbursements of higher snow removal costs following the harsh winter of 2003 as well as tenant reimbursements of higher insurance costs throughout the portfolio. Real estate tax reimbursements increased \$457,000 primarily

## MANAGEMENT'S DISCUSSION AND ANALYSIS *continued*

as a result of the variance in real estate tax expense as discussed below.

Lease termination income of \$3.9 million in 2002 was primarily the result of the settlement of the Company's claim against a former tenant.

Other income increased \$97,000, or 3%, from \$3.9 million in 2002 to \$4.0 million in 2003. This was primarily due to a lump sum additional rent payment of \$1.2 million received from a former tenant during 2003 in connection with the re-anchoring of the Branch Plaza and an increase of \$527,000 in management fee income received from ASOF in 2003. These increases were partially offset by a decrease in interest income during 2003 due to lower interest earning assets, including cash investments and notes receivable, as well as the decline in interest rates.

Total operating expenses increased \$6.6 million, or 14%, to \$52.6 million for 2003, from \$46.0 million for 2002.

Property operating expenses increased \$2.9 million, or 24%, to \$15.2 million for 2003 compared to \$12.3 million for 2002. This was a result of higher snow removal costs due to the harsh winter of 2003 and higher insurance costs throughout the portfolio.

Real estate taxes increased \$352,000, or 4%, from \$8.4 million in 2002 to \$8.8 million in 2003. This increase was attributable to higher real estate taxes experienced generally throughout the portfolio and a 2002 adjustment of accrued real estate taxes for an acquired property. These increases were primarily offset by a real estate tax refund agreed to in 2003 related to the appeal of taxes paid in prior years at the Greenridge Plaza.

General and administrative expense increased \$561,000, or 6%, from \$10.2 million for 2002 to \$10.7 million for 2003. This increase was primarily attributable to stock-based compensation. These increases were offset by additional costs paid in 2002 related to the Company's tender offer and repurchase of its Common Shares.

Depreciation and amortization increased \$3.1 million, or 21%, from \$14.8 million for 2002 to \$17.9 million for 2003. Depreciation expense increased \$3.5 million. This was a result of the write-off of \$2.7 million of unamortized tenant improvement costs related to the buyout and termination of the former anchor at the Town Line

Plaza redevelopment project. In addition, depreciation expense increased following the Elmwood Park redevelopment project being placed in service during the fourth quarter of 2002 and the Gateway project being placed in service during the first quarter of 2003. Amortization expense decreased \$443,000, which was primarily attributable to the write-off of deferred leasing costs during 2002 related to certain tenant leases.

Interest expense of \$11.2 million for 2003 increased \$214,000, or 2%, from \$11.0 million for 2002. This was primarily attributable to a decrease of \$528,000 in capitalized interest in 2003 and a \$198,000 increase in interest expense as a result of higher average interest rates on the portfolio debt for 2003. These increases were offset by a \$512,000 decrease resulting from lower average outstanding borrowings during 2003.

Income from discontinued operations decreased \$7.9 million due to the timing of property sales in 2002.

### **COMPARISON OF THE YEAR ENDED DECEMBER 31, 2002 ("2002") TO THE YEAR ENDED DECEMBER 31, 2001 ("2001")**

Total revenues increased \$8.0 million, or 13%, to \$69.3 million for 2002 compared to \$61.3 million for 2001.

Minimum rents increased \$1.4 million, or 3%, to \$48.5 million for 2002 compared to \$47.1 million for 2001. This increase was attributable to increases in rents from re-tenanting activities and contractual rent increases for existing tenants offset by a decrease in rents following certain tenant bankruptcies.

Percentage rents decreased \$117,000, or 10%, to \$1.1 million for 2002 compared to \$1.2 million for 2001. This decrease was primarily attributable to certain tenant bankruptcies and tenants experiencing lower sales volume.

In total, expense reimbursements increased \$535,000, or 5%, from \$10.9 million for 2001 to \$11.4 million for 2002. Common area maintenance ("CAM") expense reimbursements, which comprise the majority of the variance between years, increased \$511,000, or 12%, from \$4.2 million in 2001 to \$4.7 million in 2002. This resulted primarily from tenant reimbursement of higher insurance costs experienced throughout the portfolio and an increase in tenant reimbursement due to increased portfolio occupancy in 2002.



Lease termination income of \$3.9 million in 2002 was primarily the result of the settlement of the Company's claim against a former tenant.

Other income increased \$2.4 million, or 154%, from \$1.5 million in 2001 to \$3.9 million in 2002. This was primarily due to an increase of \$795,000 in asset and property management fees earned in 2002 from ASOF, \$1.0 million in interest earned on purchase money notes from the sales of properties in 2002 and an increase in interest income due to higher interest earning assets in 2002.

Total operating expenses increased \$3.2 million, or 7%, to \$46.0 million for 2002, from \$42.8 million for 2001.

Property operating expenses increased \$677,000, or 6%, to \$12.3 million for 2002 compared to \$11.6 million for 2001. This variance was primarily the result of a general increase during 2002 in property and liability insurance costs across the portfolio and a reduction in 2001 of estimated property liability insurance claims related to prior year policies based on actual claims filed under these policies. In addition, there was an increase in non-recurring repairs and maintenance expense experienced throughout the portfolio. These increases were offset by lower utility expenses following the redevelopment of the Elmwood Park Shopping Center and a decrease in bad debt expense in 2002.

General and administrative expense increased \$1.2 million, or 13%, from \$9.0 million for 2001 to \$10.2 million for 2002. This increase was primarily attributable to an increase in third-party professional fees in 2002 as well as an increase in leasing related salary expense as a result of the Company's current accounting policy to expense all internal leasing costs commencing in 2002.

Depreciation and amortization increased \$1.1 million, or 8%, from \$13.7 million for 2001 to \$14.8 million for 2002. Depreciation expense increased \$591,000. This was principally a result of increased depreciation expense related to capitalized tenant installation costs during 2001 and 2002 and the write-off of tenant improvement costs related to certain tenant leases. Amortization expense increased \$468,000, which was primarily attributable to the write-off of deferred leasing costs related to certain tenant leases and increased loan amortization expense related to financing activity in 2002.

Interest expense of \$11.0 million for 2002 decreased \$1.4 million, or 11%, from \$12.4 million for 2001. Of the decrease, \$1.6 million was the result of a lower average interest rate on the portfolio mortgage debt and \$559,000 was due to higher capitalized interest in 2002. These decreases were offset by a \$822,000 increase in interest expense for 2002 due to higher average outstanding borrowings during 2002.

The \$149,000 cumulative effect of a change in accounting principle in 2001 was a transition adjustment related to the valuation of LIBOR caps recognized in connection with the January 1, 2001 adoption of SFAS No. 133.

Income from discontinued operations increased \$3.1 million due to the timing of property sales in 2002 and 2001.

## FUNDS FROM OPERATIONS

The Company considers funds from operations ("FFO") as defined by the National Association of Real Estate Investment Trusts ("NAREIT") to be an appropriate supplemental disclosure of operating performance for an equity REIT due to its widespread acceptance and use within the REIT and analyst communities. FFO is presented to assist investors in analyzing the performance of the Company. It is helpful as it excludes various items included in net income that are not indicative of the operating performance, such as gains (or losses) from sales of property and depreciation and amortization. However, the Company's method of calculating FFO may be different from methods used by other REITs and, accordingly, may not be comparable to such other REITs. FFO does not represent cash generated from operations as defined by generally accepted accounting principles ("GAAP") and is not indicative of cash available to fund all cash needs, including distributions. It should not be considered as an alternative to net income for the purpose of evaluating the Company's performance or to cash flows as a measure of liquidity.

Consistent with the NAREIT definition, the Company defines FFO as net income (computed in accordance with GAAP), excluding gains (or losses) from sales of depreciated property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. The Company historically had added back impairments in real estate in calculating

# MANAGEMENT'S DISCUSSION AND ANALYSIS continued

FFO, in accordance with prior NAREIT guidance. However, NAREIT, based on discussions with the SEC, has provided revised guidance that provides that impairments should not be added back to net income in calculating

FFO. As such, historical FFO has been restated consistent with this revised guidance. The reconciliations of net income to FFO for the years ended December 31, 2003, 2002, 2001, 2000 and 1999 are as follows:

## Reconciliation of Net Income (Loss) to Funds from Operations

	YEARS ENDED DECEMBER 31,				
	2003	2002	2001	2000	1999
Net income (loss)	\$ 7,853	\$19,399	\$ 9,802	\$ 19,907	\$ 7,195
Depreciation of real estate and amortization of leasing costs:					
Wholly owned and consolidated partnerships	16,957	15,305	18,422	19,325	18,949
Unconsolidated partnerships	2,107	662	627	625	626
Income (loss) attributable to minority interest <sup>1</sup>	747	2,928	2,221	5,674	3,106
(Gain) loss on sale of properties	—	(8,132)	(17,734)	(13,742)	1,284
Cumulative effect of change in accounting principle	—	—	149	—	—
Funds from operations	\$27,664	\$ 30,162	\$ 13,487	\$ 31,789	\$ 31,160

Notes:

<sup>1</sup>Represents income attributable to Common Operating Partnership Units and does not include distributions paid on Preferred OP Units.

## Liquidity and Capital Resources

### USES OF LIQUIDITY

The Company's principal uses of its liquidity are expected to be for distributions to its shareholders and OP unit-holders, debt service and loan repayments, and property investment which includes the funding of its joint venture commitments, acquisition, redevelopment, expansion and re-tenanting activities.

### Distributions

In order to qualify as a REIT for Federal income tax purposes, the Company must currently distribute at least 90% of its taxable income to its shareholders. For the first three quarters during 2003, the Company paid a quarterly dividend of \$0.145 per Common Share and Common OP Unit. In December of 2003, the Board of Trustees approved and declared a 10% increase in the Company's quarterly dividend to \$0.16 per Common Share and Common OP Unit for the fourth quarter of 2003 which was paid January 15, 2004. On February 26, 2004, the Board of Trustees approved and declared a quarterly dividend of \$0.16 per Common Share and Common OP Unit payable April 15, 2004 to shareholders and OP unitholders of record as of March 31, 2004.

### Acadia Strategic Opportunity Fund, LP ("ASOF")

In September of 2001, the Company committed \$20.0 million to a newly formed joint venture formed with four of its institutional shareholders, who committed \$70.0 million, for the purpose of acquiring a total of approximately \$300.0 million of community and neighborhood shopping centers on a leveraged basis. Since the formation of ASOF, the Company has used it as the primary vehicle for the acquisition of assets.

The Company is the manager and general partner of ASOF with a 22% interest. In addition to a pro-rata return on its invested equity, the Company is entitled to a profit participation based upon certain investment return thresholds. Cash flow is to be distributed pro-rata to the partners (including the Company) until they have received a 9% cumulative return on, and a 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. The Company also earns a fee for asset management services equal to 1.5% of the total equity commitments, as well as market-rate fees for property management, leasing and construction services.

To date, ASOF has purchased a total of 30 assets in three separate transactions. Details of the transactions completed during 2003 are as follows:

**Brandywine Portfolio** In January of 2003, ASOF acquired a major open-air retail complex located in Wilmington, Delaware. The approximately 1.0 million square foot value-based retail complex consists of the following two properties:

Market Square Shopping Center is a 103,000 square foot community shopping center which is 100% leased and anchored by a T.J. Maxx and a Trader Joe's gourmet food market.

Brandywine Town Center is a two phase open-air value retail center. The first phase ("Phase I") is approximately 450,000 square feet and 99% occupied, with tenants including Lowe's, Bed Bath & Beyond, Regal Cinema, Michaels, Petsmart, Old Navy, Annie Sez, Thomasville Furniture and Dick's Sporting Goods. The second phase ("Phase II") consists of approximately 420,000 square feet of existing space, of which Target occupies 138,000 square feet. The balance of Phase II is currently not occupied.

The initial investment for the portfolio was approximately \$86.3 million, inclusive of closing and other related acquisition costs. ASOF assumed \$38.1 million of fixed rate debt on the two properties at a blended rate of 8.1%. A new \$30.0 million, 4.7% fixed-rate loan was also obtained in conjunction with the acquisition and is collateralized by a portion of the Brandywine Town Center. The balance of the purchase price was funded by ASOF, of which the Company's share was \$4.3 million. ASOF will also pay additional amounts in conjunction with the lease-up of the current vacant space in Phase II (the "Earn-out"). The additional investment, depending on the Earn-out, is projected to be between \$42.0 million and \$62.0 million, of which the Company's share would be between \$9.3 million and \$13.8 million. To the extent ASOF places additional mortgage debt upon the lease-up of Phase II, the required equity contribution for the Earn-out would be less. The Earn-out is structured such that ASOF has no time requirement or payment obligation for any portion of currently vacant space which it is unable to lease.

**Kroger/Safeway Portfolio** In January of 2003, ASOF formed a joint venture (the "Kroger/Safeway JV") with an affiliate of real estate developer and investor AmCap Incorporated ("AmCap") for the purpose of acquiring a portfolio of twenty-five supermarket leases. The portfolio, which aggregates approximately 1.0 million square feet, consists of 25 anchor-only leases with Kroger (12 leases) and Safeway supermarkets (13 leases). The majority of the properties are free-standing and all are triple-net leases. The Kroger/Safeway JV acquired the portfolio subject to long-term ground leases with terms, including renewal options, averaging in excess of 80 years, which are master leased to a non-affiliated entity. The base rental options for the supermarket leases at the end of their primary lease term in approximately seven years ("Primary Term") are at an average of \$5.13 per square foot. Although there is no obligation for the Kroger/Safeway JV to pay ground rent during the Primary Term, to the extent it exercises an option to renew a ground lease for a property at the end of the Primary Term, it will be obligated to pay an average ground rent of \$1.55 per square foot.

The Kroger/Safeway JV acquired the portfolio for \$48.9 million (inclusive of closing and other related acquisition costs), which included the assumption of an aggregate of \$34.5 million of existing fixed-rate mortgage debt, which is at a blended fixed interest rate of 6.6% and is fully amortizing over the Primary Term. The individual mortgages are secured by each individual property and are not cross-collateralized. ASOF invested 90%, or \$11.3 million, of the equity capitalization, of which the Company's share was \$2.5 million. AmCap contributed 10%, or \$1.2 million. Cash flow is to be distributed to the Kroger/Safeway JV partners until they have received an 11% cumulative return and a full return of all contributions. Thereafter, remaining cash flow is to be distributed 75% to ASOF and 25% to AmCap. The Kroger/Safeway JV agreement also provides for additional allocations of cash based on ASOF achieving certain minimum investment returns to be determined on a "look-back" basis.

#### **Venture with Klaff Realty, L.P. ("Klaff")**

On January 27, 2004, the Company entered into a venture (the "Venture") with 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. The initial size of the Venture is expected to be approximately \$300 million in equity based on anticipated investments of approximately \$1 billion. The Venture is currently exploring investment opportunities, but has not yet made any commitments. Each participant in the Venture has the right to opt out of any potential investment. The Company and its current acquisition fund, ASOF, as well as possible subsequent joint venture funds sponsored by the Company, anticipate investing 20% of the equity of the Venture. Cash flow is to be distributed to the partners 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 (“Klaff’s Promote”) and 80% to the partners (including Klaff). Profits earned on up to \$20.0 million of the Company’s contributed capital is not subject to Klaff’s Promote. The Company will also earn market-rate fees for property management, leasing and construction services on behalf of the Venture.

The Company has also acquired Klaff’s rights to provide asset management, leasing, disposition, development and construction services for an existing portfolio of retail properties and/or leasehold interests comprised of approximately 10 million square feet of retail space located throughout the United States (the “Klaff Properties”). The acquisition involves only Klaff’s rights associated with operating the Klaff Properties and does not include equity interests in assets owned by Klaff or Lubert-Adler. The Operating Partnership issued \$4.0 million of Preferred OP Units to Klaff in consideration of this acquisition.

#### Other

In March 2004, the Company invested \$4.1 million in a loan secured by a shopping center property.

#### Property Redevelopment and Expansion

The Company’s redevelopment program focuses on selecting well-located neighborhood and community shopping centers and creating significant value through re-tenanting and property redevelopment. During 2003, the Company substantially completed the redevelopment of three shopping centers and added an additional

project to its redevelopment pipeline as follows:

**Gateway Shopping Center** — The redevelopment of the Gateway Shopping Center, formerly a partially enclosed mini-mall with an undersized Grand Union, included the demolition of 90% of the existing building and the construction of a new anchor supermarket. The center has been converted into a new open-air community shopping center anchored with a 72,000 square foot Shaw’s supermarket which opened during March of 2003. Approximately 11,000 square feet of small shop space remains to be leased at the property. Total costs for this project, including the original acquisition costs, aggregated \$17.9 million.

**Plaza 422** — Home Depot held its grand opening during fourth quarter of 2003 at the Plaza 422 redevelopment project located in Lebanon, Pennsylvania. The expansion of the former 83,000 square foot Ames space to a 104,000 square foot Home Depot included the recapture and demolition of the formerly enclosed portion of this center. The Company is now collecting triple the base rent of that which was paid by Ames. In connection with the redevelopment project, the Company also recaptured another 48,000 square feet of space, for which re-leasing is currently underway. The majority of redevelopment costs were paid directly by Home Depot. The Company’s share of costs for this project totaled \$402,000.

**New Loudon Center** — The Bon Ton Department Store also opened for business during the fourth quarter of 2003 as part of the redevelopment of the New Loudon Center located in Latham, New York. Occupying 66,000 square feet formerly occupied by an Ames department store, Bon Ton is paying base rent at a 15% increase over that of Ames. In addition, the Company has leased the balance of the former Ames space to Marshall’s, an existing tenant at the center, which will be expanding its current 26,000 square foot store to 37,000 square feet. The Company will also install a new 49,000 square foot Raymour and Flanigan Furniture store at this center. Following the completion of this project in mid-2004, this community shopping center will be 100% occupied. Costs incurred to date by the Company for this project totaled \$418,000. The remaining costs to complete this redevelopment project are to be paid directly by the above tenants.



**Town Line Plaza** — This project, located in Rocky Hill, Connecticut, was added to the Company's redevelopment pipeline in December of 2003. The Company is re-anchoring the center with a new Super Stop & Shop supermarket, replacing a former GU Markets supermarket. The existing building is being demolished and will be replaced with a 66,000 square foot Super Stop & Shop. The new supermarket anchor is paying gross rent at a 33% increase over that of the former tenant with no interruption in rent payments. Costs to date for this project totaled \$1.7 million. All remaining redevelopment costs associated with this project, which is anticipated to be completed during the first quarter of 2005, are to be paid by Stop & Shop.

Additionally, for the year ending December 31, 2004, the Company currently estimates that capital outlays of approximately \$3.0 million to \$7.0 million will be required for tenant improvements, related renovations and other property improvements.

### Share Repurchase

The Company's repurchase of its Common Shares is an additional use of liquidity. Upon completion of a tender offer in February 2002, the Company purchased a total of 5,523,974 Common Shares and Common OP Units (collectively, "Shares"), comprised of 4,136,321 Common Shares and 1,387,653 Common OP Units (which were converted to Common Shares upon tender), at a Purchase Price of \$6.05 per Share. The aggregate purchase price paid for the 5,523,974 Shares was \$33.4 million. In addition to the tender offer, the Company has an existing share repurchase program that authorizes management, at its discretion, to repurchase up to \$20.0 million of the Company's outstanding Common Shares. Through March 12, 2004, the Company had repurchased 1,899,486 Common Shares (net of 152,199 shares reissued) at a total cost of \$11.6 million. The program may be discontinued or extended at any time and there is no assurance that the Company will purchase the full amount authorized.

### SOURCES OF LIQUIDITY

The Company intends on using ASOF and the Venture as the primary vehicle for future acquisitions. Sources of capital for funding the Company's joint venture commitments, other property acquisitions, redevelopment, expansion and re-tenanting, as well as future repurchases of Common Shares are expected to be obtained primarily from cash on hand, additional debt financings and future sales of existing properties. As of December 31, 2003, the Company had a total of approximately \$51.1 million of additional capacity with six lenders, of which the Company is required to draw \$12.7 million by December 2004, or forego the ability to draw these funds at any time during the remaining term of the loans. Of the remaining capacity, approximately \$3.0 million is subject to additional leasing requirements at the collateral properties, which the Company has not yet satisfied. The Company also had cash and cash equivalents on hand of \$14.7 million at December 31, 2003 as well as nine properties that are currently unencumbered and therefore available as potential collateral for future borrowings. The Company anticipates that cash flow from operating activities will continue to provide adequate capital for all debt service payments, recurring capital expenditures and REIT distribution requirements.

### Financing and Debt

At December 31, 2003, mortgage notes payable aggregated \$190.4 million and were collateralized by 22 properties and related tenant leases. Interest on the Company's outstanding mortgage indebtedness ranged from 2.6% to 8.1% with maturities that ranged from April 2005 to June 2013. Taking into consideration \$86.7 million of notional principal under variable to fixed-rate swap agreements currently in effect, \$156.4 million of the portfolio, or 82%, was fixed at a 6.6% weighted average interest rate and \$34.0 million, or 18% was floating at a 2.9% weighted average interest rate. There is no debt maturing in 2004, and \$57.8 million is scheduled to mature in 2005 at a weighted average interest rate of 2.9%. As the Company does not anticipate having sufficient cash on hand to repay such indebtedness, it will need to refinance this indebtedness or select other alternatives based on market conditions at that time.

## MANAGEMENT'S DISCUSSION AND ANALYSIS continued

The following summarizes the financing and refinancing transactions since December 31, 2002:

In January 2003, the Company drew down \$5.0 million of an available \$10.0 million facility with a bank and used the proceeds to partially pay down the outstanding principal on another loan with the same lender.

In March 2003, the Company repaid a \$3.6 million loan with a life insurance company.

In April 2003, the Company extended an existing \$7.4 million revolving facility with a bank through March 1, 2008. As of December 31, 2003, there were no outstanding amounts under this loan.

On May 30, 2003, the Company refinanced a \$13.3 million loan with a bank, increasing the outstanding principal to \$16.0 million. The loan, which is secured by one of the Company's properties, requires monthly payment of interest at the fixed-rate of 5.2%. Payments of principal amortized over 30 years commences June 2005 with the loan maturing in May 2013.

Commencement Date	Maturity Date	Notional Principal	Rate
10/2/2006	10/1/2011	\$11.4 million	4.895%
10/2/2006	1/1/2010	\$4.6 million	4.710%
6/1/2007	3/1/2012	\$8.4 million	5.140%

These swap agreements have been executed in contemplation of the finalization of the extension and modification of certain mortgage loans currently being negotiated, although there can be no assurance that such extensions will be finalized.

### Asset Sales

Asset sales are an additional source of liquidity for the Company. A significant component of the Company's business has been its multi-year plan to dispose of non-core real estate assets. The Company began this initiative following the RDC Transaction and completed it in 2002. Non-core assets were identified based on factors including property type and location, tenant mix and potential income growth as well as whether a property complemented other assets within the Company's portfolio. The Company sold 28 non-core assets in connection with this initiative comprising a total of approximately 4.6 million square feet of retail properties and 800 multi-family units, for a total sales price

of \$158.4 million which generated net sale proceeds to the Company of \$82.5 million.

On October 27, 2003, the Company paid off maturing loans totaling \$7.4 million, which were secured by two of the Company's properties.

Effective December 1, 2003, the Company amended an \$8.6 million loan with a bank. An additional \$5.0 million has been made available under the loan as well as extending the maturity of the loan until December 1, 2008 with two one-year extension options. In addition, the interest rate has been reduced to LIBOR plus 140 basis points. The loan, which is secured by one of the Company's properties, requires the monthly payment of interest and fixed principal commencing January 1, 2004.

In January 2004, the Company entered into a forward starting swap agreement which commences April 1, 2005. The swap agreement, which extends through January 1, 2011, provides for a fixed rate of 4.345% on \$37.7 million of notional principal.

In February 2004, the Company entered into three forward starting swap agreements as follows:

Additionally the Company completed the following two land sales in 2003 and 2002:

In January 2002, the Company with a joint venture partner, purchased a three-acre site located in the Bronx, New York for \$3.1 million. Simultaneously, the Company sold approximately 46% of the land to a self-storage facility for \$3.3 million. The Company's share of net proceeds totaled \$1.4 million. The Company currently plans to build and lease a 15,000 square foot retail building on the remaining parcel.

On November 8, 2002, a joint venture between the Company and an unaffiliated joint venture partner completed the sale of a contract to purchase land in Bethel, Connecticut, to the Target Corporation for \$2.4 million. The joint venture received a \$1.6 million note receivable for the net purchase price and additional

reimbursements due from the buyer, which was paid in full during 2003. The Company's share of the net proceeds totaled \$1.4 million.

## Contractual Obligations and Other Commitments

At December 31, 2003, maturities on the Company's mortgage notes ranged from April 2005 to June 2013.

AMOUNTS IN MILLIONS

Contractual obligation	Payments due by period				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Future debt maturities	\$176.1	\$ —	\$57.8	\$69.3	\$49.0
Operating lease obligations	23.1	1.0	2.0	2.0	18.1
<b>Total</b>	<b>\$199.2</b>	<b>\$ 1.0</b>	<b>\$59.8</b>	<b>\$ 71.3</b>	<b>\$ 67.1</b>

## Off Balance Sheet Arrangements

The Company has two off balance sheet joint ventures for the purpose of investing in operating properties as follows:

The Company owns a 49% interest in two partnerships which own the Crossroads Shopping Center ("Crossroads"). The Company accounts for its investment in Crossroads using the equity method of accounting as it has a non-controlling investment in Crossroads, but exercises significant influence. As such, the Company's financial statements reflect its share of income from, but not the assets and liabilities of, Crossroads. The Company's pro rata share of Crossroads mortgage debt as of December 31, 2003 was \$16.2 million. Interest on the debt, which matures in October 2007, has been effectively fixed at 7.2% through variable to fixed-rate swap agreements.

Reference is made to the discussion of ASOF under "Uses of Liquidity" in this Item 7 for additional detail related to the Company's investment in and commitments to ASOF. The Company owns a 22% interest in ASOF for which it also uses the equity method of accounting. The Company's pro rata share of ASOF fixed-rate mortgage debt as of December 31, 2003 was \$24.0 million at a weighted average interest rate of 6.4%. The Company's pro rata share of ASOF

In addition, the Company has non-cancelable ground leases at three of its shopping centers. The Company also leases space for its White Plains corporate office for a term expiring in 2010. The following table summarizes the Company's debt maturities, excluding scheduled monthly amortization payments, and obligations under non-cancelable operating leases of December 31, 2003:

variable-rate mortgage debt as of December 31, 2003 was \$1.3 million at an interest rate of 3.1%. Maturities on these loans range from October 2007 to January 2023.

## Historical Cash Flow

The following discussion of historical cash flow compares the Company's cash flow for the year ended December 31, 2003 ("2003") with the Company's cash flow for the year ended December 31, 2002 ("2002").

Cash and cash equivalents were \$14.7 million and \$45.2 million at December 31, 2003 and 2002, respectively. The decrease of \$30.5 million was a result of the following increases and decreases in cash flows:

AMOUNTS IN MILLIONS	YEARS ENDED DECEMBER 31,		
	2003	2002	Variance
Net cash provided by operating activities	\$ 19.1	\$ 24.9	\$ (5.8)
Net cash provided by (used in) investing activities	(19.4)	24.6	(44.0)
Net cash used in financing activities	(30.2)	(58.8)	28.6
Net cash provided by discontinued operations	—	20.5	(20.5)

The variance in net cash provided by operating activities was primarily due to \$3.9 million of lease termination income received in 2002 which was not repeated in 2003. In addition, there was a net decrease in cash provided by changes in operating assets and liabilities of \$2.0 million, primarily rents receivable.

The variance in net cash (used in) provided by investing activities was primarily the result of an additional \$37.8 million collected on purchase money notes in 2002, a \$2.5 million earn-out payment related to a redevelopment project in 2002, an additional \$3.1 million invested in ASOF in 2003 and \$1.2 million of additional expenditures for real estate acquisitions, development and tenant installation costs during 2003.

The decrease in net cash used in financing activities resulted primarily from \$33.4 million of cash used in 2002 for the Company's repurchase of Common Shares offset by \$2.8 million of additional cash used in 2003 for the net repayment of debt.

The decrease in net cash provided by discontinued operations was primarily a result of \$2.9 million in net cash provided by operating activities at the discontinued properties in 2002 and net proceeds in 2002 from the sale of such properties.

### Critical Accounting Policies

Management's discussion and analysis of financial condition and results of operations is based upon the Company's consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. The Company bases its estimates on historical experience and assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The Company believes the following critical accounting policies affect the significant judgments and estimates used by the Company in the preparation of its consolidated financial statements.

### VALUATION OF PROPERTY HELD FOR USE AND SALE

On a quarterly basis, the Company reviews the carrying value of both properties held for use and for sale. The Company records impairment losses and reduces the carrying value of properties when indicators of impairment are present and the expected undiscounted cash flows related to those properties are less than their carrying amounts. In cases where the Company does not expect to recover its carrying costs on properties held for use, the Company reduces its carrying cost to fair value, and for properties held for sale, the Company reduces its carrying value to the fair value less costs to sell. For the years ended December 31, 2002 and 2001, impairment losses of \$197,000 and \$15.9 million were recognized related to properties which were held for sale and subsequently sold. Management does not believe that the values of any properties in its portfolio are impaired as of December 31, 2003.

### BAD DEBTS

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of tenants to make payments on arrearages in billed rents, as well as the likelihood that tenants will not have the ability to make payment on unbilled rents including estimated expense recoveries and straight-line rent. As of December 31, 2003, the Company had recorded an allowance for doubtful accounts of \$2.4 million. If the financial condition of the Company's tenants were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

### Inflation

The Company's long-term leases contain provisions designed to mitigate the adverse impact of inflation on the Company's net income. Such provisions include clauses enabling the Company to receive percentage rents based on tenants' gross sales, which generally increase as prices rise, and/or, in certain cases, escalation clauses, which generally increase rental rates during the terms of the leases. Such escalation clauses are often related to increases in the consumer price index or similar inflation indexes. In addition, many of the Company's leases are for terms of less than ten years,



which permits the Company to seek to increase rents upon re-rental at market rates if current rents are below the then existing market rates. Most of the Company's leases require the tenants to pay their share of operating expenses, including common area maintenance, real estate taxes, insurance and utilities, thereby reducing the Company's exposure to increases in costs and operating expenses resulting from inflation.

## Recently Issued Accounting Pronouncements

In December 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("FIN 46R"). FIN 46R replaces FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," which was issued in January 2003. In general, a variable interest entity ("VIE") is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. A VIE often holds financial assets, including loans or receivables, real estate or other property. A VIE may be essentially passive or it may engage in activities on behalf of another company. Until now, a company generally has included another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN 46 changes that by requiring a VIE to be consolidated by a company if that company is subject to a majority of the risk of loss from the VIE's activities or entitled to receive a majority of the entity's residual returns or both. The Company will be required to adopt FIN 46R in the first fiscal period beginning after March 15, 2004. Upon adoption of FIN 46R, the assets, liabilities and non-controlling interests of the VIE initially would be measured at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognized interest being recognized as the cumulative effect of an accounting change. If determining the carrying amounts is not practicable, fair value at the date FIN 46R first applies may be used to measure the assets, liabilities and non-controlling interest of the VIE. It

is not anticipated that the effect on the Company's Consolidated Financial Statements would be material.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." This statement establishes how an issuer classifies and measures certain financial instruments that have characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within the scope of SFAS No. 150 as a liability because that financial instrument embodies an obligation of the issuer. For the Company, SFAS 150 was effective for instruments entered into or modified after May 31, 2003 and otherwise will be effective as of January 1, 2004, except for mandatorily redeemable financial instruments. For certain mandatorily redeemable financial instruments, SFAS 150 will be effective for the Company on January 1, 2005. The effective date has been deferred indefinitely for certain other types of mandatorily redeemable financial instruments. The adoption of SFAS No. 150 had no impact on the Company's consolidated financial statements. The Company currently is a majority-owner of a finite life partnership which is included in the consolidated accounts of the Company. The application of SFAS 150 as it relates to finite life entities has been deferred indefinitely. Based on the estimated value of the property owned by the partnership at December 31, 2003, the Company estimates that the minority interest in this partnership would be entitled to approximately \$2,080 upon the dissolution of the partnership.

April 2003, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This statement amends and clarifies financial reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 had no impact on the Company's consolidated financial statements.

## Quantitative and Qualitative Disclosures About Market Risk

The Company's primary market risk exposure is to changes in interest rates related to the Company's mortgage debt. See the consolidated financial statements and notes thereto included in this Annual Report on Form 10-K for certain quantitative details related to the Company's mortgage debt.

Currently, the Company manages its exposure to fluctuations in interest rates primarily through the use of fixed-rate debt, interest rate swap agreements and LIBOR caps. As of December 31, 2003, the Company had total mortgage debt of \$190.4 million of which \$69.8 million, or 37% was fixed-rate and \$120.6 million, or 63%, was variable-rate based upon LIBOR plus certain

spreads. As of December 31, 2003, the Company was a party to five interest rate swap transactions to hedge the Company's exposure to changes in interest rates with respect to \$86.7 million of LIBOR based variable-rate debt, effectively increasing the fixed-rate portion of its total outstanding debt as of December 31, 2003 to 82%. The Company also has two interest rate swaps hedging the Company's exposure to changes in interest rates with respect to \$16.2 million of LIBOR based variable rate debt related to its investment in Crossroads.

The following table sets forth information as of December 31, 2003 concerning the Company's long-term debt obligations, including principal cash flows by scheduled maturity and weighted average interest rates of maturing amounts (amounts in millions):

Consolidated mortgage debt:

Year	Scheduled Amortization	Maturities	Total	Weighted Average Interest Rate
2004	\$3.6	\$ —	\$ 3.6	N/A
2005	2.8	57.8	60.6	3.9%
2006	2.4	—	2.4	N/A
2007	1.4	61.3	62.7	3.7%
2008	1.2	8.0	9.2	2.6%
Thereafter	2.9	49.0	51.9	7.1%
	\$14.3	\$176.1	\$ 190.4	

Mortgage debt in unconsolidated partnerships (at Company's pro rata share):

Year	Scheduled Amortization	Maturities	Total	Weighted Average Interest Rate
2004–2006	\$4.2	\$ —	\$ 4.2	N/A
2007	1.2	16.0	17.2	6.9%
2008	1.0	6.7	7.7	4.7%
Thereafter	3.6	7.4	11.0	7.1%
	\$10.0	\$ 30.1	\$ 40.1	

Of the Company's total outstanding debt, \$57.8 million will become due in 2005. As the Company intends on refinancing some or all of such debt at the then-existing market interest rates which may be greater than the current interest rate, the Company's interest expense would increase by approximately \$578,000 annually if the interest rate on the refinanced debt increased by 100 basis points. Furthermore, interest expense on the

Company's variable debt as of December 31, 2003 would increase by \$340,000 annually for a 100 basis point increase in interest rates. The Company may seek additional variable-rate financing if and when pricing and other commercial and financial terms warrant. As such, the Company would consider hedging against the interest rate risk related to such additional variable-rate debt through interest rate swaps and protection agreements, or other means.

# REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Trustees of Acadia Realty Trust

We have audited the accompanying consolidated balance sheets of Acadia Realty Trust and subsidiaries (the "Company") as of December 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Acadia Realty Trust and subsidiaries at December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States.

*Ernst + Young LLP*

New York, New York

March 12, 2004

# CONSOLIDATED BALANCE SHEETS

	December 31,	
	2003	2002
IN THOUSANDS, EXCEPT PER SHARE AMOUNTS		
<b>Assets</b>		
<b>REAL ESTATE</b>		
Land	\$ 54,890	\$ 54,890
Buildings and improvements	366,879	352,359
Construction in progress	5,859	6,629
	<b>427,628</b>	<b>413,878</b>
Less: accumulated depreciation	101,090	85,062
<b>Net Real Estate</b>	<b>326,538</b>	<b>328,816</b>
Cash and cash equivalents	14,663	45,168
Cash in escrow	3,342	3,447
Investments in unconsolidated partnerships	13,630	6,164
Rents receivable, net	10,394	6,959
Notes receivable	3,586	6,795
Prepaid expenses	3,127	2,042
Deferred charges, net	11,173	10,360
Other assets	1,731	1,184
	<b>\$ 388,184</b>	<b>\$ 410,935</b>

## Liabilities and Shareholders' Equity

Mortgage notes payable	\$190,444	\$202,361
Accounts payable and accrued expenses	5,804	8,528
Dividends and distributions payable	4,619	3,744
Due to related parties	48	174
Deferred gain on sale of properties	—	1,212
Derivative instruments	4,044	5,470
Other liabilities	3,806	2,998
<b>Total liabilities</b>	<b>208,765</b>	<b>224,487</b>
Minority interest in Operating Partnership	7,875	22,745
Minority interests in majority-owned partnerships	1,810	2,380
<b>Total minority interests</b>	<b>9,685</b>	<b>25,125</b>
Shareholders' equity:		
Common Shares, \$.001 par value, authorized 100,000,000 shares, issued and outstanding 27,409,141 and 25,257,178 shares, respectively	   27	   25
Additional paid-in capital	177,891	170,851
Accumulated other comprehensive loss	(5,505)	(6,874)
Deficit	(2,679)	(2,679)
<b>Total shareholders' equity</b>	<b>169,734</b>	<b>161,323</b>
	<b>\$ 388,184</b>	<b>\$ 410,935</b>

The accompanying notes are an integral part of these consolidated financial statements.



# CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2003	2002	2001
IN THOUSANDS, EXCEPT PER SHARE AMOUNTS			
<b>REVENUES</b>			
Minimum rents	\$50,168	\$48,488	\$47,086
Percentage rents	1,102	1,079	1,196
Expense reimbursements	13,539	11,419	10,884
Lease termination income	—	3,945	—
Other property income	749	536	589
Other	3,977	3,880	1,527
<b>Total revenues</b>	<b>69,445</b>	<b>69,347</b>	<b>61,282</b>
<b>OPERATING EXPENSES</b>			
Property operating	15,170	12,274	11,597
Real estate taxes	8,799	8,447	8,427
General and administrative	10,734	10,173	9,025
Depreciation and amortization	17,909	14,804	13,745
Abandoned project costs	—	274	—
<b>Total operating expenses</b>	<b>52,612</b>	<b>45,972</b>	<b>42,794</b>
Operating income	16,833	23,375	18,488
Equity in earnings of unconsolidated partnerships	2,411	628	504
Interest expense	(11,231)	(11,017)	(12,370)
Gain on sale of land	1,187	1,530	—
Minority interest	(1,347)	(2,999)	(1,466)
<b>Income from continuing operations</b>	<b>7,853</b>	<b>11,517</b>	<b>5,156</b>
Discontinued operations:			
Operating income from discontinued operations	—	1,165	3,972
Impairment of real estate	—	(197)	(15,886)
Gain on sale of properties	—	8,132	17,734
Minority interest	—	(1,218)	(1,025)
<b>Income from discontinued operations</b>	<b>—</b>	<b>7,882</b>	<b>4,795</b>
Income before extraordinary item and cumulative effect of change in accounting principle	7,853	19,399	9,951
Cumulative effect of change in accounting principle	—	—	(149)
<b>Net income</b>	<b>\$ 7,853</b>	<b>\$ 19,399</b>	<b>\$ 9,802</b>

The accompanying notes are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENTS OF INCOME continued

	Years Ended December 31,		
	2003	2002	2001
<small>IN THOUSANDS, EXCEPT PER SHARE AMOUNTS</small>			
<b>BASIC EARNINGS PER SHARE</b>			
Income from continuing operations	\$0.30	\$ 0.46	\$ 0.18
Income from discontinued operations	—	0.31	0.18
Cumulative effect of change in accounting principle	—	—	(0.01)
<b>Basic earnings per share</b>	<b>\$0.30</b>	<b>\$ 0.77</b>	<b>\$ 0.35</b>
<b>DILUTED EARNINGS PER SHARE</b>			
Income from continuing operations	\$0.29	\$ 0.45	\$ 0.18
Income from discontinued operations	—	0.31	0.18
Cumulative effect of change in accounting principle	—	—	(0.01)
<b>Diluted earnings per share</b>	<b>\$0.29</b>	<b>\$ 0.76</b>	<b>\$ 0.35</b>

The accompanying notes are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Shares		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Deficit	Total Shareholders' Equity
	Shares	Amount				
IN THOUSANDS, EXCEPT PER SHARE AMOUNTS						
<b>Balance, December 31, 2000</b>	28,150,472	\$ 28	\$188,392	\$ —	\$ (9,103)	\$ 179,317
Conversion of 826,884 OP Units to Common Shares by limited partners of the Operating Partnership	826,884	1	5,815	—	—	5,816
Repurchase of 8,000 OP Units to Common Shares by limited partners of the Operating Partnership	—	—	8	—	—	8
Dividends declared (\$0.48 per Common Share)	—	—	(3,832)	—	(9,802)	(13,634)
Repurchase of Common Shares	(316,800)	—	(1,964)	—	—	(1,964)
Reissuance of Common Shares	37,110	—	239	—	—	239
Purchase of minority interest in majority-owned partnership	—	—	720	—	—	720
Unrealized loss on valuation of swap agreements	—	—	—	(1,206)	—	(1,206)
Income before minority interest	—	—	—	—	12,023	12,023
Minority interest's equity	—	—	—	—	(2,221)	(2,221)
<b>Balance, December 31, 2001</b>	28,697,666	29	189,378	(1,206)	(9,103)	179,098
Conversion of 2,086,736 OP Units to Common Shares by limited partners of the Operating Partnership	2,086,736	2	14,901	—	—	14,903
Dividends declared (\$0.52 per Common Share)	—	—	—	—	(12,975)	(12,975)
Repurchase of Common Shares	(5,523,974)	(6)	(33,414)	—	—	(33,420)
Forfeiture of restricted Common Shares	(3,250)	—	(14)	—	—	(14)
Unrealized loss on valuation of swap agreements	—	—	—	(5,668)	—	(5,668)
Income before minority interest	—	—	—	—	22,327	22,327
Minority interest's equity	—	—	—	—	(2,928)	(2,928)
<b>Balance, December 31, 2002</b>	25,257,178	25	170,851	(6,874)	(2,679)	161,323
Conversion of 2,058,804 OP Units to Common Shares by limited partners of the Operating Partnership	2,058,804	2	14,898	—	—	14,900
Conversion of 632 Preferred OP Units to Common Shares by limited partners of the Operating Partnership	82,267	—	632	—	—	632
Employee restricted share award	7,832	—	410	—	—	410
Settlement of vested options	—	—	(750)	—	—	(750)
Dividends declared (\$0.595 per Common Share)	—	—	(8,160)	—	(7,853)	(16,013)
Employee exercise of 250 options	250	—	2	—	—	2
Unrealized gain on valuation of swap agreements	—	—	—	1,369	—	1,369
Common Shares purchased under Employee Stock Purchase Plan	810	—	8	—	—	8
Income before minority interest	—	—	—	—	8,600	8,600
Minority interest's equity	—	—	—	—	(747)	(747)
<b>Balance, December 31, 2003</b>	27,409,141	\$ 27	\$ 177,891	\$ (5,505)	\$ (2,679)	\$ 169,734

The accompanying notes are an integral part of these consolidated financial statements



# CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2003	2002	2001
IN THOUSANDS, EXCEPT PER SHARE AMOUNTS			
<b>Cash Flows from Operating Activities</b>			
<b>Income from continuing operations after cumulative effect of change in accounting principle</b>	<b>\$ 7,853</b>	<b>\$ 11,517</b>	<b>\$ 5,007</b>
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	17,909	14,804	13,745
Gain on sale of land	(1,187)	(1,530)	—
Minority interests	1,347	2,999	1,466
Abandoned project costs	—	274	—
Equity in earnings of unconsolidated partnerships	(2,411)	(628)	(504)
Provision for bad debts	523	447	741
Stock-based compensation	—	—	239
Cumulative effect of change in accounting principle	—	—	149
<b>Changes in assets and liabilities</b>			
Funding of escrows, net	105	(850)	89
Rents receivable	(3,958)	(1,882)	937
Prepaid expenses	(1,085)	(429)	251
Other assets	(891)	346	(273)
Accounts payable and accrued expenses	218	174	(1,739)
Due to/from related parties	(126)	67	(4)
Other liabilities	785	(391)	417
<b>Net cash provided by operating activities</b>	<b>19,082</b>	<b>24,918</b>	<b>20,521</b>

## Cash Flows from Investing Activities

Expenditures for real estate and improvements	(13,531)	(14,134)	(10,685)
Payment of accrued expense related to redevelopment project	(2,488)	—	—
Contributions to unconsolidated partnerships	(6,032)	(2,956)	(36)
Distributions from unconsolidated partnerships	1,602	1,049	1,252
Collections on purchase money notes	3,232	41,042	—
Payment of deferred leasing costs	(2,183)	(355)	(1,730)
<b>Net cash provided by (used in) investing activities</b>	<b>(19,400)</b>	<b>24,646</b>	<b>(11,199)</b>

The accompanying notes are an integral part of these consolidated financial statements.

Years Ended December 31,

2003 2002 2001

IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

## Cash Flows from Financing Activities

Principal payments on mortgage notes payable	\$ (32,917)	\$ (16,841)	\$ (33,599)
Proceeds received on mortgage notes payable	21,000	7,758	51,350
Payment of deferred financing and other costs	(241)	(812)	(847)
Dividends paid	(14,896)	(13,131)	(13,569)
Distributions to minority interests in Operating Partnership	(1,207)	(2,023)	(2,985)
Distributions on Preferred Operating Partnership Units	(199)	(199)	(199)
Distributions to minority interests in majority-owned partnerships	(985)	(139)	(90)
Purchase of minority interest in majority-owned partnerships	—	—	(30)
Settlement of vested options	(750)	—	—
Redemption of Operating Partnership Units	—	—	(5,114)
Repurchase of Common Shares	—	(33,420)	(1,964)
Common Shares issued under Employee Stock Purchase Plan	8	—	—
<b>Net cash used in financing activities</b>	<b>(30,187)</b>	<b>(58,807)</b>	<b>(7,047)</b>
Cash flows from discontinued operations:			
Net cash provided by discontinued operations	—	20,464	10,174
(Decrease) increase in cash and cash equivalents	(30,505)	11,221	12,449
Cash and cash equivalents, beginning of year	45,168	33,947	21,689
	14,663	45,168	34,138
Less: Cash of discontinued operations	—	—	191
Cash and cash equivalents, end of year	\$ 14,663	\$ 45,168	\$ 33,947

### SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the period for interest, net of amounts capitalized of \$403, \$931, and \$372, respectively	\$ 11,242	\$ 12,346	\$ 19,047
Notes received in connection with sale of properties	\$ —	\$ 22,425	\$ 34,757
Disposition of real estate through assumption of debt	\$ —	\$ 42,438	\$ —

The accompanying notes are an integral part of these consolidated financial statements.

# NOTES TO CONSOLIDATED STATEMENTS

DECEMBER 31, 2003

IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

## NOTE 1

### ORGANIZATION, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Acadia Realty Trust (the "Company") is a fully integrated and self-managed real estate investment trust ("REIT") which specializes in the acquisition, redevelopment and operation of shopping centers which are anchored by grocery and value-oriented retail.

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 its majority owned partnerships. As of December 31, 2003, the Company controlled 96% of the Operating Partnership as the sole general partner. As the general partner, the Company 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 represent entities or individuals who contributed their interests in certain properties or partnerships 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 Company ("Common Shares"). This structure is commonly referred to as an umbrella partnership REIT or "UPREIT."

On August 12, 1998, the Company completed a major reorganization ("RDC Transaction") in which it acquired twelve shopping centers, five multi-family properties and a 49% interest in one shopping center along with certain third party management contracts and promissory notes from real estate investment partnerships ("RDC Funds") managed by affiliates of RD Capital, Inc. In exchange for these and a cash investment of \$100,000, the Company issued 11.1 million Common OP Units and 15.3 million Common Shares to the RDC Funds. After giving effect to the conversion of the Common OP Units, the RDC Funds beneficially owned 72% of the Common Shares as of the closing of the RDC Transaction. During February of 2003, the Company issued OP Units and cash valued at \$2,750 to certain limited partners in connection

with an obligation from the RDC Transaction. The payment was due upon the commencement of rental payments from a designated tenant at one of the properties acquired in the RDC Transaction.

As of December 31, 2003, the Company operated 62 properties, which it owned or had an ownership interest in, consisting of 60 neighborhood and community shopping centers and two multi-family properties, located primarily in the Northeast, Mid-Atlantic and Midwest regions of the United States.

### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the consolidated accounts of the Company and its majority owned partnerships, including the Operating Partnership. Non-controlling investments in partnerships are accounted for under the equity method of accounting as the Company exercises significant influence.

### USE OF ESTIMATES

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

### PROPERTIES

Real estate assets are stated at cost less accumulated depreciation. Expenditures for acquisition, development, construction and improvement of properties, as well as significant renovations are capitalized. Interest costs are capitalized until construction is substantially complete. Construction in progress includes costs for significant shopping center expansion and redevelopment. Depreciation is computed on the straight-line basis over estimated useful lives of 30 to 40 years for buildings and the shorter of the useful life or lease term for improvements, furniture, fixtures and equipment. Expenditures for maintenance and repairs are charged to operations as incurred.

The Company reviews its long-lived assets used in operations for impairment when there is an event, or change in circumstances that indicates impairment in value. The Company records impairment losses and reduces the carrying value of properties when indicators of



impairment are present and the expected undiscounted cash flows related to those properties are less than their carrying amounts. In cases where the Company does not expect to recover its carrying costs on properties held for use, the Company reduces its carrying cost to fair value, and for properties held for sale, the Company reduces its carrying value to the fair value less costs to sell. During the year ended December 31, 2002, an impairment loss of \$197 was recognized related to a property that was sold as of December 31, 2002. For the year ended December 31, 2001, an impairment loss of \$15,886 was recognized related to properties sold subsequent to December 31, 2001. Management does not believe that the values of its properties within the portfolio are impaired as of December 31, 2003.

#### **DEFERRED COSTS**

Fees and costs paid in the successful negotiation of leases have been deferred and are being amortized on a straight-line basis over the terms of the respective leases. Fees and costs incurred in connection with obtaining financing have been deferred and are being amortized over the term of the related debt obligation.

#### **REVENUE RECOGNITION**

Leases with tenants are accounted for as operating leases. Minimum rents are recognized on a straight-line basis over the term of the respective leases. As of December 31, 2003 and 2002, unbilled rents receivable relating to straight-lining of rents were \$5,873 and \$5,302, respectively.

Percentage rents are recognized in the period when the tenant sales breakpoint is met.

Reimbursements from tenants for real estate taxes, insurance and other property operating expenses are recognized as revenue in the period the expenses are incurred.

An allowance for doubtful accounts has been provided against certain tenant accounts receivable that are estimated to be uncollectible. Rents receivable at December 31, 2003 and 2002 are shown net of an allowance for doubtful accounts of \$2,420 and \$2,284, respectively.

#### **CASH AND CASH EQUIVALENTS**

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

#### **CASH IN ESCROW**

Cash in escrow consists principally of cash held for real estate taxes, property maintenance, insurance, minimum occupancy and property operating income requirements at specific properties as required by certain loan agreements.

#### **INCOME TAXES**

The Company has made an election to be taxed, and believes it qualifies as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"). To maintain REIT status for federal income tax purposes, the Company is generally required to distribute to its stockholders at least 90% of its REIT taxable income as well as comply with certain other requirements as defined by the Code. The Company is not subject to federal corporate income tax to the extent that it distributes 100% of its REIT taxable income each year. Accordingly, no provision has been made for Federal income taxes for the Company in the accompanying consolidated financial statements. The Company is subject to state income or franchise taxes in certain states in which some of its properties are located. These state taxes, which in total are not significant, are included in general and administrative expenses in the accompanying consolidated financial statements.

#### **STOCK-BASED COMPENSATION**

Prior to 2002, the Company accounted for stock options under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Effective January 1, 2002, the Company adopted the fair value method of recording stock-based compensation contained in SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"). As such, all stock options granted after December 31, 2001 are reflected as compensation expense in the Company's consolidated financial statements over their vesting period based on the fair value at the date the stock-based compensation was granted. As provided for in SFAS No. 123, the Company elected the "prospective method" for the adoption of the fair value basis method of accounting for employee stock options. Under this method, the recognition provisions will be applied to all employee awards granted, modified or settled after January 1, 2002.

## NOTES TO CONSOLIDATED STATEMENTS continued

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value based method of accounting for stock-based employee compensation for vested stock options granted prior to January 1, 2002. See Note 11 – “Share Incentive Plan” for the assumptions utilized in valuing the below vested stock options:

	YEARS ENDED DECEMBER 31,		
	2003	2002	2001
<b>Net income:</b>			
As reported	\$ 7,853	\$19,399	\$9,802
Pro forma	7,829	19,363	9,699
<b>Basic earnings per share:</b>			
As reported	\$ 0.30	\$ 0.77	\$ 0.35
Pro forma	0.29	0.76	0.34
<b>Diluted earnings per share:</b>			
As reported	\$ 0.29	\$ 0.76	\$ 0.34
Pro forma	0.29	0.76	0.34

### RECENT ACCOUNTING PRONOUNCEMENTS

In December 2003, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 46 (revised December 2003), “Consolidation of Variable Interest Entities” (“FIN 46R”). FIN 46R replaces FASB Interpretation No. 46, “Consolidation of Variable Interest Entities,” which was issued in January 2003. In general, a variable interest entity (“VIE”) is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. A VIE often holds financial assets, including loans or receivables, real estate or other property. A VIE may be essentially passive or it may engage in activities on behalf of another company. Until now, a company generally has included another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN 46 changes that by requiring a VIE to be consolidated by a company if that company is subject to a majority of the risk of loss from the VIE’s activities or entitled to receive a majority of the entity’s residual returns or both. The Company will be required to adopt FIN 46R in the first fiscal period

beginning after March 15, 2004. Upon adoption of FIN 46R, the assets, liabilities and non-controlling interests of the VIE initially would be measured at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognized interest being recognized as the cumulative effect of an accounting change. If determining the carrying amounts is not practicable, fair value at the date FIN 46R first applies may be used to measure the assets, liabilities and non-controlling interest of the VIE. It is not anticipated that the effect on the Company’s Consolidated Financial Statements would be material.

In May 2003, the FASB issued SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity.” This statement establishes how an issuer classifies and measures certain financial instruments that have characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within the scope of SFAS No. 150 as a liability because that financial instrument embodies an obligation of the issuer. For the Company, SFAS 150 was effective for instruments entered into or modified after May 31, 2003 and otherwise will be effective as of January 1, 2004, except for mandatorily redeemable financial instruments. For certain mandatorily redeemable financial instruments, SFAS 150 will be effective for the Company on January 1, 2005. The effective date has been deferred indefinitely for certain other types of mandatorily redeemable financial instruments. The adoption of SFAS No. 150 had no impact on the Company’s consolidated financial statements. The Company currently is a majority-owner of a finite life partnership which is included in the consolidated accounts of the Company. The application of SFAS 150 as it relates to finite life entities has been deferred indefinitely. Based on the estimated value of the property owned by the partnership at December 31, 2003, the Company estimates that the minority interest in this partnership would be entitled to approximately \$2,080 upon the dissolution of the partnership.

In April 2003, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities.” This statement amends and clarifies financial reporting for derivative instruments, including certain

derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 had no impact on the Company's consolidated financial statements.

## COMPREHENSIVE INCOME

The following table sets forth comprehensive income for the years ended December 31, 2003, 2002 and 2001:

	2003	2002	2001
Net income	\$ 7,853	\$ 19,399	\$ 9,802
Other comprehensive income (loss) <sup>1</sup>	1,369	(5,668)	(1,206)
Comprehensive income	\$ 9,222	\$ 13,731	\$ 8,596

<sup>1</sup>Relates to the changes in the fair value of derivative instruments accounted for as hedges.

The following table sets forth the change in accumulated other comprehensive loss for the years ended December 31, 2003, 2002 and 2001:

	2003	2002	2001
Beginning balance	\$ 6,874	\$ 1,206	\$ —
Unrealized (gain) loss on valuation of derivative instruments	(1,369)	5,668	1,206
Ending balance	\$ 5,505	\$ 6,874	\$ 1,206

As of December 31, 2003, the balance in accumulated other comprehensive loss was comprised solely of unrealized losses on the valuation of swap agreements.

## RECLASSIFICATIONS

Certain 2002 and 2001 amounts were reclassified to conform to the 2003 presentation.

### NOTE 2

## ACQUISITION AND DISPOSITION OF PROPERTIES

Currently the primary vehicle for the Company's acquisition activity is its acquisition joint venture, Acadia Strategic Opportunity Fund (Note 4).

A significant component of the Company's business plan in prior years was also the disposition of non-core real estate assets. Under this initiative, which was completed in 2002, the Company sold a total of two apartment complexes and 23 shopping centers.

Dispositions relate to the sale of shopping centers, multi-family properties and land. Gains from these sales are generally recognized using the full accrual method in accordance with SFAS No. 66, "Accounting for Sales of Real Estate," providing that certain criteria relating to the terms of sales are met.

The results of operations of sold properties is reported separately as discontinued operations for the years ended December 31, 2002 and 2001. Revenues from discontinued operations for the years ended December 31, 2002 and 2001 totaled \$6,295 and \$24,178, respectively.

## 2002 ACQUISITIONS AND DISPOSITIONS

On November 8, 2002, the Company and an unaffiliated joint venture partner completed the sale of a contract to purchase land in Bethel, Connecticut, to the Target Corporation for \$1,540 after closing and other related costs. The joint venture received a \$1,632 note receivable for the net purchase price and additional reimbursements due from the buyer and deferred recognition of the gain on sale in accordance with SFAS No. 66. The note was paid in full on January 10, 2003, and as such, the Company's share of the deferred gain, or \$634, was recognized in 2003.

On October 11, 2002, the Company sold the Manahawkin Village Shopping Center and Valmont Plaza for \$16,825 to two entities affiliated with each other. The Company received two purchase money notes in connection with the sale. The first for \$11,000 was repaid in full on November 8, 2002. The second for \$1,600, was repaid in full on April 11, 2003. As part of the transaction, the Company repaid \$3,084 of mortgage debt secured by the Valmont Plaza. The \$4,049 of mortgage debt secured by the Manahawkin Village Shopping Center was repaid in full on September 27, 2002, prior to the sale. The Company recorded a \$166 gain on the sale.

On April 24, 2002, the Company sold a multi-property portfolio for \$52,700. The portfolio consists of 17 retail properties, which are cross-collateralized in a securitized



loan program and in the aggregate contain approximately 2.3 million square feet. As part of the transaction, the buyer assumed the outstanding mortgage debt of \$42,438. The Company retained a senior, preferred interest in the acquiring entity in the amount of \$6,262, which earned an initial annual preferred return of 15%. On December 31, 2002, the Company's interest was purchased at par by an affiliate of the purchaser of the portfolio. The Company recorded an \$8,134 gain on the sale.

On January 16, 2002, the Company sold Union Plaza, a 218,000 square foot shopping center located in New Castle, Pennsylvania, for \$4,750. The Company received a \$3,563 purchase money note. The note, which matures January 15, 2005, requires monthly interest of 7% for year one, increasing at a rate of 1% per annum throughout the term. As part of the transaction, the Company agreed to reimburse the purchaser 50% of a former tenant's rent, or \$22 a month, through July 15, 2003. The Company recorded a loss of \$166 on the sale.

On January 10, 2002, the Company and an unaffiliated joint venture partner purchased a three-acre site located in the Bronx, New York, for \$3,109. Simultaneously, the joint venture sold approximately 46% of the land to a self-storage facility for \$3,300, recognizing a \$1,530 gain on the sale of which the Company's share was \$957. The joint venture currently plans to develop the remaining parcel.

#### 2001 DISPOSITIONS

On December 21, 2001, the Company sold the Glen Oaks Apartments, a 463 unit multi-family property located in Greenbelt, Maryland for \$35,100, resulting in an \$8,546 gain on the sale. As part of the transaction, the Company received a promissory note (which was secured by an irrevocable letter of credit) for \$34,757, which was subsequently paid in January 2002.

On October 4, 2001, the Company sold the Tioga West shopping center, a 122,000 square foot shopping center located in Tunkhannock, Pennsylvania, for \$3,200 resulting in a \$908 gain on the sale.

On August 27, 2001 the Company sold the Wesmark Plaza, a 207,000 square foot shopping center located in Sumter, South Carolina, for \$5,750, recognizing a \$1,245 gain on the sale.

The Company sold its interest in the Marley Run Apartments for \$27,400 on May 15, 2001, recognizing a \$7,035 gain on the sale. Net proceeds from the sale were used to redeem 680,667 Common OP Units at \$7.00 per unit. The redemption price represented a premium of \$0.35 over the market price of the Company's Common Shares as of the redemption date. These redeemed Common OP Units were held by the original owners of the property who contributed it to the Company in connection with the RDC Transaction. Pursuant to the RDC Transaction, the Company agreed to indemnify the Common OP Unit holders for any income taxes recognized with respect to a disposition of the property within five years following the contribution of the property. As part of the redemption as discussed above, the Common OP Unit holders waived their rights to this tax reimbursement, which the Company estimated to be in excess of \$2.00 per Common OP Unit.

#### NOTE 3

#### 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. 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 table sets forth certain segment information for the Company, reclassified for discontinued operations, as of and for the years ended December 31, 2003, 2002, and 2001 (does not include unconsolidated partnerships):

	2003				2002				2001			
	Retail Properties	Multi-Family Properties	All Other	Total	Retail Properties	Multi-Family Properties	All Other	Total	Retail Properties	Multi-Family Properties	All Other	Total
Revenues	\$ 58,150	\$ 7,318	\$ 3,977	\$ 69,445	\$ 58,498	\$ 6,969	\$ 3,880	\$ 69,347	\$ 52,756	\$ 6,870	\$ 1,656	\$ 61,282
Property operating expenses and real estate taxes	19,782	4,187	—	23,969	17,030	3,691	—	20,721	16,662	3,362	—	20,024
Net property income before depreciation and amortization	\$ 38,368	\$ 3,131	\$ 3,977	\$ 45,476	\$ 41,468	\$ 3,278	\$ 3,880	\$ 48,626	\$ 36,094	\$ 3,508	\$ 1,656	\$ 41,258
Depreciation and amortization	\$ 16,252	\$ 1,336	\$ 321	\$ 17,909	\$ 13,287	\$ 1,201	\$ 316	\$ 14,804	\$ 12,294	\$ 1,097	\$ 354	\$ 13,745
Interest expense	\$ 9,701	\$ 1,530	\$ —	\$ 11,231	\$ 9,390	\$ 1,627	\$ —	\$ 11,017	\$ 10,468	\$ 1,902	\$ —	\$ 12,370
Real estate at cost	\$387,854	\$39,774	\$ —	\$ 427,628	\$375,482	\$38,396	\$ —	\$413,878	\$361,075	\$37,341	\$ —	\$398,416
Total assets	\$ 337,724	\$36,830	\$13,630	\$ 388,184	\$368,547	\$36,224	\$6,164	\$410,935	\$453,034	\$35,736	\$5,169	\$493,939
Gross leasable area (multi-family – 1,474 units)	5,153	1,207	—	6,360	5,079	1,207	—	6,286	5,079	1,207	—	6,286
Expenditures for real estate and improvements	\$ 12,153	\$ 1,378	\$ —	\$ 13,531	\$ 13,134	\$ 1,000	\$ —	\$ 14,134	\$ 9,425	\$ 1,260	—	\$ 10,685
<b>REVENUES</b>												
Total revenues for reportable segments	\$ 71,085				\$ 70,413				\$ 62,273			
Elimination of intersegment management fee income	(1,340)				(1,066)				(991)			
Elimination of intersegment asset management fee income	(300)				—				—			
Total consolidated revenues	\$ 69,445				\$ 69,347				\$ 61,282			
<b>PROPERTY OPERATING EXPENSES AND REAL ESTATE TAXES</b>												
Total property operating expenses and real estate taxes for reportable segments	\$ 25,126				\$ 21,778				\$ 21,015			
Elimination of intersegment management fee expense	(1,157)				(1,057)				(991)			
Total consolidated expense	\$ 23,969				\$ 20,721				\$ 20,024			
<b>RECONCILIATION TO INCOME BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE</b>												
Net property income before depreciation and amortization	\$ 45,476				\$ 48,626				\$ 41,258			
Depreciation and amortization	(17,909)				(14,804)				(13,745)			
General and administrative	(10,734)				(10,447)				(9,025)			
Equity in earnings of unconsolidated partnerships	2,411				628				504			
Interest expense	(11,231)				(11,017)				(12,370)			
Gain on sale of land	1,187				1,530				—			
Income from discontinued operations	—				7,882				4,795			
Minority interest	(1,347)				(2,999)				(1,466)			
Income before cumulative effect of a change in accounting principle	\$ 7,853				\$ 19,399				\$ 9,951			

**NOTE 4**
**INVESTMENT IN UNCONSOLIDATED PARTNERSHIPS**
**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 its investment in Crossroads using the equity method. Summary financial information of Crossroads and the Company's investment in and share of income from Crossroads follows:

	DECEMBER 31,	
	2003	2002
<b>Balance Sheets</b>		
<b>Assets:</b>		
Rental property, net	\$ 7,402	\$ 7,603
Other assets	3,710	3,536
<b>Total assets</b>	<b>\$ 11,112</b>	<b>\$ 11,139</b>
<b>Liabilities and partners' equity</b>		
Mortgage note payable	\$ 32,961	\$ 33,575
Other liabilities	4,696	5,832
Partners' equity	(26,545)	(28,268)
<b>Total liabilities and partners' equity</b>	<b>\$ 11,112</b>	<b>\$ 11,139</b>
<b>Company's investment</b>	<b>\$ 3,665</b>	<b>\$ 3,241</b>

	YEARS ENDED DECEMBER 31,		
	2003	2002	2001
<b>Statements of Operations</b>			
Total revenue	\$8,324	\$7,091	\$ 7,174
Operating and other expenses	2,465	2,150	2,159
Interest expense	2,542	2,722	2,620
Depreciation and amortization	570	547	538
<b>Net income</b>	<b>\$2,747</b>	<b>\$1,672</b>	<b>\$ 1,857</b>
Company's share of net income	\$1,377	\$ 934	\$ 910
Amortization of excess investment (see below)	392	392	392
<b>Income from partnerships</b>	<b>\$ 985</b>	<b>\$ 542</b>	<b>\$ 518</b>

The unamortized excess of the Company's investment over its share of the net equity in Crossroads at the date of acquisition was \$19,580. The portion of this excess attributable to buildings and improvements is being amortized over the life of the related property.

**Acadia Strategic Opportunity Fund, LP ("ASOF")**

In 2001, the Company formed a joint venture, ASOF, with four of its institutional investors for the purpose of acquiring real estate assets. The Company is the sole general partner with a 22% interest in the joint venture and is also entitled to a profit participation in excess of its invested capital based on certain investment return thresholds. The Company also earns market-rate fees for asset management as well as for property management, construction and leasing services. 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, which is comprised of representatives from each of the four institutional investors.

ASOF owns five shopping centers comprising 1.3 million square feet. In addition, ASOF and an unaffiliated joint venture party own a 1.0 million square foot supermarket portfolio consisting of 25 anchor-only leases with either Kroger or Safeway Supermarkets.

Acquisitions completed during 2003 and 2002 were as follows:

**Kroger/Safeway Portfolio** In January 2003, ASOF and an unaffiliated joint venture party acquired a one million square foot supermarket portfolio consisting of 25 anchor-only leases with either Kroger or Safeway supermarkets. The portfolio was acquired through long-term ground leases with terms, including renewal options, averaging in excess of 80 years, which are master leased to a non-affiliated entity. The purchase price of \$48,900 (inclusive of closing and other related acquisition costs) included the assumption of \$34,450 of existing fixed-rate debt which bears interest at a weighted-average rate of 6.6%. The mortgage debt fully amortizes over the next seven years, which is coterminous with the primary lease term of the supermarket leases. ASOF invested \$11,250 of the equity capitalization of which the Company's share was \$2,500.



**Brandywine Portfolio** In January 2003, ASOF acquired a one million square foot portfolio for an initial purchase price of \$86,287, inclusive of closing and other related acquisition costs. The portfolio consists of two shopping centers located in Wilmington, Delaware. A portion of one of the properties is currently unoccupied for which ASOF will pay for on an “earn-out” basis only when it is leased. At closing, ASOF assumed \$38,082 of fixed-rate debt which bears interest at a weighted average rate of 6.2% as well as obtained an additional fixed-rate loan of \$30,000 which bears interest at 4.7%. ASOF invested equity of \$19,270 in the acquisition, of which the Company’s share was \$4,282. On December 6, 2002, ASOF completed a forward interest rate lock agreement on \$30,000 of anticipated mortgage debt in connection with this transaction. This forward interest rate lock agreement was settled at closing in January 2003.

On September 19, 2002, ASOF acquired three supermarket-anchored shopping centers located in Ohio for a total purchase price of \$26,679. ASOF assumed \$12,568 of fixed rate debt on two of the properties at a blended rate of 8.1%. A new \$6,000 loan was obtained on the third property at a floating rate of LIBOR plus 200 basis points. The balance of the purchase price was funded by the joint venture, of which the Company’s share was \$1,802.

The Company accounts for its investment in ASOF using the equity method. Summary financial information of ASOF and the Company’s investment in and share of income from ASOF follows:

	DECEMBER 31,	
	2003	2002
<b>Balance Sheets</b>		
<b>Assets:</b>		
Rental property, net	\$ 173,507	\$28,046
Other assets	4,763	5,977
<b>Total assets</b>	<b>\$ 178,270</b>	<b>\$34,023</b>
<b>Liabilities and partners’ equity</b>		
Mortgage note payable	\$120,609	\$18,450
Other liabilities	11,731	2,418
Partners’ equity	45,930	13,155
<b>Total liabilities and partners’ equity</b>	<b>\$ 178,270</b>	<b>\$34,023</b>
<b>Company’s investment</b>	<b>\$ 9,965</b>	<b>\$ 2,923</b>

	YEAR ENDED DECEMBER 31, 2003	YEAR ENDED DECEMBER 31, 2002	PERIOD FROM SEPTEMBER 28, 2001 (INCEPTION) TO DECEMBER 31, 2001
<b>Statements of Operations</b>			
Total revenue	\$26,008	\$ 1,224	\$ —
Operating and other expenses	5,017	342	—
Management and other fees	2,171	1,391	402
Interest expense	6,399	350	—
Depreciation and amortization	8,055	145	—
Minority interest	157	—	—
<b>Net income (loss)</b>	<b>\$ 4,209</b>	<b>\$(1,004)</b>	<b>\$(402)</b>
<b>Company’s share of net income (loss)'</b>	<b>\$ 1,426</b>	<b>\$ 86</b>	<b>\$ (14)</b>

'Reflects the elimination of the Company’s pro-rata share of asset management, property management and leasing fees paid by ASOF aggregating \$491, \$309 and \$75 for the years ended December 31, 2003, 2002 and 2001, respectively, as these fees are paid to the Company.

**NOTE 5**

**DEFERRED CHARGES**

Deferred charges consist of the following as of December 31, 2003 and 2002:

	2003	2002
Deferred financing costs	<b>\$ 6,392</b>	\$ 6,150
Deferred leasing and other costs	<b>15,485</b>	13,302
	<b>21,877</b>	19,452
Accumulated amortization	<b>(10,704)</b>	(9,092)
	<b>\$ 11,173</b>	\$10,360

**NOTE 6**

**MORTGAGE LOANS**

At December 31, 2003, mortgage notes payable aggregated \$190,444 and were collateralized by 22 properties and related tenant leases. Interest rates ranged from 2.6% to 8.1%. Mortgage payments are due in monthly installments of principal and/or interest and mature on various dates through 2013. Certain loans are cross-collateralized and cross-defaulted as part of a group of properties. The loan agreements contain customary representations, covenants and events of default. Certain loan agreements require the Company to comply with certain affirmative and negative covenants, including the maintenance of certain debt service coverage and leverage ratios.

Effective December 1, 2003, the Company amended an \$8,599 loan with a bank. An additional \$5,000 has been

made available under the loan as well as extending the maturity of the loan until December 1, 2008 with two one-year extension options. In addition, the interest rate has been reduced to LIBOR plus 140 basis points. The loan, which is secured by one of the Company's properties, requires the monthly payment of interest and fixed principal commencing January 1, 2004.

On October 27, 2003, the Company paid off maturing loans totaling \$7,418, which were secured by two of the Company's properties.

On May 30, 2003, the Company refinanced a \$13,337 loan with a bank, increasing the outstanding principal to \$16,000. The loan, which is secured by one of the Company's properties, requires monthly payment of interest at the fixed-rate of 5.2%. Payments of principal amortized over 30 years commences June 2005 with the loan maturing in May 2013.

In April 2003, the Company extended an existing \$7,400 revolving facility with a bank through March 1, 2008. As of December 31, 2003, there were no outstanding amounts under this loan.

In March 2003, the Company repaid a \$3,551 loan with a life insurance company.

In January 2003, the Company drew down \$5,000 of an available \$10,000 facility with a bank and used the proceeds to partially pay down the outstanding principal on another loan with the same lender.

The following table summarizes the Company's mortgage indebtedness as of December 31, 2003 and 2002:

	DECEMBER 31,		Interest Rate at December 31, 2003	Maturity	Properties Encumbered	Monthly Payment Terms
	2003	2002				
<b>MORTGAGE NOTES PAYABLE — VARIABLE-RATE</b>						
First Union National Bank	\$ —	\$ 13,388	—	—	—	\$ —
Metropolitan Life Insurance Company	—	7,577	—	—	—	—
Washington Mutual Bank, FA	50,686	56,950	2.94% (LIBOR + 1.75%)	04/01/05	(1)	(15)
Sun America Life Insurance Company	9,191	9,446	2.89% (LIBOR + 1.73%)	10/01/05	(2)	(15)
Fleet National Bank	12,009	12,187	2.92% (LIBOR + 1.75%)	01/01/07	(3)	(15)
Washington Mutual Bank, FA	20,083	15,637	3.04% (LIBOR + 1.85%)	01/01/07	(4)	(15)
Fleet National Bank	4,865	4,942	2.91% (LIBOR + 1.75%)	03/15/07	(5)	(15)
Fleet National Bank	6,256	6,300	2.91% (LIBOR + 1.75%)	05/01/07	(6)	(15)
Fleet National Bank	8,992	9,108	2.91% (LIBOR + 1.75%)	06/01/07	(7)	(15)
Washington Mutual Bank, FA	—	—	— (LIBOR + 1.70%)	11/22/07	(8)	(15)
Fleet National Bank	—	—	— (LIBOR + 1.50%)	03/01/08	(9)	(15)
Fleet National Bank	8,598	8,731	2.57% (LIBOR + 1.40%)	12/01/08	(10)	(15)
<b>Total variable-rate debt</b>	<b>120,680</b>	<b>144,266</b>				
<b>MORTGAGE NOTES PAYABLE — FIXED-RATE</b>						
Anchor National Life Insurance Company	—	3,570	—	—	—	—
SunAmerica Life Insurance Company	13,425	13,648	6.46%	07/01/07	(11)	(15)
Metropolitan Life Insurance Company	24,113	24,495	8.13%	11/01/10	(12)	(15)
Bank of America, N.A.	16,226	16,382	7.55%	01/01/11	(13)	(15)
RBS Greenwich Capital	16,000	—	5.19%	06/01/13	(14)	(16)
<b>Total fixed-rate debt</b>	<b>69,764</b>	<b>58,095</b>				
	<b>\$190,444</b>	<b>\$202,361</b>				

Notes:

- |  |   |   |
|--|---|---|
| (1) New Loudon Center<br>Ledgewood Mall<br>Route 6 Plaza                       | (5) Town Line Plaza   | (11) Merrillville Plaza   |
| Bradford Towne Centre<br>Berlin Shopping Center                                | (6) Gateway Shopping Center   | (12) Crescent Plaza<br>East End Centre                                      |
| (2) Village Apartments   | (7) Smithtown Shopping Center   | (13) GHT Apartments/Colony Apartments                                       |
| (3) Branch Shopping Center<br>Abington Towne Center<br>Methuen Shopping Center | (8) Elmwood Park Shopping Center;<br>no amounts are outstanding under<br>this \$20,000 revolving facility | (14) 239 Greenwich Avenue   |
| (4) Walnut Hill Plaza<br>Bloomfield Town Square                                | (9) Marketplace of Absecon; no amounts<br>are outstanding under this \$7,400<br>revolving facility        | (15) Monthly principal and interest   |
|  | (10) Soundview Marketplace  | (16) Interest only until 5/05; monthly<br>principal and interest thereafter |



The scheduled principal repayments of all mortgage indebtedness as of December 31, 2003 are as follows:

2004	\$ 3,580
2005	60,544
2006	2,445
2007	62,646
2008	9,144
Thereafter	52,085
	\$190,444
	\$190,444

**NOTE 7**

**SHAREHOLDERS' EQUITY AND MINORITY INTERESTS**

**COMMON SHARES**

During 2003, the Board of Trustees approved a resolution permitting one of its institutional shareholders, which currently owns 6% of the Company's outstanding Common Shares, to acquire additional shares through open market purchases. This waiver of the Company's Common Shares ownership limitation, which was approved in response to a request from this institutional investor, will permit this shareholder to acquire up to an additional 3.7% of the Company's Common Shares through March 31, 2004, or an aggregate of up to 9.7% of the Company's Common Shares.

Through December 31, 2003, the Company had repurchased 1,922,788 Common Shares (net of 131,817 Common Shares reissued) at a total cost of \$10,381 under the expanded share repurchase program that allows for the repurchase of up to \$20,000 of the Company's outstanding Common Shares. The repurchased shares are reflected as a reduction of par value and additional paid-in capital.

In February 2002, the Company completed a "modified Dutch Auction" tender offer (the "Tender Offer") whereby the Company purchased 5,523,974 Common Shares, comprised of 4,136,321 Common Shares and 1,387,653 Common OP Units converted to Common Shares, at a purchase price of \$6.05. The aggregate purchase price paid was \$33,400.

Also in February 2002, the Board of Trustees voted to permit Yale University ("Yale") to acquire 2,266,667 additional Common Shares from another shareholder by granting a conditional waiver of the provision in the

Company's Declaration of Trust that prohibits ownership positions in excess of 4% of the Company. The waiver was limited to this particular transaction. Following this, Yale owned 8,421,759 Common Shares, or 34% of the Company's outstanding Common Shares. Additionally, as a condition to approving the waiver, Yale agreed to establish a voting trust whereby all shares owned by Yale University in excess of 30% of the Company's outstanding Common Shares, will be voted in the same proportion as all other shares voted, excluding Yale.

**MINORITY INTERESTS**

Minority interest in Operating Partnership represents the limited partners' interest of 1,139,017 and 3,162,980 units in the Operating Partnership ("Common OP Units") at December 31, 2003 and 2002, respectively. During 2003 and 2002, various limited partners converted a total of 2,058,804 and 2,086,736 Common OP Units into Common Shares on a one-for-one basis, respectively. Ross Dworman, a trustee of the Company, received 34,841 of Common OP Units through various affiliated entities during 2003 (Note 8).

Minority interest in Operating Partnership also includes 1,580 and 2,212 units of preferred limited partnership interests designated as Series A Preferred Units at December 31, 2003 and 2002, respectively ("Preferred OP Units"). The Preferred OP Units were issued in connection with the acquisition of all the partnership interests of the limited partnership which owns the Pacesetter Park Shopping Center on November 16, 1999. Certain Preferred OP Unit holders converted 632 Preferred OP Units into 84,267 Common OP Units and then into Common Shares during 2003.

The Preferred OP Units, which have a stated value of \$1,000 each, are entitled to a quarterly preferred distribution of the greater of (i) \$22.50 (9% annually) per Preferred OP Unit or (ii) the quarterly distribution attributable to a Preferred OP Unit if such unit were converted into a Common OP Unit. The Preferred OP Units are currently convertible into Common OP Units based on the stated value divided by \$7.50. After the seventh anniversary following their issuance, either the Company or the holders can call for the conversion of the Preferred OP Units at the lesser of \$7.50 or the market price of the Common Shares as of the conversion date.

Minority interests in majority-owned partnerships represent third party interests in four properties in which the Company has a majority ownership position.

#### NOTE 8

### RELATED PARTY TRANSACTIONS

The Company currently manages one property in which a shareholder of the Company has an ownership interest for which the Company earns a management fee of 3% of tenant collections. In 2001, the Company terminated a contract to manage a property owned by a related party that earned a fee of 3.25% of tenant collections. Management fees earned by the Company under these contracts aggregated \$212, \$229 and \$391 for the years ended December 31, 2003, 2002 and 2001 respectively, and are included in other revenues in the accompanying consolidated statements of income.

The Company also earns certain management and service fees in connection with its investment in ASOF (Note 4). Such fees earned by the Company (after adjusting for intercompany fees) aggregated \$1,689, \$1,082 and \$338 for the years ended December 31, 2003, 2002 and 2001 respectively, and are included in other revenues in the accompanying consolidated statements of income.

As of December 31, 2002, the Company was obligated to issue Common OP Units and cash valued at \$2,750 to certain limited partners in connection with the RDC Transaction. The payment was due upon the commencement of rental payments from a designated tenant at one of the properties acquired in the RDC Transaction. In February 2003, Mr. Dworman received 34,841 of these Common OP Units through various affiliated entities.

Included in the Common OP Units converted to Common Shares during 2003 and 2002, were 2,300 and 5,000 Common OP Units converted by Mr. Dworman who then transferred them to a charitable foundation in accordance with a pre-existing arrangement. In connection with the Company's Tender Offer, Mr. Dworman tendered and sold 492,271 Common OP Units (after converting these to Common Shares on a one-for-one basis) and 107,729 Common Shares (Note 7).

#### NOTE 9

### TENANT LEASES

Space in the shopping centers and other retail properties is leased to various tenants under operating leases that usually grant tenants renewal options and generally provide for additional rents based on certain operating expenses as well as tenants' sales volume.

Minimum future rentals to be received under non-cancelable leases for shopping centers and other retail properties as of December 31, 2003 are summarized as follows:

2004	\$ 42,329
2005	38,272
2006	35,675
2007	32,505
2008	27,625
Thereafter	182,243
	\$358,649

Minimum future rentals above include a total of \$6,169 for two tenants (with six leases), which have filed for bankruptcy protection. None of these leases have been rejected nor affirmed. During the years ended December 31, 2003, 2002 and 2001, no single tenant collectively accounted for more than 10% of the Company's total revenues.

#### NOTE 10

### LEASE OBLIGATIONS

The Company leases land at three of its shopping centers, which are accounted for as operating leases and generally provide the Company with renewal options. The leases terminate during the years 2020 to 2066. One of these leases provides the Company with options to renew for additional terms aggregating from 20 to 44 years. The Company leases space for its White Plains corporate office for a term expiring in 2010. Future minimum rental payments required for leases having remaining non-cancelable lease terms are as follows:

2004	\$ 954
2005	973
2006	981
2007	995
2008	1,055
Thereafter	18,106
	\$23,064

**NOTE 11****SHARE INCENTIVE PLAN**

During 1999, the Company adopted the 1999 Share Incentive Plan (the "1999 Plan"), which replaced both the 1994 Share Option Plan and the 1994 Non-Employee Trustees' Share Option Plan. The 1999 Plan authorizes the issuance of options equal to up to 8% of the total Common Shares outstanding from time to time on a fully diluted basis. However, not more than 4,000,000 of the Common Shares in the aggregate may be issued pursuant to the exercise of options and no participant may receive more than 5,000,000 Common Shares during the term of the 1999 Plan. Options are granted by the Share Option Plan Committee (the "Committee"), which currently consists of two non-employee Trustees, and will not have an exercise price less than 100% of the fair market value of the Common Shares and a term of greater than ten years at the grant date. Vesting of options is at the discretion of the Committee with the exception of options granted to non-employee Trustees, which vest in five equal annual installments beginning on the date of grant. Pursuant to the 1999 Plan, non-employee Trustees receive an automatic grant of 1,000 options following each Annual Meeting of Shareholders.

The 1999 Plan also provides for the granting of share appreciation rights, restricted shares and performance units/shares. Share appreciation rights provide for the participant to receive, upon exercise, cash and/or Common Shares, at the discretion of the committee, equal to the excess of the market value of the Common Shares at the exercise date over the market value of the Common Shares at the Grant Date. The Committee will determine the award and restrictions placed on restricted shares, including the dividends thereon and the term of such restrictions. The Committee also determines the award and vesting of performance units and performance shares based on the attainment of specified performance objectives of the Company within a specified performance period. Through December 31, 2003, no share appreciation rights or performance units/shares have been awarded.

During 2003, the Company adopted the 2003 Share Incentive Plan (the "2003 Plan") because no Common Shares remained available for future grants under the 1999 Plan. The 2003 Plan provides for the granting of

options, share appreciation rights, restricted shares and performance units (collectively, "Awards") to officers, employees and trustees of the Company and consultants to the Company. The 2003 Plan is generally identical to the 1999 Plan, except that the maximum number of Common Shares that the Company may issue pursuant to the 2003 Plan is four percent of the Common Shares outstanding from time to time on a fully diluted basis. However, no participant may receive more than 1,000,000 Common Shares during the term of the 2003 Plan with respect to Awards.

As of December 31, 2003, the Company has 2,068,150 options outstanding to officers and employees. These fully vested options are for ten-year terms from the grant date and, except for 30,000 options which vested fully as of the grant date, vested in three equal annual installments which began on the grant date. In addition, 27,000 options have been issued to non-employee Trustees of which 14,600 options were vested as of December 31, 2003.

For the year ended December 31, 2003, the Committee granted a total of 107,834 restricted shares pursuant to the 2003 Plan to certain officers of the Company (the "Recipients"). In general, the restricted shares carry all the rights of Common Shares including voting and dividend rights, but may not be transferred, assigned or pledged until the Recipients have a vested non-forfeitable right to such shares. Vesting with respect to these restricted shares, which is subject to the Recipients' continued employment with the Company through the applicable vesting dates, is as follows:

- i. 39,168 restricted shares, which were granted in lieu of a portion of the Recipients' 2002 cash bonus, vested 20% on January 2, 2003 and vest 20% thereafter on each of the next four anniversaries of such date,
- ii. 34,333 restricted shares vest 20% on January 2, 2004 and on each of the next four anniversaries of such date,
- iii. and 34,333 restricted shares vest 20% on January 2, 2004 and on each of the next four anniversaries of such date, provided that in addition to the Recipients' continued employment through the vesting date, the Company's total shareholder return, as determined by the Committee in its discretion, is 12% or more either for such fiscal year or, on average, for such fiscal year



and each other fiscal year occurring after January 2, 2003 — in which case vesting shall occur for any restricted shares that did not vest in a prior fiscal year based on this 12% condition.

The total value of the above restricted share awards on the date of grant was \$987 which will be recognized in expense over the vesting period. During 2003, \$410 was recognized in compensation expense. Unearned compensation of \$577 as of December 31, 2003 will be recognized in expense as such shares vest.

For the year ended December 31, 2001, the Company issued 37,110 restricted shares to employees, which vest equally over three years. No awards of restricted shares were granted for the year ended December 31, 2002. During the years ended December 31, 2003, 2002 and 2001, the Company recognized compensation expenses of \$516, \$121 and \$121, respectively, in connection with restricted share grants. No awards of share appreciation rights or performance units/shares were granted for the years ended December 31, 2003, 2002 and 2001.

Effective January 1, 2002, the Company adopted the fair value method of recording stock-based compensation contained in SFAS No. 123, "Accounting for Stock-Based Compensation." As such, stock based compensation awards granted after December 31, 2001 will be expensed over the vesting period based on the fair value at the date the stock-based compensation was granted. Prior

to January 1, 2002, the Company had applied the intrinsic value method permitted under SFAS No. 123, as defined in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations, in accounting for stock-based compensation plans. Accordingly, no compensation expense has been recognized in the accompanying consolidated financial statements for the year ended December 31, 2001 related to the issuance of stock options because the exercise price of the Company's employee stock options equaled or exceeded the market price of the underlying stock on the date of grant. The Company elected the prospective method whereby compensation expense is recognized only for those options granted, modified or settled on or after January 1, 2002.

The Company has used the Black-Scholes option-pricing model for purposes of estimating the fair value in determining compensation expense for options granted for the years ended December 31, 2003 and 2002. The Company has also used this model for the pro forma information regarding net income and earnings per share as required by SFAS No. 123 for options issued for the year ended December 31, 2001 as if the Company had also accounted for these employee stock options under the fair value method. The fair value for the options issued by the Company was estimated at the date of the grant using the following weighted-average assumptions resulting in:

	YEARS ENDED DECEMBER 31,		
	2003	2002	2001
Risk-free interest rate	4.4%	3.3%	5.4%
Dividend yield	5.8%	7.0%	8.4%
Expected life	10.0 years	7.0 years	7.0 years
Expected volatility	18.0%	19.1%	17.7%
Fair value at date of grant (per option)	\$0.82	\$0.44	\$0.27

# NOTES TO CONSOLIDATED STATEMENTS continued

Changes in the number of shares under all option arrangements are summarized as follows:

	YEARS ENDED DECEMBER 31,		
	2003	2002	2001
Outstanding at beginning of period	2,472,400	2,593,400	2,124,600
Granted	8,000	5,000	475,000
Option price per share granted	\$9.11–\$11.66	\$7.10	\$6.00–\$7.00
Cancelled	—	—	—
Exercisable at end of period	2,082,750	2,313,436	2,418,137
Settled <sup>1</sup>	385,250	126,000	6,200
Expired	—	—	—
Outstanding at end of year	2,095,150	2,472,400	2,593,400
Option prices per share outstanding	\$4.89–\$11.66	\$4.89–\$7.50	\$4.89–\$7.50

As of December 31, 2003 the outstanding options had a weighted average exercise price of \$7.04 and a weighted average remaining contractual life of approximately 5.1 years.

<sup>1</sup>Pursuant to the 1999 Plan (except for 250 options exercised during 2003) these options were settled and did not result in the issuance of any additional Common Shares.

## NOTE 12

### EMPLOYEE STOCK PURCHASE PLAN

During 2003, the Company adopted the Acadia Realty Trust Employee Stock Purchase Plan (the “Purchase Plan”), which allows eligible employees of the Company to purchase Common Shares through payroll deductions. The Purchase Plan provides for employees to purchase Common Shares on a quarterly basis at a 15% discount to the closing price of the Company’s Common Shares on either the first day or the last day of the quarter, whichever is lower. The amount of the payroll deductions will not exceed a percentage of the participant’s annual compensation that the Committee establishes from time to time, and a participant may not purchase more than 1,000 Common Shares per quarter. Compensation expense will be recognized by the Company to the extent of the above discount to the average closing price of the Common Shares with respect to the applicable quarter. During 2003, 810 Common Shares were purchased by Employees under the Purchase Plan.

## NOTE 13

### EMPLOYEE 401(k) PLAN

The Company maintains a 401(k) plan for employees under which the Company currently matches 50% of a plan participant’s contribution up to 6% of the

employee’s annual salary. A plan participant may contribute up to a maximum of 15% of their compensation but not in excess of \$12 for the year ended December 31, 2003. The Company contributed \$110, \$115, and \$135 for the years ended December 31, 2003, 2002 and 2001, respectively.

## NOTE 14

### DIVIDENDS AND DISTRIBUTIONS PAYABLE

On December 9, 2003, the Company declared a cash dividend for the quarter ended December 31, 2003 of \$0.16 per Common Share. The dividend was paid on January 15, 2004 to shareholders of record as of December 31, 2003.

The Company has determined that the cash distributed to the shareholders is characterized as follows for Federal income tax purposes:

	YEARS ENDED DECEMBER 31,		
	2003	2002	2001
Ordinary income	100%	44%	79%
Long-term capital gain	0%	56%	21%
	100%	100%	100%

**NOTE 15****INCOME TAXES**

The Company believes it qualifies as a REIT and therefore is not liable for income taxes at the federal level or in most states for the current year as well as for future years. Accordingly, for the years ended December 31, 2003, 2002 and 2001, no provision was recorded for federal or substantially all state income taxes.

The following unaudited table reconciles the Company's book net income to REIT taxable income before dividends paid deduction:

	YEARS ENDED DECEMBER 31,		
	2003 ESTIMATE	2002 ACTUAL	2001 ACTUAL
Book net income	\$ 7,853	\$ 19,399	\$ 9,802
Book/tax difference in depreciation and amortization	3,828	(6,802)	2,091
Book/tax difference on gains/losses from capital transactions	—	904	2,595
Other book/tax differences, net	(326)	1,380	815
REIT taxable income before dividends paid deduction	\$ 11,355	\$ 14,881	\$ 15,303

**NOTE 16****FINANCIAL INSTRUMENTS****FAIR VALUE OF FINANCIAL INSTRUMENTS**

SFAS No. 107, "Disclosures About Fair Value of Financial Instruments" requires disclosure on the fair value of financial instruments. 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, Cash in Escrow, Rents Receivable, Notes 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 due to the short-term nature of such accounts.

**Derivative Instruments** — The fair value of these instruments is based upon the estimated amounts the Company would receive or pay to terminate the contracts as of December 31, 2003 and 2002 and is determined using interest rate market pricing models.

**Mortgage Notes Payable** — As of December 31, 2003 and 2002, the Company has determined the estimated fair value of its mortgage notes payable are approximately \$193,619 and \$208,083, respectively, by discounting future cash payments utilizing a discount rate equivalent to the rate at which similar mortgage notes payable would be originated under conditions then existing.

**INTEREST RATE HEDGES**

On January 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." In connection with the adoption of SFAS No. 133, the Company recorded a transition adjustment of \$149 related to the January 1, 2001 valuation of two LIBOR interest rate caps that hedged \$23,203 of variable-rate mortgage debt. This adjustment is reflected as a cumulative effect of a change in accounting principle in the accompanying consolidated statements of income.

In June of 2002, the Company completed two interest rate swap transactions to hedge the Company's exposure to changes in interest rates with respect to \$25,047 of LIBOR based variable rate debt. These agreements, which are for \$15,885 and \$9,162 of notional principal, mature on January 1, 2007 and June 1, 2007, respectively and are at a weighted average fixed interest rate of 6.2%.

On July 10, 2002, the Company entered into an interest rate swap agreement to hedge its exposure to changes in interest rates with respect to \$12,288 of LIBOR based variable-rate debt. The swap agreement, which matures on January 1, 2007, provides for a fixed all-in interest rate of 4.1%.

During 2001, the Company completed two interest rate swap transactions to hedge the Company's exposure to changes to interest rates with respect to \$50,000 of LIBOR based variable rate debt. The first swap agreement, which extends through April 1, 2005, provides for a fixed all-in rate of 6.55% on \$30,000 of notional principal. The second swap agreement, which extends through October 1, 2006, provides for a fixed all-in rate of 6.28% on \$20,000 of notional principal.

The Company is also a party to two swap agreements with a bank through its 49% interest in Crossroads (Note 4). These swap agreements effectively fix the interest rate on the Company's pro rata share of the Crossroads mortgage debt.

The following table summarizes the notional values and fair values of the Company's derivative financial instruments as of December 31, 2003. The notional value does not represent exposure to credit, interest rate or market risks:

Hedge Type	Notional Value	Rate	Interest Maturity	Fair Value
LIBOR Swap <sup>1</sup>	\$ 11,974	5.94%	6/16/07	\$ (1,217)
LIBOR Swap <sup>1</sup>	5,000	6.48%	6/16/07	(599)
				(1,816)
LIBOR Swap	30,000	4.80%	4/1/05	(1,227)
LIBOR Swap	20,000	4.53%	10/1/06	(1,091)
LIBOR Swap	8,992	4.47%	6/1/07	(472)
LIBOR Swap	15,605	4.32%	1/1/07	(748)
LIBOR Swap	12,072	4.11%	1/1/07	(506)
				(4,044)
				<u>\$ (5,860)</u>

<sup>1</sup>Relates to the Company's investments in Crossroads. These swaps effectively fix the interest rate on the Company's pro rata share of mortgage debt. The fair values of these instruments are reflected as components of the Company's investment in Crossroads in the accompanying consolidated financial statements.

As of December 31, 2003, the derivative instruments were reported at their fair value as derivative instruments of \$4,044 and as a reduction of investments in unconsolidated partnerships of \$1,816. As of December 31, 2003, unrealized losses totaling \$5,734 represented the fair value of the aforementioned derivatives, of which \$5,505 was reflected in accumulated other

comprehensive loss and \$229 as a reduction of minority interest in Operating Partnership. For the years ended December 31, 2003 and 2002, the Company recorded in interest expense an unrealized gain (loss) of \$51 and (\$122), respectively, due to partial ineffectiveness on one of the swaps. The ineffectiveness resulted from differences between the derivative notional and the principal amount of the hedged variable rate debt.

The Company's interest rate hedges are designated as cash flow hedges and hedge the future cash outflows on mortgage debt. Interest rate swaps that convert variable payments to fixed payments, such as those held by the Company, as well as interest rate caps, floors, collars, and forwards are cash flow hedges. The unrealized gains and losses in the fair value of these hedges are reported on the balance sheet with a corresponding adjustment to either accumulated other comprehensive income or earnings depending on the type of hedging relationship. For cash flow hedges, offsetting gains and losses are reported in accumulated other comprehensive income. Over time, the unrealized gains and losses held in accumulated other comprehensive income will be reclassified to earnings. This reclassification occurs over the same time period in which the hedged items affect earnings. Within the next twelve months, the Company expects to reclassify to earnings as interest expense approximately \$3,462 of the current balance held in accumulated other comprehensive loss.

#### NOTE 17

#### EARNINGS PER COMMON SHARE

Basic earnings per share was determined by dividing the applicable net income to common shareholders for the year by the weighted average number of Common Shares outstanding during each year consistent with SFAS No. 128. 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. For the year ended December 31, 2001 no additional shares were reflected as the impact would be anti-dilutive in such years.



	YEARS ENDED DECEMBER 31,		
	2003	2002	2001
<b>Numerator:</b>			
Income from continuing operations — basic earnings per share	\$ 7,853	\$ 11,517	\$ 5,156
Effect of dilutive securities:			
Preferred OP Unit distributions	185	199	—
Numerator for diluted earnings per share	8,038	11,716	5,156
<b>Denominator:</b>			
Weighted average shares — basic earnings per share	26,589	25,321	28,313
Effect of dilutive securities:			
Employee stock options	615	190	—
Convertible Preferred OP Units	292	295	—
Dilutive potential Common Shares	907	485	—
Denominator for diluted earnings per share	27,496	25,806	28,313
Basic earnings per share from continuing operations	\$ 0.30	\$ 0.46	\$ 0.18
Diluted earnings per share from continuing operations	\$ 0.29	\$ 0.45	\$ 0.18

The effect of the conversion of Common OP Units is not reflected in the above table as Common OP Units 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.

**NOTE 18**
**SUMMARY OF QUARTERLY FINANCIAL INFORMATION (UNAUDITED)**

The quarterly results of operations of the Company for the years ended December 31, 2003 and 2002 are as follows:

	2003				
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31	TOTAL
Revenue	\$ 18,125	\$16,465	\$16,704	\$ 18,151	\$69,445
Income from continuing operations	3,463	2,443	2,424	(477)	7,853
Income from discontinued operations	—	—	—	—	—
Net income	3,463	2,443	2,424	(477)	7,853
Net income per Common Share — basic:					
Income from continuing operations	\$ 0.14	\$ 0.09	\$ 0.09	\$ (0.02)	\$ 0.30
Income from discontinued operations	—	—	—	—	—
Net income	0.14	0.09	0.09	(0.02)	0.30
Net income per Common Share — diluted:					
Income from continuing operations	\$ 0.14	\$ 0.09	\$ 0.09	\$ (0.02)	\$ 0.29
Income from discontinued operations	—	—	—	—	—
Net income	0.14	0.09	0.09	(0.02)	0.29
Cash dividends declared per Common Share	\$ 0.145	\$ 0.145	\$ 0.145	\$ 0.160	\$ 0.595
Weighted average Common Shares outstanding:					
Basic	25,377,095	26,387,010	27,235,707	27,334,649	26,589,432
Diluted	25,933,960	27,175,713	28,300,443	28,551,778	27,496,267

	2002				
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31	TOTAL
Revenue	\$19,526	\$16,023	\$16,208	\$17,590	\$69,347
Income from continuing operations	6,286	1,770	1,990	1,471	11,517
Income from discontinued operations	180	2,052	(108)	5,758	7,882
Net income	6,466	3,822	1,882	7,229	19,399
Net income per Common Share — basic:					
Income from continuing operations	\$ 0.24	\$ 0.07	\$ 0.08	\$ 0.06	\$ 0.46
Income from discontinued operations	0.01	0.08	—	0.23	0.31
Net income	0.25	0.15	0.08	0.29	0.77
Net income per Common Share — diluted:					
Income from continuing operations	\$ 0.24	\$ 0.07	\$ 0.08	\$ 0.06	\$ 0.45
Income from discontinued operations	0.01	0.08	—	0.22	0.31
Net income	0.25	0.15	0.08	0.28	0.76
Cash dividends declared per Common Share	\$ 0.13	\$ 0.13	\$ 0.13	\$ 0.13	\$ 0.52
Weighted average Common Shares outstanding:					
Basic	26,376,443	24,775,053	24,974,176	25,173,874	25,320,631
Diluted	26,786,454	25,252,842	24,974,176	25,684,405	25,806,035

**NOTE 19****COMMITMENTS AND CONTINGENCIES**

Under various Federal, state and local laws, ordinances and regulations relating to the protection of the environment, a current or previous owner or operator of real estate may be liable for the cost of removal or remediation of certain hazardous or toxic substances disposed, stored, generated, released, manufactured or discharged from, on, at, under, or in a property. As such, the Company may be potentially liable for costs associated with any potential environmental remediation at any of its formerly or currently owned properties.

The Company conducts Phase I environmental reviews with respect to properties it acquires. These reviews include an investigation for the presence of asbestos, underground storage tanks and polychlorinated biphenyls (PCBs). Although such reviews are intended to evaluate the environmental condition of the subject property as well as surrounding properties, there can be no assurance that the review conducted by the Company will be adequate to identify environmental or other problems that may exist. Where a Phase I assessment so recommended, a Phase II assessment was conducted to further determine the extent of possible environmental contamination. In all instances where a Phase I or II assessment has resulted in specific recommendations for remedial actions, the Company has either taken or scheduled the recommended remedial action. To mitigate unknown risks, the Company has obtained environmental insurance for most of its properties, which covers only unknown environmental risks.

The Company believes that it is in compliance in all material respects with all Federal, state and local ordinances and regulations regarding hazardous or toxic substances. Management is not aware of any environmental liability that they believe would have a material adverse impact on the Company's financial position or results of operations. Management is unaware of any instances in which it would incur significant environmental costs if any or all properties were sold, disposed of or abandoned. However, there can be no assurance that any such non-compliance, liability, claim or expenditure will not arise in the future.

The Company is involved in various matters of litigation arising in the normal course of business. While the Company is unable to predict with certainty the amounts involved, the Company's management and counsel are of the opinion that, when such litigation is resolved, the Company's resulting liability, if any, will not have a significant effect on the Company's consolidated financial position or results of operations.

**NOTE 20****SUBSEQUENT EVENTS**

In January 2004, the Company formed a joint venture with Klaff Realty, LP ("Klaff") and Lubert Adler Management, Inc. for the purpose of making investments in surplus or underutilized properties owned or controlled by distressed retailers. The Company has also acquired Klaff's rights to provide asset management, leasing, disposition, development and construction services for an existing portfolio of retail properties and/or leasehold interests comprised of approximately 10 million square feet of retail space. The rights were acquired with the issuance of \$4.0 million in preferred Operating Partnership units.

In January 2004, the Company entered into a forward starting swap agreement which commences April 1, 2005. The swap agreement, which extends through January 1, 2011, provides for a fixed rate of 4.345% on \$37,667 of notional principal.

In February 2004, the Company entered into three forward starting swap agreements as follows:

Commencement Date	Maturity Date	Notional Principal	Rate
10/2/2006	10/1/2011	\$ 11,410	4.895%
10/2/2006	1/1/2010	4,640	4.710%
6/1/2007	3/1/2012	8,434	5.140%

These swap agreements have been executed in contemplation of the finalization of the extension and modification of certain mortgage loans currently being negotiated.

On March 11, 2004, the Company invested approximately \$4.1 million in a mortgage loan secured by a shopping center property.

This page left intentionally blank





1311 Mamaroneck Avenue  
Suite 260  
White Plains, NY 10605  
Tel: 800.227.5570

**Pacesetter Park Shopping Center**  
*Pomona, NY*

**Village Commons Shopping Center**  
*Smithtown, NY*

**Mad River Station**  
*Dayton, OH*

