

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

or

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

For the transition period from _____ to _____

Commission File Number 1-12002

ACADIA REALTY TRUST

(Exact name of registrant in its charter)

MARYLAND
(State or other jurisdiction of
incorporation or organization)

411 THEODORE FREMD AVENUE, SUITE 300, RYE, NY
(Address of principal executive offices)

23-2715194
(I.R.S. Employer
Identification No.)

10580
(Zip Code)

(914) 288-8100

(Registrant's telephone number, including area code)

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

YES NO

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

YES NO

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

Large Accelerated Filer Accelerated Filer Emerging Growth Company
Non-accelerated Filer Smaller Reporting Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of October 19, 2018 there were 81,553,275 common shares of beneficial interest, par value \$0.001 per share, outstanding.

ACADIA REALTY TRUST AND SUBSIDIARIES
FORM 10-Q
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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q (the “Report”) may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended (the “Exchange Act”), 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 our 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 our operations and future prospects include, but are not limited to those set forth under the headings “[Item 1A. Risk Factors](#)” and “[Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations](#)” in this Report. [These risks and uncertainties should be considered in evaluating any forward-looking statements contained or incorporated by reference herein.](#)

SPECIAL NOTE REGARDING CERTAIN REFERENCES

All references to “Notes” throughout the document refer to the footnotes to the consolidated financial statements of the registrant referenced in Part I, [Item 1. Financial Statements](#).

PART I – FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS.

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share amounts)	September 30, 2018	December 31, 2017
	(Unaudited)	
ASSETS		
Investments in real estate, at cost		
Operating real estate, net	\$ 3,027,710	\$ 2,952,918
Real estate under development	189,387	173,702
Net investments in real estate	3,217,097	3,126,620
Notes receivable, net	109,410	153,829
Investments in and advances to unconsolidated affiliates	301,717	302,070
Other assets, net	209,875	214,959
Cash and cash equivalents	9,525	74,823
Rents receivable, net	58,584	51,738
Restricted cash	12,508	10,846
Assets of properties held for sale	—	25,362
Total assets	\$ 3,918,716	\$ 3,960,247
LIABILITIES		
Mortgage and other notes payable, net	\$ 964,796	\$ 909,174
Unsecured notes payable, net	488,933	473,735
Unsecured line of credit	28,000	41,500
Accounts payable and other liabilities	202,893	210,052
Capital lease obligation	70,983	70,611
Dividends and distributions payable	23,711	24,244
Distributions in excess of income from, and investments in, unconsolidated affiliates	15,596	15,292
Total liabilities	1,794,912	1,744,608
Commitments and contingencies		
EQUITY		
Acadia Shareholders' Equity		
Common shares, \$0.001 par value, authorized 200,000,000 shares, issued and outstanding 81,550,171 and 83,708,140 shares, respectively	82	84
Additional paid-in capital	1,546,405	1,596,514
Accumulated other comprehensive income	13,267	2,614
Distributions in excess of accumulated earnings	(73,990)	(32,013)
Total Acadia shareholders' equity	1,485,764	1,567,199
Noncontrolling interests	638,040	648,440
Total equity	2,123,804	2,215,639
Total liabilities and equity	\$ 3,918,716	\$ 3,960,247

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

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(in thousands except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues				
Rental income	\$ 51,551	\$ 51,707	\$ 153,652	\$ 148,760
Expense reimbursements	13,194	9,957	35,000	32,347
Other	1,330	1,014	4,116	3,074
Total revenues	66,075	62,678	192,768	184,181
Operating expenses				
Depreciation and amortization	28,676	26,652	86,755	77,245
General and administrative	7,982	7,953	24,359	25,286
Real estate taxes	11,538	8,822	27,528	27,462
Property operating	10,661	9,417	33,523	26,978
Impairment charge	—	3,840	—	3,840
Other operating	270	250	655	987
Total operating expenses	59,127	56,934	172,820	161,798
Operating income	6,948	5,744	19,948	22,383
Equity in earnings of unconsolidated affiliates inclusive of gain on disposition of properties of \$0, \$0, \$0 and \$14,771, respectively	376	4,001	7,079	21,044
Interest income	3,513	6,461	10,539	23,648
Interest expense	(18,077)	(15,428)	(50,882)	(39,666)
(Loss) income from continuing operations before income taxes	(7,240)	778	(13,316)	27,409
Income tax provision	(464)	(465)	(851)	(1,017)
(Loss) income from continuing operations before gain on disposition of properties	(7,704)	313	(14,167)	26,392
Gain on disposition of properties, net of tax	5,107	12,972	5,140	12,972
Net (loss) income	(2,597)	13,285	(9,027)	39,364
Net loss (income) attributable to noncontrolling interests	11,822	(418)	33,336	1,194
Net income attributable to Acadia	\$ 9,225	\$ 12,867	\$ 24,309	\$ 40,558
Basic and diluted earnings per share	\$ 0.11	\$ 0.15	\$ 0.29	\$ 0.48

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

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net (loss) income	\$ (2,597)	\$ 13,285	\$ (9,027)	\$ 39,364
Other comprehensive income (loss):				
Unrealized income (loss) on valuation of swap agreements	3,973	(644)	12,576	(2,652)
Reclassification of realized interest on swap agreements	(55)	734	417	2,637
Other comprehensive income (loss)	3,918	90	12,993	(15)
Comprehensive income	1,321	13,375	3,966	39,349
Comprehensive loss (income) attributable to noncontrolling interests	11,033	(541)	30,996	1,454
Comprehensive income attributable to Acadia	\$ 12,354	\$ 12,834	\$ 34,962	\$ 40,803

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

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
 Nine Months Ended September 30, 2018 and 2017

(in thousands, except per share amounts)	Acadia Shareholders							
	Common Shares	Share Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Accumulated Earnings	Total Common Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance at January 1, 2018	83,708	\$ 84	\$ 1,596,514	\$ 2,614	\$ (32,013)	\$ 1,567,199	\$ 648,440	\$ 2,215,639
Conversion of OP Units to Common Shares by limited partners of the Operating Partnership	111	—	1,957	—	—	1,957	(1,957)	—
Repurchase of Common Shares	(2,294)	(2)	(55,055)	—	—	(55,057)	—	(55,057)
Dividends/distributions declared (\$0.81 per Common Share/OP Unit)	—	—	—	—	(66,286)	(66,286)	(5,126)	(71,412)
Employee and trustee stock compensation, net	25	—	408	—	—	408	7,924	8,332
Noncontrolling interest distributions	—	—	—	—	—	—	(24,654)	(24,654)
Noncontrolling interest contributions	—	—	—	—	—	—	46,990	46,990
Comprehensive income	—	—	—	10,653	24,309	34,962	(30,996)	3,966
Reallocation of noncontrolling interests	—	—	2,581	—	—	2,581	(2,581)	—
Balance at September 30, 2018	81,550	\$ 82	\$ 1,546,405	\$ 13,267	\$ (73,990)	\$ 1,485,764	\$ 638,040	\$ 2,123,804
Balance at January 1, 2017	83,598	\$ 84	\$ 1,594,926	\$ (798)	\$ (5,635)	\$ 1,588,577	\$ 589,548	\$ 2,178,125
Conversion of OP Units to Common Shares by limited partners of the Operating Partnership	61	—	1,086	—	—	1,086	(1,086)	—
Dividends/distributions declared (\$0.78 per Common Share/OP Unit)	—	—	—	—	(65,248)	(65,248)	(4,805)	(70,053)
Employee and trustee stock compensation, net	21	—	425	—	—	425	8,704	9,129
Noncontrolling interest distributions	—	—	—	—	—	—	(7,278)	(7,278)
Noncontrolling interest contributions	—	—	—	—	—	—	20,522	20,522
Comprehensive income	—	—	—	245	40,558	40,803	(1,454)	39,349
Reallocation of noncontrolling interests	—	—	(2,105)	—	—	(2,105)	2,105	—
Balance at September 30, 2017	83,680	\$ 84	\$ 1,594,332	\$ (553)	\$ (30,325)	\$ 1,563,538	\$ 606,256	\$ 2,169,794

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

ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Nine Months Ended September 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	\$ (9,027)	\$ 39,364
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Gain on disposition of properties	(5,140)	(12,972)
Depreciation and amortization	86,755	77,245
Distributions of operating income from unconsolidated affiliates	12,906	13,727
Equity in earnings and gains of unconsolidated affiliates	(7,079)	(21,044)
Stock compensation expense	8,332	9,129
Amortization of financing costs	4,350	3,996
Impairment charge	—	3,840
Other, net	(6,331)	(8,435)
Changes in assets and liabilities:		
Other liabilities	(61)	(1,556)
Prepaid expenses and other assets	(4,860)	(8,723)
Rents receivable, net	(7,452)	(6,646)
Accounts payable and accrued expenses	(5,210)	(736)
Net cash provided by operating activities	67,183	87,189
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of real estate	(104,902)	(138,429)
Development, construction and property improvement costs	(66,238)	(84,554)
Issuance of or advances on notes receivable	(3,002)	(10,449)
Proceeds from the disposition of properties, net	52,759	47,025
Investments in and advances to unconsolidated affiliates	(3,481)	(4,555)
Return of capital from unconsolidated affiliates and other	23,777	31,720
Proceeds from notes receivable	26,000	12,000
Return of deposits for properties under contract	1,750	—
Payment of deferred leasing costs	(2,981)	(5,381)
Net cash used in investing activities	(76,318)	(152,623)

ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(Continued)</i>	Nine Months Ended September 30,	
	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on mortgage and other notes	(69,050)	(130,736)
Principal payments on unsecured debt	(578,600)	(143,215)
Proceeds received on mortgage and other notes	122,332	120,252
Proceeds from unsecured debt	578,800	267,200
Payments for repurchase of Common Shares	(55,057)	—
Capital contributions from noncontrolling interests	46,990	20,522
Distributions to noncontrolling interests	(29,731)	(12,813)
Dividends paid to Common Shareholders	(66,869)	(77,770)
Deferred financing and other costs	(3,316)	(4,987)
Net cash (used in) provided by financing activities	(54,501)	38,453
Decrease in cash and restricted cash	(63,636)	(26,981)
Cash of \$74,823 and \$71,805 and restricted cash of \$10,846 and \$22,904, respectively, beginning of period	85,669	94,709
Cash of \$9,525 and \$48,255 and restricted cash of \$12,508 and \$19,473, respectively, end of period	\$ 22,033	\$ 67,728
Supplemental disclosure of cash flow information		
Cash paid during the period for interest, net of capitalized interest of \$4,366 and \$12,246 respectively	\$ 45,251	\$ 39,626
Cash paid for income taxes, net of (refunds)	\$ 1,227	\$ 773
Supplemental disclosure of non-cash investing activities		
Assumption of accounts payable and accrued expenses through acquisition of real estate	\$ 1,014	\$ 2,161
Acquisition of real estate through conversion of note receivable	\$ —	\$ 9,142
Acquisition of undivided interest in a property through conversion of notes receivable	\$ 22,201	\$ 16,005

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

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Organization, Basis of Presentation and Summary of Significant Accounting Policies

Organization

Acadia Realty Trust and subsidiaries (collectively, the “Company”) is a fully-integrated equity real estate investment trust (“REIT”) focused on the ownership, acquisition, development, and management of retail properties located primarily in high-barrier-to-entry, supply-constrained, densely-populated metropolitan areas in the United States.

All of the Company’s assets are held by, and all of its operations are conducted through, Acadia Realty Limited Partnership (the “Operating Partnership”) and entities in which the Operating Partnership owns an interest. As of September 30, 2018 and December 31, 2017, the Company controlled approximately 94% and 95%, respectively, of the Operating Partnership as the sole general partner and is entitled to share, in proportion to its percentage interest, in the cash distributions and profits and losses of the Operating Partnership. The limited partners primarily represent entities or individuals that contributed their interests in certain properties or entities to the Operating Partnership in exchange for common or preferred units of limited partnership interest (“Common OP Units” or “Preferred OP Units”) and employees who have been awarded restricted Common OP Units (“LTIP Units”) as long-term incentive compensation (Note 13). Limited partners holding Common OP and LTIP 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 referred to as an umbrella partnership REIT or “UPREIT.”

As of September 30, 2018, the Company has ownership interests in 118 properties within its core portfolio, which consist of those properties either 100% owned, or partially owned through joint venture interests, by the Operating Partnership, or subsidiaries thereof, not including those properties owned through its funds (“Core Portfolio”). The Company also has ownership interests in 52 properties within its opportunity funds, Acadia Strategic Opportunity Fund II, LLC (“Fund II”), Acadia Strategic Opportunity Fund III LLC (“Fund III”), Acadia Strategic Opportunity Fund IV LLC (“Fund IV”), and Acadia Strategic Opportunity Fund V LLC (“Fund V”). Acadia Strategic Opportunity Fund I, LP (“Fund I,” together with Funds II, III, IV, and V, the “Funds”) was liquidated in 2015. The 170 Core Portfolio and Fund properties primarily consist of street and urban retail, and suburban shopping centers. In addition, the Company, together with the investors in the Funds, invest or invested in operating companies through Acadia Mervyn Investors I, LLC (“Mervyns I,” which was liquidated in 2018), Acadia Mervyn Investors II, LLC (“Mervyns II”) and Fund II, all on a non-recourse basis. The Company consolidates the Funds as it has (i) the power to direct the activities that most significantly impact the Funds’ economic performance, (ii) is obligated to absorb the Funds’ losses and (iii) has the right to receive benefits from the Funds that could potentially be significant.

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

The following table summarizes the general terms and Operating Partnership’s equity interests in the Funds and Mervyns II (dollars in millions):

Entity	Formation Date	Operating Partnership Share of Capital	Capital Called as of September 30, 2018	Unfunded Commitment	Equity Interest Held By Operating Partnership (a)	Preferred Return	Total Distributions as of September 30, 2018 (b)
Fund II and Mervyns II (c)	6/2004	28.33%	\$ 347.1	\$ —	28.33%	8%	\$ 146.6
Fund III	5/2007	24.54%	423.9	26.1	24.54%	6%	551.9
Fund IV	5/2012	23.12%	420.8	109.2	23.12%	6%	147.4
Fund V	8/2016	20.10%	85.1	434.9	20.10%	6%	—

(a) Amount represents the current economic ownership at September 30, 2018, which could differ from the stated legal ownership based upon the cumulative preferred returns of the respective fund.

(b) Represents the total for the Funds, including the Operating Partnership and noncontrolling interests’ shares.

(c) During April 2018, a distribution of \$15.0 million was made to the Fund II investors, including \$4.3 million to the Operating Partnership. This amount remains subject to re-contribution to Fund II until April 2021.

Basis of Presentation

Segments

At September 30, 2018, the Company had three reportable operating segments: Core Portfolio, Funds and Structured Financing. The Company's chief operating decision maker may review operational and financial data on a property basis and does not differentiate properties on a geographical basis for purposes of allocating resources or capital. Each property is considered a separate operating segment; however, each property on a stand-alone basis represents less than 10% of revenues, profit or loss, and assets of the combined reported operating segment and meets the majority of the aggregation criteria under the applicable standard.

Principles of Consolidation

The interim consolidated financial statements include the consolidated accounts of the Company and its investments in partnerships and limited liability companies in which the Company has control in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 810 "Consolidation" ("ASC Topic 810"). The ownership interests of other investors in these entities are recorded as noncontrolling interests. All significant intercompany balances and transactions have been eliminated in consolidation. Investments in entities for which the Company has the ability to exercise significant influence over, but does not have financial or operating control, are accounted for using the equity method of accounting. Accordingly, the Company's share of the earnings (or losses) of these entities are included in consolidated net income.

The interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the full fiscal year. The information furnished in the accompanying consolidated financial statements reflects all adjustments that, in the opinion of management, are necessary for a fair presentation of the aforementioned consolidated financial statements for the interim periods. Such adjustments consisted of normal recurring items.

These interim consolidated financial statements should be read in conjunction with the Company's 2017 Annual Report on Form 10-K, as filed with the SEC on February 27, 2018.

Use of Estimates

GAAP requires the Company's management to make estimates and assumptions that affect the amounts reported in the interim consolidated financial statements and accompanying notes. The most significant assumptions and estimates relate to the valuation of real estate, depreciable lives, revenue recognition and the collectability of notes receivable and rents receivable. Application of these estimates and assumptions requires the exercise of judgment as to future uncertainties and, as a result, actual results could differ from these estimates.

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 is a comprehensive new revenue recognition model requiring a company to recognize revenue to depict the transfer of goods or services to a customer at an amount reflecting the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 does not apply to the Company's lease revenues, but does apply to certain reimbursed tenant costs. Additionally, this guidance modifies disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 for all entities by one year, until years beginning in 2018, with early adoption permitted but not before 2017. Substantially all of the Company's revenue is derived from its leases and therefore falls outside of the scope of this guidance. The Company implemented the standard effective January 1, 2018, using the modified retrospective approach; however, there was no cumulative effect required to be recognized in retained earnings at the date of application. With respect to its fee-derived revenue, the Company had no changes to the timing of the revenue recognition. However, the recognition of gains on dispositions of properties may be impacted prospectively in limited circumstances under which collectability may not be reasonably assured or if the Company has continuing involvement with a sold property.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows—Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on certain specific cash flow issues, including, but not limited to, debt prepayment or extinguishment costs, contingent consideration payments made after a business combination and distributions received from equity method investees. The Company adopted ASU 2016-15 effective January 1, 2018 and elected the “cumulative distribution approach” whereby distributions received from equity method investments are classified as cash flows from operations to the extent of equity earnings and then as cash flows from investing activities thereafter. Accordingly, the Company has reclassified \$6.3 million of its cash inflows from investing activities to cash flows from operating activities in its historical presentation of cash flows related to its equity method investments for the nine months ended September 30, 2017.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company adopted this guidance effective January 1, 2018. Accordingly, the Company has reclassified \$3.5 million of its cash inflows from operating activities and \$0.1 million of its cash outflows from financing activities to change in cash and restricted cash in its historical presentation of cash flows for the nine months ended September 30, 2017.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations—Clarifying the Definition of a Business*. ASU 2017-01 clarifies that to be considered a business, the elements must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. The new standard illustrates the circumstances under which real estate with in-place leases would be considered a business and provides guidance for the identification of assets and liabilities in purchase accounting. ASU 2017-01 is effective for periods beginning after December 15, 2017 and has been adopted by the Company effective January 1, 2018. It is expected that the new standard will reduce the number of future real estate acquisitions that will be accounted for as business combinations and, therefore, reduce the amount of acquisition costs that will be expensed. Accordingly, the Company capitalized \$0.2 million of acquisition costs during the nine months ended September 30, 2018 and expensed \$0.9 million of acquisition costs during the nine months ended September 30, 2017.

In January 2017, the FASB issued ASU No. 2017-03, *Accounting Changes and Error Corrections (Topic 250) and Investments—Equity Method and Joint Ventures (Topic 323)*. ASU 2017-03 amends certain SEC guidance in the FASB Accounting Standards Codification in response to SEC staff announcements made during 2016 Emerging Issues Task Force (“EITF”) meetings which addressed (i) the additional qualitative disclosures that a registrant is expected to provide when it cannot reasonably estimate the impact that ASUs 2014-09, 2016-02 and 2016-13 will have in applying the guidance in Staff Accounting Bulletin Topic 11.M and (ii) guidance in ASC 323 related to the amendments made by ASU 2014-01 regarding use of the proportional amortization method in accounting for investments in qualified affordable housing projects (announcement made at the November 17, 2016, EITF meeting). The Company adopted 2017-03 effective January 1, 2018. The adoption of ASU 2017-03 did not have a material impact on the Company’s consolidated financial statements.

In February 2017, the FASB issued ASU No. 2017-05, *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*, which amends the guidance on nonfinancial assets in ASC 610-20. The amendments clarify that (i) a financial asset is within the scope of ASC 610-20 if it meets the definition of an in substance nonfinancial asset and may include nonfinancial assets transferred within a legal entity to a counter-party, (ii) an entity should identify each distinct nonfinancial asset or in substance nonfinancial asset promised to a counter-party and de-recognize each asset when a counter-party obtains control of it, and (iii) an entity should allocate consideration to each distinct asset by applying the guidance in ASC 606 on allocating the transaction price to performance obligations. Further, ASU 2017-05 provides guidance on accounting for partial sales of nonfinancial assets. The amendments are effective at the same time as the amendments in ASU 2014-09. The Company adopted ASU 2017-05 effective January 1, 2018. The adoption of ASU 2017-05 did not have a material impact on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting*, which clarifies the scope of modification accounting with respect to changes to the terms or conditions of a share-based payment award. Modification accounting would not apply if a change to an award does not affect the total current fair value (or other applicable measurement), vesting conditions, or the classification of the award. For all entities, ASU 2017-09 is effective prospectively for awards modified in fiscal years beginning after December 15, 2017. The Company adopted ASU 2017-09 effective January 1, 2018. The adoption of ASU 2017-09 did not have a material impact on the Company's consolidated financial statements because the Company has not had significant modifications of its awards.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities*. The purpose of this updated guidance is to better align a company's financial reporting for hedging activities with the economic objectives of those activities. ASU 2017-12 is effective for fiscal years beginning after December 15, 2018, with early adoption, including adoption in an interim period, permitted. The Company early adopted ASU 2017-12 effective January 1, 2018 and the adoption of ASU 2017-12 did not have a material impact on the Company's consolidated financial statements.

In March 2018, the FASB issued ASU No. 2018-05, *Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118*, which allowed public companies to record provisional amounts in earnings for the year ended December 31, 2017 due to the complexities involved in accounting for the enactment of the Tax Cuts and Jobs Act. ASU 2018-05 was effective upon issuance. The Company recognized the estimated income tax effects of the Tax Cuts and Jobs Act in its 2017 Consolidated Financial Statements in accordance with SEC Staff Accounting Bulletin No. 118.

Recently Issued Accounting Pronouncements

Lease Accounting

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. ASU 2016-02 outlines a new model for accounting by lessees, whereby their rights and obligations under substantially all leases, existing and new, will be capitalized and recorded on the balance sheet. For lessors, however, the accounting remains largely unchanged from the current model, with the distinction between operating, sales-type and direct-financing leases retained, but updated to align with certain changes to the lessee model and the new revenue recognition standard discussed above. Under the new guidance, contract consideration will be allocated to its lease components (such as the lease of our retail properties) and non-lease components (such as maintenance). For us as a lessor, any non-lease components will be accounted for under ASC Topic 606, *Revenue from Contracts with Customers*, unless the Company elects a lessor practical expedient to not separate the nonlease components from the associated lease component (see discussion below). The new guidance also includes a definition of *initial direct costs* that is narrower than the prior definition in current GAAP (Topic 840, *Leases*). This will result in a change to the accounting for our internal leasing costs, which will be expensed as incurred, as opposed to being capitalized and deferred. Commissions subsequent to successful lease execution will continue to be capitalized. ASU 2016-02 is effective for the Company beginning January 1, 2019 and will require extensive quantitative and qualitative disclosures.

ASU 2016-02 initially provided for one retrospective transition method; however, a second transition method was later added with ASU 2018-11 as described below. To ease the transition, the new lease accounting guidance permits companies to utilize certain practical expedients in their implementation of the new standard:

- A package of three practical expedients that must be elected together for all leases and includes: (i) not reassessing expired or existing contracts as to whether they are or contain leases; (ii) not reassessing lease classification of existing leases and (iii) not reassessing the amount of capitalized initial direct costs for existing leases;
- ASU 2016-02 also includes a practical expedient to use hindsight in determining the lease term or assessing purchase options for existing leases and in assessing impairment of right of use assets;
- ASU 2018-01, *Land Easements Practical Expedient for Transition to Topic 842* added a transition practical expedient to not reassess existing or expired land easement agreements not previously accounted for as leases; and
- A new practical expedient under ASU 2018-11, described below.

In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*. These amendments provide minor clarifications and corrections to ASU 2016-02, *Leases (Topic 842)*.

In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*. The amendments in this Update provide entities with an additional optional transition method to adopt ASU 2016-02. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting under this additional transition method for the comparative periods presented in the financial statements in which it adopts the new leases standard would continue to be in accordance with current GAAP (Topic 840, *Leases*). The amendments in this Update also provide lessors with a practical expedient, by class of underlying asset, to make a policy election to not separate non-lease components from the associated lease component and, instead, to account for those components as a single component if the non-lease components otherwise would be accounted for under the new revenue guidance (Topic 606). Conditions are required to elect the practical expedient, and if met, the single component will be accounted for under either under Topic 842 or Topic 606 depending on which component(s) are predominant. The lessor practical expedient to not separate nonlease components from the associated component must be elected for all existing and new leases.

The Company will adopt ASU No. 2016-02 (as amended by subsequent ASUs) effective January 1, 2019 utilizing the new transition method described in ASU 2018-11 and will avail itself of all the available practical expedients described above except it will not use hindsight in determining the lease term or assessing purchase options for existing leases and in assessing impairment of right of use assets. As lessor, the Company expects that post-adoption substantially all existing leases will have no change in the timing of revenue recognition until their expiration or termination. For common area maintenance income, currently reported within expense reimbursements, while this will be considered a nonlease component within the scope of Topic 606 for new leases, we expect to elect the lessor practical expedient to not separate maintenance from the associated lease for all existing and new leases and to account for the combined component as a single lease component. The Company is still evaluating the effect of electing this lessor practical expedient on the presentation within the statement of income. The timing of revenue recognition is expected to be the same for the majority of the Company's new leases as compared to similar existing leases. After adoption, the Company will no longer capitalize a significant portion of internal leasing costs that were previously capitalized (the Company capitalized \$1.4 million and \$1.3 million of internal leasing costs during the nine months ended September 30, 2018 and the year ended December 31, 2017, respectively).

As a lessee, the Company is party to several equipment, ground, and office leases with future payment obligations aggregating approximately \$204.0 million at September 30, 2018 for which the Company expects to record right-of-use assets and lease liabilities at the present value of the remaining minimum rental payments upon adoption of ASU 2016-02. As lessee, the Company will apply the following practical expedients in the implementation ASU 2016-02: (i) to not separate non-lease components from the associated lease component as described above and (ii) to not apply the right-of-use recognition requirements to short-term leases.

Other Accounting Topics

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. These amendments provide financial statement preparers with an option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recorded. This guidance is effective for fiscal years beginning after December 15, 2018, and interim periods therein. Early adoption is permitted. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07, *Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. These amendments provide specific guidance for transactions for acquiring goods and services from nonemployees and specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide (i) financing to the issuer or (ii) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, *Revenue from Contracts with Customers*. This guidance is effective for fiscal years beginning after December 15, 2018, and interim periods beginning after December 15, 2020. Early adoption is permitted but not earlier than the adoption of Topic 606. The Company does not believe that this guidance will have a material effect on its consolidated financial statements as it has not historically issued share-based payments in exchange for goods or services to be consumed within its operations.

In July 2018, the FASB issued ASU No. 2018-09, *Codification Improvements*. These amendments provide clarifications and corrections to certain ASC subtopics including the following: 220-10 (Income Statement - Reporting Comprehensive Income - Overall), 470-50 (Debt - Modifications and Extinguishments), 480-10 (Distinguishing Liabilities from Equity - Overall), 718-740 (Compensation - Stock Compensation - Income Taxes), 805-740 (Business Combinations - Income Taxes), 815-10 (Derivatives and Hedging - Overall), and 820-10 (Fair Value Measurement - Overall). Some of the amendments in ASU 2018-09 do not require transition guidance and will be effective upon issuance; however, many of the amendments do have transition guidance with effective dates for annual periods beginning after December 15, 2018. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement* which removes, modifies, and adds certain disclosure requirements related to fair value measurements in ASC 820. This guidance is effective for public companies in fiscal years beginning after December 15, 2019 with early adoption permitted. The Company is currently assessing the impact this guidance will have on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15 *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* to provide guidance on implementation costs incurred in a cloud computing arrangement that is a service contract. The ASU aligns the accounting for such costs with the guidance on capitalizing costs associated with developing or obtaining internal-use software. Specifically, the ASU amends ASC 350 to include in its scope implementation costs of such arrangements that are service contracts and clarifies that a customer should apply ASC 350-40 to determine which implementation costs should be capitalized. This ASU,

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which is effective for fiscal years beginning after December 15, 2019, is not expected to have a material impact on the Company's financial statements as the Company has not incurred any significant costs associated with cloud computing arrangements.

In August 2018, the Securities and Exchange Commission issued a final rule that amends certain of its disclosure requirements. The rule simplifies various disclosure requirements for public companies including primarily that it (i) eliminates the requirement for public companies to disclose in their filings a schedule of earnings to fixed charges, (ii) requires an analysis of changes in stockholders' equity for the current and comparative year-to-date interim periods in interim reports, and (iii) reduces the requirements for market price information disclosures in annual reports. These changes are effective for public companies beginning on November 5, 2018. The Company will comply with these new requirements beginning with its 2018 Annual Report on Form 10-K.

2. Real Estate

The Company's consolidated real estate is comprised of the following (in thousands):

	September 30, 2018	December 31, 2017
Land	\$ 674,758	\$ 658,835
Buildings and improvements	2,493,011	2,406,488
Tenant improvements	144,134	131,850
Construction in progress	34,919	18,642
Properties under capital lease	76,965	76,965
Total	3,423,787	3,292,780
Less: Accumulated depreciation	(396,077)	(339,862)
Operating real estate, net	3,027,710	2,952,918
Real estate under development, at cost	189,387	173,702
Net investments in real estate	<u>\$ 3,217,097</u>	<u>\$ 3,126,620</u>

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Acquisitions and Conversions

During the nine months ended September 30, 2018 and the year ended December 31, 2017, the Company acquired the following consolidated retail properties (dollars in thousands):

Property and Location	Percent Acquired	Date of Acquisition	Purchase Price
2018 Acquisitions			
<u>Core</u>			
Bedford Green Land Parcel	100%	Mar 23, 2018	\$ 1,337
Subtotal Core			<u>1,337</u>
<u>Fund V</u>			
Trussville Promenade - Trussville, AL	100%	Feb 21, 2018	45,259
Elk Grove Commons - Elk Grove, CA	100%	Jul 18, 2018	59,320
Subtotal Fund V			<u>104,579</u>
Total 2018 Acquisitions			<u>\$ 105,916</u>
2017 Acquisitions and Conversions			
<u>Core</u>			
Market Square Shopping Center - Wilmington, DE (Conversion) (Note 4)	100%	Nov 16, 2017	\$ 42,800
Subtotal Core			<u>42,800</u>
<u>Fund IV</u>			
Lincoln Place - Fairview Heights, IL	100%	Mar 13, 2017	35,350
Shaw's Plaza - Windham, ME (Conversion) (Note 3)	100%	Jun 30, 2017	9,142
Subtotal Fund IV			<u>44,492</u>
<u>Fund V</u>			
Plaza Santa Fe - Santa Fe, NM	100%	Jun 5, 2017	35,220
Hickory Ridge - Hickory, NC	100%	Jul 27, 2017	44,020
New Towne Plaza - Canton, MI	100%	Aug 4, 2017	26,000
Fairlane Green - Allen Park, MI	100%	Dec 20, 2017	62,000
Subtotal Fund V			<u>167,240</u>
Total 2017 Acquisitions and Conversions			<u>\$ 254,532</u>

The 2018 acquisitions were considered asset acquisitions based on accounting guidance effective as of January 1, 2018 (Note 1). The 2017 acquisitions and conversions were deemed to be business combinations. For the nine months ended September 30, 2018, the Company capitalized \$0.2 million of acquisition costs related to the Funds. The Company expensed \$0.9 million of acquisition costs for the nine months ended September 30, 2017, of which \$0.3 million related to the Core Portfolio and \$0.6 million related to the Funds. No debt was assumed in any of the 2018 Acquisitions or 2017 Acquisitions or Conversions.

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Purchase Price Allocations

The purchase prices for the 2018 acquisitions and the 2017 acquisitions and conversions were allocated to the acquired assets and assumed liabilities based on their estimated fair values at the dates of acquisition. The following table summarizes the allocation of the purchase price of properties acquired during the nine months ended September 30, 2018 and the year ended December 31, 2017 (in thousands):

	Nine Months Ended September 30, 2018	Year Ended December 31, 2017
Net Assets Acquired		
Land	\$ 15,127	\$ 48,138
Buildings and improvements	82,235	173,576
Other assets	—	84
Acquisition-related intangible assets (Note 6)	13,416	44,269
Acquisition-related intangible liabilities (Note 6)	(4,862)	(11,535)
Net assets acquired	<u>\$ 105,916</u>	<u>\$ 254,532</u>
Consideration		
Cash	\$ 104,902	\$ 200,429
Conversion of note receivable	—	41,010
Liabilities assumed	1,014	3,363
Existing interest in previously unconsolidated investment	—	4,159
Change in control of previously unconsolidated investment	—	5,571
Total Consideration	<u>\$ 105,916</u>	<u>\$ 254,532</u>

Dispositions

During the nine months ended September 30, 2018 and the year ended December 31, 2017, the Company disposed of the following consolidated properties (in thousands):

Property and Location	Owner	Date Sold	Sale Price	Gain (Loss) on Sale
2018 Disposition				
Sherman Avenue - New York, NY	Fund II	Apr 17, 2018	\$ 26,000	\$ 33
Lake Montclair - Dumfries, VA	Fund IV	Aug 27, 2018	22,450	2,923
1861 Union Street - San Francisco, CA	Fund IV	Aug 29, 2018	6,000	2,184
Total 2018 Dispositions			<u>\$ 54,450</u>	<u>\$ 5,140</u>
2017 Dispositions				
New Hyde Park Shopping Center - New Hyde Park, NY	Fund III	Jul 6, 2017	\$ 22,075	\$ 6,433
216th Street - New York, NY	Fund II	Sep 11, 2017	30,579	6,543
City Point Condominium Tower I - Brooklyn, NY	Fund II	Oct 13, 2017	96,000	(810)
1151 Third Avenue - New York, NY	Fund IV	Nov 16, 2017	27,000	5,183
260 E 161st Street - Bronx, NY	Fund II	Dec 13, 2017	105,684	31,537
Total 2017 Dispositions			<u>\$ 281,338</u>	<u>\$ 48,886</u>

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The aggregate rental revenue, expenses and pre-tax income reported within continuing operations for the aforementioned consolidated properties that were sold during the nine months ended September 30, 2018 and year ended December 31, 2017 were as follows (in thousands):

	Three Months Ended		Nine Months Ended September 30,	
	September 30,			
	2018	2017	2018	2017
Rental revenues	\$ 451	\$ 5,067	\$ 1,966	\$ 14,112
Expenses	(525)	(4,722)	(1,853)	(16,593)
Loss (income) from continuing operations of disposed properties before gain on disposition of properties	(74)	345	113	(2,481)
Gain on disposition of properties	5,107	12,972	5,140	12,972
Net (income) loss attributable to noncontrolling interests	(3,540)	(9,440)	(3,381)	(7,429)
Net loss attributable to Acadia	<u>\$ 1,493</u>	<u>\$ 3,877</u>	<u>\$ 1,872</u>	<u>\$ 3,062</u>

Properties Held for Sale

At December 31, 2017, the Company had one property in Fund II classified as held-for-sale, Sherman Avenue, with total assets of \$25.4 million, which was sold on April 17, 2018 as noted in the disposition table above. This property's net operating loss of \$0.5 million and \$0.6 million for the nine months ended September 30, 2018 and 2017, respectively, is included in the table above. At December 31, 2017, the Company recognized an impairment charge of approximately \$10.6 million inclusive of an amount attributable to a noncontrolling interest of \$7.6 million (Note 8).

Real Estate Under Development and Construction in Progress

Real estate under development represents the Company's consolidated properties that have not yet been placed into service while undergoing substantial development or construction.

Development activity for the Company's consolidated properties comprised the following during the periods presented (dollars in thousands):

	December 31, 2017		Nine Months Ended September 30, 2018			September 30, 2018	
	Number of Properties	Carrying Value	Transfers In	Capitalized Costs	Transfers Out	Number of Properties	Carrying Value
Core	2	\$ 21,897	\$ —	\$ 489	\$ 14,544	1	\$ 7,842
Fund II	—	4,908	—	1,131	—	—	6,039
Fund III	2	63,939	—	27,124	—	2	91,063
Fund IV	1	82,958	—	1,485	—	1	84,443
Total	<u>5</u>	<u>\$ 173,702</u>	<u>\$ —</u>	<u>\$ 30,229</u>	<u>\$ 14,544</u>	<u>4</u>	<u>\$ 189,387</u>

During the nine months ended September 30, 2018, the Company placed one Core development project into service. In addition to the consolidated projects noted above, the Company had one unconsolidated project in development at December 31, 2017, which it placed into service during the nine months ended September 30, 2018.

During the year ended December 31, 2017, the Company placed substantially all of Fund II's City Point project into service as well as three Fund IV properties, reclassified Fund II's Sherman Avenue property as held for sale and placed one Core property into development. In addition to the consolidated projects noted above, the Company had one unconsolidated project remaining in development after placing three of its four unconsolidated Fund IV development properties into service during the year ended December 31, 2017.

Construction in progress pertains to construction activity at the Company's operating properties which are in service and continue to operate during the construction period.

3. Notes Receivable, Net

The Company's notes receivable, net were collateralized either by the underlying properties or the borrower's ownership interest in the entities that own the properties, and were as follows (dollars in thousands):

Description	September 30,	December 31,	September 30, 2018		
	2018	2017	Number	Maturity Date	Interest Rate
Core Portfolio	\$ 56,475	\$ 101,695	2	Apr 2019 - Apr 2020	6.0% - 8.1%
Fund II	32,379	31,778	1	May 2020	2.5%
Fund III	5,306	5,106	1	Jul 2020	18.0%
Fund IV	15,250	15,250	1	Feb 2021	15.3%
	<u>\$ 109,410</u>	<u>\$ 153,829</u>	<u>5</u>		

During the nine months ended September 30, 2018, the Company:

- exchanged \$22.0 million of a Core note receivable plus accrued interest thereon of \$0.3 million for an additional undivided interest in the Town Center property ([Note 4](#));
- received full payment on \$26.0 million of Core notes receivable plus accrued interest of \$0.2 million;
- funded an additional \$2.8 million to its existing \$15.0 million Core note receivable and entered into an agreement to extend the maturity to April 1, 2020;
- advanced an additional \$0.2 million on a Fund III note receivable; and
- increased the balance of a Fund II note receivable by the interest accrued of \$0.6 million.

During the year ended December 31, 2017, the Company:

- recovered the full value of a \$12.0 million Core note receivable, which was previously in default, plus accrued interest and fees aggregating \$16.8 million;
- exchanged \$92.7 million of Core notes receivable plus accrued interest thereon of \$1.8 million for additional undivided interests in the Market Square and Town Center properties ([Note 4](#));
- funded an additional \$10.0 million on an existing Core note receivable, which had a total commitment of \$20.0 million, and was subsequently repaid in full during the fourth quarter;
- entered into an agreement to extend the maturity of a \$15.0 million Core note receivable to June 1, 2018;
- increased the balance of a Fund II note receivable by the interest accrued of \$0.8 million;
- advanced an additional \$0.6 million on a Fund III note receivable; and
- exchanged a \$9.0 million Fund IV note receivable plus accrued interest of \$0.1 million thereon for an investment in a shopping center in Windham, Maine ([Note 2](#)).

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

Earnings from these notes and mortgages receivable are reported within the Company's Structured Financing segment ([Note 12](#)).

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4. Investments in and Advances to Unconsolidated Affiliates

The Company accounts for its investments in and advances to unconsolidated affiliates primarily under the equity method of accounting as it has the ability to exercise significant influence, but does not have financial or operating control over the investment, which is maintained by each of the unaffiliated partners who co-invest with the Company. The Company's investments in and advances to unconsolidated affiliates consist of the following (dollars in thousands):

Portfolio	Property	Nominal Ownership Interest September 30, 2018	September 30, 2018	December 31, 2017
Core:				
	840 N. Michigan (a)	88.43%	\$ 66,632	\$ 69,846
	Renaissance Portfolio	20%	32,495	35,041
	Gotham Plaza	49%	29,788	29,416
	Town Center (a, b)	75.22%	99,741	78,801
	Georgetown Portfolio	50%	4,615	3,479
			<u>233,271</u>	<u>216,583</u>
Mervyns I & II:	KLA/Mervyn's, LLC (c)	10.5%	—	—
Fund III:				
	Fund III Other Portfolio	90%	166	167
	Self Storage Management (d)	95%	206	206
			<u>372</u>	<u>373</u>
Fund IV:				
	Broughton Street Portfolio (e)	50%	38,764	48,335
	Fund IV Other Portfolio	90%	15,648	20,199
	650 Bald Hill Road	90%	12,993	13,609
			<u>67,405</u>	<u>82,143</u>
Various Funds:				
	Due from Related Parties (f)		113	2,415
	Other (g)		556	556
	Investments in and advances to unconsolidated affiliates		<u>\$ 301,717</u>	<u>\$ 302,070</u>
Core:				
	Crossroads (h)	49%	\$ 15,596	\$ 15,292
	Distributions in excess of income from, and investments in, unconsolidated affiliates		<u>\$ 15,596</u>	<u>\$ 15,292</u>

(a) Represents a tenancy-in-common interest.

(b) During November 2017 and March 2018, as discussed below, the Company increased its ownership in Town Center.

(c) Distributions, discussed below, have exceeded the Company's non-recourse investment, therefore the carrying value is zero.

(d) Represents a variable interest entity for which the Company was determined not to be the primary beneficiary.

(e) The Company is entitled to a 15% return on its cumulative capital contribution which was \$15.9 million and \$15.4 million at September 30, 2018 and December 31, 2017, respectively. In addition, the Company is entitled to a 9% preferred return on a portion of its equity, which was \$36.7 million and \$41.2 million at September 30, 2018 and December 31, 2017, respectively.

(f) Represents deferred fees.

(g) Includes a cost-method investment in Albertson's (Note 8), Storage Post and other investments.

(h) Distributions have exceeded the Company's investment; however, the Company recognizes a liability balance as it may be required to return distributions to fund future obligations of the entity.

Core Portfolio

Acquisition of Unconsolidated Investment

On January 4, 2017, an entity in which the Company owns a 20% noncontrolling interest (the “Renaissance Portfolio”), acquired a 6,200 square foot property in Alexandria, Virginia referred to as (“907 King Street”) for \$3.0 million. The Renaissance Portfolio is now a 213,000 square-foot portfolio of 18 mixed-use properties, 16 of which are located in Georgetown, Washington D.C. and two of which are located in Alexandria, Virginia.

Brandywine Portfolio, Market Square and Town Center

The Company owns an interest in an approximately one million square foot retail portfolio (the “Brandywine Portfolio” joint venture) located in Wilmington, Delaware, which includes two properties referred to as “Market Square” and “Town Center.” Prior to the second quarter of 2016, the Company had a controlling interest in the Brandywine Portfolio, and it was therefore consolidated within the Company’s financial statements. During April 2016, the arrangement with the partners of the Brandywine Portfolio was modified to change the legal ownership from a partnership to a tenancy-in-common interest, as well as to provide certain participating rights to the outside partners. As a result of these modifications, the Company de-consolidated the Brandywine Portfolio and accounted for its interest under the equity method of accounting effective May 1, 2016. Furthermore, as the owners of the Brandywine Portfolio had consistent ownership interests before and after the modification and the underlying net assets were unchanged, the Company reflected the change from consolidation to equity method based upon its historical cost. The Brandywine Portfolio and Market Square ventures do not include the property held by Brandywine Holdings, an entity consolidated by the Company.

Additionally, in April 2016, the Company repaid the outstanding balance of \$140.0 million of non-recourse debt collateralized by the Brandywine Portfolio and provided a note receivable collateralized by the partners’ tenancy-in-common interest in the Brandywine Portfolio for their proportionate share of the repayment. On May 1, 2017, the Company exchanged \$16.0 million of the \$153.4 million notes receivable (the “Brandywine Notes Receivable”) ([Note 3](#)) plus accrued interest of \$0.3 million for one of the partner’s 38.89% tenancy-in-common interests in Market Square. The Company already had a 22.22% interest in Market Square and continued to apply the equity method of accounting for its aggregate 61.11% noncontrolling interest in Market Square and its 22.22% interest in Town Center through November 16, 2017. The incremental investment in Market Square was recorded at \$16.3 million and the excess of this amount over the venture’s book value associated with this interest, or \$9.8 million, was being amortized over the remaining depreciable lives of the venture’s assets through November 16, 2017. On November 16, 2017, the Company exchanged an additional \$16.0 million of Brandywine Notes Receivable plus accrued interest of \$0.6 million for the remaining 38.89% interest in Market Square, thereby obtaining a 100% controlling interest in the property. The exchange was deemed to be a business combination and as a result, the property was consolidated and a gain on change of control of \$5.6 million was recorded ([Note 2](#)).

On November 16, 2017, the Company exchanged \$60.7 million of the Brandywine Notes Receivable plus accrued interest of \$0.9 million for one of the partner’s 38.89% tenancy-in-common interests in Town Center. The incremental investment in Town Center was recorded at \$61.6 million and the excess of this amount over the venture’s book value associated with this interest, or \$34.5 million, is being amortized over the remaining depreciable lives of the venture’s assets. The Company previously had a 22.22% interest in Town Center which then became 61.11% following the November 2017 transaction.

On March 28, 2018, the Company exchanged \$22.0 million of its Brandywine Notes Receivable plus accrued interest of \$0.3 million for one of the partner’s 14.11% tenancy-in-common interests in Town Center. The incremental investment in Town Center was recorded at \$ 22.3 million and the excess of this amount over the venture’s book value associated with this interest, or \$12.7 million, is being amortized over the remaining depreciable lives of the venture’s assets. The Company continues to apply the equity method of accounting for its aggregate 75.22% noncontrolling interest in Town Center after the March 2018 transaction.

At September 30, 2018, \$38.7 million of the Brandywine Note Receivable remains outstanding ([Note 3](#)), which is collateralized by the remaining 24.78% undivided interest in Town Center.

Fund Investments

Mervyn’s I & II

In 2017, Mervyn’s I and Mervyn’s II received a total of \$1.1 million in distributions from certain investments. The Company had already reduced the carrying amount of these investments to zero, and consequently the entire amount received has been reflected as equity in earnings and gains of unconsolidated affiliates in the consolidated statements of income.

Albertson's

“Other” includes, among other investments, Fund II’s cost method investment reflecting an effective 1.05% interest in Albertson’s Companies, Inc. (“Albertson’s”), a privately-held national supermarket chain. In 2017, the Company received \$2.4 million in distributions from Albertson’s and reduced the carrying amount of its investment in Albertson’s to zero ([Note 8](#)), reflecting the remaining \$2.0 million as equity in earnings and gains of unconsolidated affiliates in the consolidated statements of income.

Storage Post

On May 15, 2018, Fund III’s Storage Post venture, which is a cost-method investment with no carrying value, distributed \$3.2 million of which the Operating Partnership’s share was \$0.8 million.

2018 Dispositions of Unconsolidated Investments

On January 18, 2018, Fund IV’s Broughton Street Portfolio venture sold two properties for aggregate proceeds of \$8.0 million, resulting in a net loss of \$0.4 million at the property level of which the Fund’s share and the Operating Partnership’s proportionate share of the loss was zero, due to Fund IV’s preferred return.

On June 29, 2018, Fund IV’s Broughton Street Portfolio venture terminated its master leases on two of its properties resulting in a net loss of \$1.0 million at the property level for which the Operating Partnership’s share was less than \$0.1 million.

On August 29, 2018, Fund IV’s Broughton Street Portfolio venture sold a property for proceeds of \$2.1 million, resulting in a net loss of \$0.3 million at the property level, of which the Operating Partnership’s share was less than \$0.1 million.

At September 30, 2018, the Broughton Street portfolio had 13 remaining properties. See [Note 15](#) regarding the acquisition of venture partner interests in 11 of these properties.

2017 Dispositions of Unconsolidated Investments

On January 31, 2017, Fund IV completed the disposition of 2819 Kennedy Boulevard, for \$19.0 million less \$8.4 million debt repayment for net proceeds of \$10.6 million, resulting in a gain on disposition of \$6.3 million at the property level, of which the Fund’s share was \$6.2 million, which is included in equity in earnings and gains from unconsolidated affiliates in the consolidated statements of income. The Operating Partnership’s proportionate share of the gain was \$1.4 million, net of noncontrolling interests.

On February 15, 2017, Fund III completed the disposition of Arundel Plaza, for \$28.8 million less \$10.0 million debt repayments for net proceeds of \$18.8 million, resulting in a gain on disposition of \$8.2 million at the property level, of which the Fund’s share was \$5.3 million, which is included in equity in earnings and gains from unconsolidated affiliates in the consolidated statements of income. The Operating Partnership’s proportionate share of the gain was \$1.3 million, net of noncontrolling interests.

On June 30, 2017, Fund IV completed the disposition of 1701 Belmont Avenue, for \$5.6 million less \$2.9 million debt repayments for net proceeds of \$2.7 million, resulting in a gain on disposition of \$3.3 million at the property level, of which the Fund’s share was \$3.3 million, which is included in equity in earnings and gains from unconsolidated affiliates in the consolidated statements of income. The Operating Partnership’s proportionate share of the gain was \$0.8 million, net of noncontrolling interests.

On October 3 and December 21, 2017, Fund IV’s Broughton Street Portfolio venture sold a total of five properties for aggregate proceeds of \$11.0 million resulting in a net gain of \$1.2 million at the property level, of which the Fund’s share was \$0.6 million, which is included in equity in earnings and gains from unconsolidated affiliates in the consolidated financial statements. The Operating Partnership’s proportionate share of the gain was \$0.1 million, net of noncontrolling interests.

Fees from Unconsolidated Affiliates

The Company earned property management, construction, development, legal and leasing fees from its investments in unconsolidated partnerships totaling \$0.3 million and \$0.4 million for the three months ended September 30, 2018 and 2017, respectively, and \$0.8 million and \$1.0 million for the nine months ended September 30, 2018 and 2017, respectively, which is included in other revenues in the consolidated financial statements.

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In addition, the Company paid to certain unaffiliated partners of its joint ventures, \$0.4 million and \$0.5 million for the three months ended September 30, 2018 and 2017, respectively, and \$1.3 million and \$1.5 million for the nine months ended September 30, 2018 and 2017, respectively, for leasing commissions, development, management, construction and overhead fees.

Summarized Financial Information of Unconsolidated Affiliates

The following combined and condensed Balance Sheets and Statements of Income, in each period, summarize the financial information of the Company's investments in unconsolidated affiliates (in thousands):

	September 30, 2018	December 31, 2017
Combined and Condensed Balance Sheets		
Assets:		
Rental property, net	\$ 526,857	\$ 518,900
Real estate under development	—	26,681
Investment in unconsolidated affiliates	6,853	6,853
Other assets	90,143	100,901
Total assets	\$ 623,853	\$ 653,335
Liabilities and partners' equity:		
Mortgage notes payable	\$ 406,117	\$ 405,652
Other liabilities	56,060	61,932
Partners' equity	161,676	185,751
Total liabilities and partners' equity	\$ 623,853	\$ 653,335
Company's share of accumulated equity	\$ 179,029	\$ 185,533
Basis differential	104,810	95,358
Deferred fees, net of portion related to the Company's interest	2,169	3,472
Amounts receivable by the Company	113	2,415
Investments in and advances to unconsolidated affiliates, net of Company's share of distributions in excess of income from and investments in unconsolidated affiliates	286,121	286,778
Company's share of distributions in excess of income from and investments in unconsolidated affiliates	15,596	15,292
Investments in and advances to unconsolidated affiliates	\$ 301,717	\$ 302,070

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Combined and Condensed Statements of Income				
Total revenues	\$ 19,971	\$ 20,883	\$ 59,730	\$ 63,460
Operating and other expenses	(6,028)	(6,847)	(17,479)	(18,985)
Interest expense	(5,240)	(4,788)	(15,365)	(13,967)
Depreciation and amortization	(5,502)	(6,208)	(17,340)	(18,720)
Loss on debt extinguishment	—	—	—	(154)
(Loss) gain on disposition of properties	(263)	—	(1,673)	17,778
Net income attributable to unconsolidated affiliates	\$ 2,938	\$ 3,040	\$ 7,873	\$ 29,412
Company's share of equity in net income of unconsolidated affiliates	\$ 1,136	\$ 4,544	\$ 9,396	\$ 23,156
Basis differential amortization	(760)	(543)	(2,317)	(2,112)
Company's equity in earnings of unconsolidated affiliates	\$ 376	\$ 4,001	\$ 7,079	\$ 21,044

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5. Other Assets, Net and Accounts Payable and Other Liabilities

Other assets, net and accounts payable and other liabilities are comprised of the following for the periods presented:

(in thousands)	September 30, 2018	December 31, 2017
Other Assets, Net:		
Lease intangibles, net (<u>Note 6</u>)	\$ 112,249	\$ 127,571
Deferred charges, net (a)	26,931	24,589
Prepaid expenses	17,884	16,838
Other receivables	4,764	11,356
Accrued interest receivable	15,352	11,668
Deposits	4,505	6,296
Due from seller	4,300	4,300
Deferred tax assets	1,139	2,096
Derivative financial instruments (<u>Note 8</u>)	15,115	4,402
Due from related parties	2,386	1,479
Corporate assets	2,063	2,369
Income taxes receivable	3,187	1,995
	<u>\$ 209,875</u>	<u>\$ 214,959</u>
(a) Deferred Charges, Net:		
Deferred leasing and other costs	\$ 43,399	\$ 41,020
Deferred financing costs related to line of credit	8,873	7,786
	52,272	48,806
Accumulated amortization	(25,341)	(24,217)
Deferred charges, net	<u>\$ 26,931</u>	<u>\$ 24,589</u>
Accounts Payable and Other Liabilities:		
Lease intangibles, net (<u>Note 6</u>)	\$ 97,777	\$ 104,478
Accounts payable and accrued expenses	63,435	61,420
Deferred income	28,539	31,306
Tenant security deposits, escrow and other	10,364	10,029
Derivative financial instruments (<u>Note 8</u>)	361	1,467
Income taxes payable	19	176
Other	2,398	1,176
	<u>\$ 202,893</u>	<u>\$ 210,052</u>

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6. Lease Intangibles

Upon acquisitions of real estate, the Company assesses the fair value of acquired assets (including land, buildings and improvements, and identified intangibles such as above- and below-market leases, including below-market options and acquired in-place leases) and assumed liabilities. The lease intangibles are amortized over the remaining terms of the respective leases, including option periods where applicable.

Intangible assets and liabilities are included in other assets and other liabilities ([Note 5](#)) on the consolidated balance sheet and summarized as follows (in thousands):

	September 30, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable Intangible Assets						
In-place lease intangible assets	\$ 204,184	\$ (97,028)	\$ 107,156	\$ 193,821	\$ (72,749)	\$ 121,072
Above-market rent	16,729	(11,636)	5,093	16,786	(10,287)	6,499
	<u>\$ 220,913</u>	<u>\$ (108,664)</u>	<u>\$ 112,249</u>	<u>\$ 210,607</u>	<u>\$ (83,036)</u>	<u>\$ 127,571</u>
Amortizable Intangible Liabilities						
Below-market rent	\$ (149,149)	\$ 51,965	\$ (97,184)	\$ (147,232)	\$ 43,391	\$ (103,841)
Above-market ground lease	(671)	78	(593)	(671)	34	(637)
	<u>\$ (149,820)</u>	<u>\$ 52,043</u>	<u>\$ (97,777)</u>	<u>\$ (147,903)</u>	<u>\$ 43,425</u>	<u>\$ (104,478)</u>

During the nine months ended September 30, 2018, the Company acquired in-place lease intangible assets of \$12.4 million, above-market rents of \$1.0 million, and below-market rents of \$4.9 million with weighted-average useful lives of 4.3, 1.7, and 21.6 years, respectively. During the year ended December 31, 2017, the Company acquired in-place lease intangible assets of \$41.6 million, above-market rents of \$2.7 million, below-market rents of \$10.9 million, and an above-market ground lease of \$0.7 million with weighted-average useful lives of 4.1, 4.8, 12.1, and 11.5 years, respectively.

Amortization of in-place lease intangible assets is recorded in depreciation and amortization expense and amortization of above-market rent and below-market rent is recorded as a reduction to and increase to rental income, respectively, in the consolidated statements of income. Amortization of above-market ground leases are recorded as a reduction to rent expense in the consolidated statements of income.

The scheduled amortization of acquired lease intangible assets and assumed liabilities as of September 30, 2018 is as follows (in thousands):

Years Ending December 31,	Net Increase in				Net Income
	Lease Revenues	Increase to Amortization	Reduction of Rent Expense	(Expense)	
2018 (Remainder)	\$ 2,246	\$ (7,724)	\$ 15	\$ (5,463)	
2019	9,462	(25,137)	58	(15,617)	
2020	8,938	(18,264)	58	(9,268)	
2021	7,720	(13,298)	58	(5,520)	
2022	7,405	(9,362)	58	(1,899)	
Thereafter	56,320	(33,371)	346	23,295	
Total	<u>\$ 92,091</u>	<u>\$ (107,156)</u>	<u>\$ 593</u>	<u>\$ (14,472)</u>	

ACADIA REALTY TRUST AND SUBSIDIARIES
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7. Debt

A summary of the Company's consolidated indebtedness is as follows (dollars in thousands):

	Interest Rate at		Maturity Date at September 30, 2018	Carrying Value at	
	September 30, 2018	December 31, 2017		September 30, 2018	December 31, 2017
Mortgages Payable					
Core Fixed Rate	3.88%-6.00%	3.88%-5.89%	Feb 2024 - Apr 2035	\$ 178,677	\$ 179,870
Core Variable Rate - Swapped (a)	3.41%-5.67%	3.41%-5.67%	Jan 2023 - Jun 2026	32,834	74,152
Total Core Mortgages Payable				211,511	254,022
Fund II Fixed Rate	1.00%-4.75%	1.00%-4.75%	May 2020 - Aug 2042	205,262	205,262
Fund II Variable Rate - Swapped (a)	4.27%	4.27%	Nov 2021	19,385	19,560
Total Fund II Mortgages Payable				224,647	224,822
Fund III Variable Rate	LIBOR+2.65%-LIBOR+4.65%	Prime+0.50%-LIBOR+4.65%	Jun 2020 - Dec 2021	75,393	65,866
Fund IV Fixed Rate	3.40%-4.50%	3.40%-4.50%	Oct 2025 - Jun 2026	8,189	10,503
Fund IV Variable Rate	LIBOR+1.60%-LIBOR+3.95%	LIBOR+1.70%-LIBOR+3.95%	Nov 2018 - Aug 2021	244,654	250,584
Fund IV Variable Rate - Swapped (a)	3.67%-4.23%	3.67%-4.23%	May 2019 - Dec 2022	72,074	86,851
Total Fund IV Mortgages Payable				324,917	347,938
Fund V Variable Rate	LIBOR+2.15%-LIBOR+2.25%	LIBOR+2.25%	Oct 2020 - Jan 2021	51,506	28,613
Fund V Variable Rate - Swapped (a)	4.61%-4.78%	—	Feb 2021 - Jun 2021	86,570	—
Total Fund V Mortgage Payable				138,076	28,613
Net unamortized debt issuance costs				(10,527)	(12,943)
Unamortized premium				779	856
Total Mortgages Payable				\$ 964,796	\$ 909,174
Unsecured Notes Payable					
Core Variable Rate Unsecured					
Term Loans - Swapped (a)	2.49%-4.05%	2.54%-3.59%	Mar 2023	\$ 350,000	\$ 300,000
Fund II Unsecured Notes Payable	LIBOR+1.65%	LIBOR+1.40%	Sep 2020	37,000	31,500
Fund IV Term Loan/Subscription Facility	LIBOR+1.65%-LIBOR+2.75%	LIBOR+1.65%-LIBOR+2.75%	Dec 2018 - Oct 2019	40,825	40,825
Fund V Subscription Facility	LIBOR+1.60%	LIBOR+1.60%	May 2020	61,500	103,300
Net unamortized debt issuance costs				(392)	(1,890)
Total Unsecured Notes Payable				\$ 488,933	\$ 473,735
Unsecured Line of Credit					
Core Unsecured Line of Credit	LIBOR+1.35%	LIBOR+1.40%	Mar 2022	\$ 13,324	\$ 18,048
Core Unsecured Line of Credit - Swapped (a)	4.15%-5.02%	4.20%-5.07%	Mar 2022	14,676	23,452
Total Unsecured Line of Credit				\$ 28,000	\$ 41,500
Total Debt - Fixed Rate (b)				\$ 967,667	\$ 899,650
Total Debt - Variable Rate (c)				524,202	538,736
Total Debt				1,491,869	1,438,386
Net unamortized debt issuance costs				(10,919)	(14,833)
Unamortized premium				779	856
Total Indebtedness				\$ 1,481,729	\$ 1,424,409

- (a) At September 30, 2018, the stated rates ranged from LIBOR + 1.70% to LIBOR + 1.90% for Core variable-rate debt; LIBOR + 1.39% for Fund II variable-rate debt; LIBOR + 2.65% to LIBOR + 4.65% for Fund III variable-rate debt; LIBOR + 1.60% to LIBOR + 3.95% for Fund IV variable-rate debt; LIBOR + 2.15% to LIBOR + 2.25% for Fund V variable-rate debt; LIBOR + 1.25% for Core variable-rate unsecured term loans; and LIBOR + 1.35% for Core variable-rate unsecured lines of credit.
- (b) Includes \$575.5 million and \$504.0 million, respectively, of variable-rate debt that has been fixed with interest rate swap agreements as of the periods presented.
- (c) Includes \$143.8 million and \$141.1 million, respectively, of variable-rate debt that is subject to interest cap agreements.

Credit Facility

On February 20, 2018, the Company entered into a \$500.0 million senior unsecured credit facility (the “Credit Facility”), comprised of a \$150.0 million senior unsecured revolving credit facility (the “Revolver”) which bears interest at LIBOR + 1.35%, and a \$350.0 million senior unsecured term loan (the “Term Loan”) which bears interest at LIBOR + 1.25%. The Credit Facility refinanced the Company’s existing \$300.0 million credit facility (comprised of the \$150.0 million Core unsecured revolving line of credit and the \$150.0 million term loan), \$150.0 million in Core unsecured term loans and repaid a \$40.4 million mortgage secured by its 664 North Michigan Property. The Revolver and Term Loans mature on March 31, 2022 and March 31, 2023, respectively.

Mortgages Payable

During the nine months ended September 30, 2018, the Company obtained four new non-recourse Fund mortgages totaling \$109.5 million with a weighted-average interest rate of LIBOR + 1.99% collateralized by four properties and maturing in 2021. The Company entered into interest rate swap contracts to effectively fix the variable portion of the interest rates of three of these obligations with a notional value of \$86.6 million at an interest rate of 2.75%. In addition, the Company drew down \$9.8 million on a Fund III construction loan. During the nine months ended September 30, 2018, the Company repaid one Core mortgage in full, which had a balance of \$40.4 million and an interest rate of LIBOR + 1.65%, and two Fund IV mortgages in full, which had balances of \$15.5 million and \$2.3 million and interest rates of LIBOR + 2.15% and 3.40%, respectively. The Company also made scheduled principal payments of \$5.1 million. At September 30, 2018 and December 31, 2017, the Company’s mortgages were collateralized by 43 and 42 properties, respectively, and the related tenant leases. Certain loans are cross-collateralized and contain cross-default provisions. The loan agreements contain customary representations, covenants and events of default. Certain loan agreements require the Company to comply with affirmative and negative covenants, including the maintenance of debt service coverage and leverage ratios. A portion of the Company’s variable-rate mortgage debt has been effectively fixed through certain cash flow hedge transactions ([Note 8](#)).

The mortgage loan related to Brandywine Holdings in the Company’s Core Portfolio, which was originated in June 2006 and had an original principal amount of \$26.3 million, was in default and subject to litigation at September 30, 2018 and December 31, 2017. This loan bears interest at 6.00%, excluding default interest of 5%, and is collateralized by a property, in which the Company holds a 22% controlling interest.

Unsecured Notes Payable

Unsecured notes payable for which total availability was \$106.6 million and \$70.3 million at September 30, 2018 and December 31, 2017, respectively, are comprised of the following:

- As discussed above, the Core unsecured term loans totaling \$300.0 million were refinanced in February 2018, into one \$350.0 million term loan with an interest rate of LIBOR+ 1.25% and maturing in March 2023. The outstanding balance of the Core term loans was \$350.0 million and \$300.0 million, respectively, at September 30, 2018 and December 31, 2017. During the nine months ended September 30, 2018, the Company entered into an interest rate swap contract to effectively fix the variable portion of the interest rate with a notional value of \$50.0 million at an interest rate of 2.80%. The Company previously entered into swap agreements fixing the rates of the remaining Core term loans.
- Fund II has a \$40.0 million term loan secured by the real estate assets of City Point Phase II and guaranteed by the Company and the Operating Partnership. The outstanding balance of the Fund II term loan was \$37.0 million and \$31.5 million at September 30, 2018 and December 31, 2017, respectively. Total availability was \$3.0 million and \$8.5 million at September 30, 2018 and December 31, 2017, respectively.
- At Fund IV there are a \$41.8 million bridge facility and a \$21.5 million subscription line. The outstanding balance of the Fund IV bridge facility was \$40.8 million at each of September 30, 2018 and December 31, 2017. Total availability was \$1.0 million at each of September 30, 2018 and December 31, 2017. The outstanding balance of the Fund IV subscription line was \$0.0 million and total available credit was \$14.1 million at each of September 30, 2018 and December 31, 2017, reflecting letters of credit of \$7.4 million.
- Fund V has a \$150.0 million subscription line collateralized by Fund V’s unfunded capital commitments and guaranteed by the Operating Partnership. The outstanding balance and total available credit of the Fund V subscription line was \$61.5 million and \$88.5 million, respectively at September 30, 2018. The outstanding balance and total available credit of the Fund V subscription line was \$103.3 million and \$46.7 million, respectively at December 31, 2017.

Unsecured Revolving Line of Credit

As discussed above, the Core unsecured revolving line of credit was refinanced in February 2018. The Company had a total of \$109.7 million and \$96.2 million, respectively, available under its \$150.0 million Core unsecured revolving lines of credit reflecting borrowings of \$28.0 million and \$41.5 million, respectively, and letters of credit of \$12.3 million at each of September 30, 2018 and December 31, 2017. At September 30, 2018 and December 31, 2017, a portion of the Core unsecured revolving line of credit was swapped to a fixed rate.

Scheduled Debt Principal Payments

The scheduled principal repayments of the Company’s consolidated indebtedness, as of September 30, 2018 are as follows (in thousands):

Year Ending December 31,		
2018 (Remainder)	\$	38,938
2019		192,839
2020		468,162
2021		180,514
2022		76,529
Thereafter		534,887
		<u>1,491,869</u>
Unamortized premium		779
Net unamortized debt issuance costs		(10,919)
Total indebtedness	\$	<u>1,481,729</u>

See [Note 4](#) for information about liabilities of the Company’s unconsolidated affiliates.

8. Financial Instruments and Fair Value Measurements

The fair value of an asset is defined as the exit price, which is the amount that would either be received when an asset is sold or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance establishes a three-tier fair value hierarchy based on the inputs used in measuring fair value. These tiers are: Level 1, for which quoted market prices for identical instruments are available in active markets, such as money market funds, equity securities, and U.S. Treasury securities; Level 2, for which there are inputs other than quoted prices included within Level 1 that are observable for the instrument, such as certain derivative instruments including interest rate caps and interest rate swaps; and Level 3, for financial instruments or other assets/liabilities that do not fall into Level 1 or Level 2 and for which little or no market data exists, therefore requiring the Company to develop its own assumptions.

Items Measured at Fair Value on a Recurring Basis

The methods and assumptions described below were used to estimate the fair value of each class of financial instrument. For significant Level 3 items, the Company has also provided the unobservable inputs along with their weighted-average ranges.

Money Market Funds — The Company has money market funds, which are included in Cash and cash equivalents in the consolidated financial statements, are comprised of government securities and/or U.S. Treasury bills. These funds were classified as Level 1 as we used quoted prices from active markets to determine their fair values.

Derivative Assets — The Company has derivative assets, which are included in Other assets, net in the consolidated financial statements, are comprised of interest rate swaps and caps. The derivative instruments were measured at fair value using readily observable market inputs, such as quotations on interest rates, and were classified as Level 2 as these instruments are custom, over-the-counter contracts with various bank counterparties that are not traded in an active market. See “Derivative Financial Instruments,” below.

Derivative Liabilities — The Company has derivative liabilities, which are included in Accounts payable and other liabilities in the consolidated financial statements, are comprised of interest rate swaps and caps. These derivative instruments were measured at fair value using readily observable market inputs, such as quotations on interest rates, and were classified as Level 2 because they are custom, over-the-counter contracts with various bank counterparties that are not traded in an active market. See “Derivative Financial Instruments,” below.

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The Company did not have any transfers into or out of Level 1, Level 2, and Level 3 measurements during the nine months ended September 30, 2018 or 2017.

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis (in thousands):

	September 30, 2018			December 31, 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Money Market Funds	\$ 106	\$ —	\$ —	\$ 3	\$ —	\$ —
Derivative financial instruments	—	15,115	—	—	4,402	—
Liabilities						
Derivative financial instruments	—	361	—	—	1,467	—

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Items Measured at Fair Value on a Nonrecurring Basis (Including Impairment Charges)

The Company did not record any impairment charges during the nine months ended September 30, 2018. During the nine months ended September 30, 2017, the Company recognized an impairment charge of \$3.8 million, inclusive of an amount attributable to a noncontrolling interest of \$2.7 million, on a property classified as held for sale at September 30, 2017 and December 31, 2017 ([Note 2](#)), in order to reduce the carrying value of the property to its estimated fair value. The fair value measurement approximated the estimated selling price less estimated costs to sell. This property was sold in April 2018.

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Derivative Financial Instruments

The Company had the following interest rate swaps for the periods presented (dollars in thousands):

Derivative Instrument	Aggregate Notional Amount	Effective Date	Maturity Date	Strike Rate		Balance Sheet Location	Fair Value		
				Low	High		September 30, 2018	December 31, 2017	
Core									
Interest Rate Swaps	\$ 11,176	Dec 2012	Dec 2022	3.77%	—	3.77%	Other Liabilities	\$ (361)	\$ (1,438)
Interest Rate Swaps	386,334	Feb 2013 - Jul 2020	Nov 2018 - Jul 2030	1.24%	—	3.77%	Other Assets	12,755	4,076
	<u>\$ 397,510</u>							<u>\$ 12,394</u>	<u>\$ 2,638</u>
Fund II									
Interest Rate Swap	\$ 19,385	Oct 2014	Nov 2021	2.88%	—	2.88%	Other Assets	\$ 287	\$ —
Interest Rate Swaps	—	Oct 2014	Nov 2021	2.88%	—	2.88%	Other Liabilities	—	(29)
	<u>\$ 19,385</u>							<u>\$ 287</u>	<u>\$ (29)</u>
Fund III									
Interest Rate Cap	\$ 58,000	Dec 2016	Jan 2020	3.00%	—	3.00%	Other Assets	\$ 39	\$ 14
Fund IV									
Interest Rate Swaps	\$ 72,074	Mar 2017 - Nov 2017	Mar 2020 - Dec 2022	1.82%	—	2.11%	Other Assets	\$ 1,728	\$ 295
Interest Rate Caps	108,900	July 2016 - Nov 2016	Aug 2019 - Dec 2019	3.00%	—	3.00%	Other Assets	43	17
	<u>\$ 180,974</u>							<u>\$ 1,771</u>	<u>\$ 312</u>
Fund V									
Interest Rate Swap	\$ 86,570	Jan 2018 - Jun 2018	Feb 2021 - Jun 2023	2.41%	—	2.88%	Other Assets	\$ 263	\$ —
	<u>\$ 86,570</u>							<u>\$ 263</u>	<u>\$ —</u>
Total asset derivatives								<u>\$ 15,115</u>	<u>\$ 4,402</u>
Total liability derivatives								<u>\$ (361)</u>	<u>\$ (1,467)</u>

All of the Company's derivative instruments have been designated as cash flow hedges and hedge the future cash outflows on variable-rate debt (Note 7). It is estimated that approximately \$3.2 million included in accumulated other comprehensive (loss) income related to derivatives will be reclassified to interest expense within the next twelve months. As of September 30, 2018 and December 31, 2017, no derivatives were designated as fair value hedges or hedges of net investments in foreign operations. Additionally, the Company does not use derivatives for trading or speculative purposes and currently does not have any derivatives that are not designated hedges. During July 2018, the Company acquired two swaps to hedge future borrowings up to \$125.0 million on its Core portfolio with a fair value of \$0.9 million at September 30, 2018, which are not effective until July 2020.

Risk Management Objective of Using Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company manages economic risks, including interest rate, liquidity and credit risk, primarily by managing the amount, sources and duration of its debt funding and, from time to time, through the use of derivative financial instruments. The Company enters into derivative financial instruments to manage exposures that result in the receipt or payment of future known and uncertain cash amounts, the values of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's investments and borrowings.

The Company is exposed to credit risk in the event of non-performance by the counterparties to the swaps if the derivative position has a positive balance. The Company believes it mitigates its credit risk by entering into swaps with major financial institutions. The Company continually monitors and actively manages interest costs on its variable-rate debt portfolio and may enter into additional interest rate swap positions or other derivative interest rate instruments based on market conditions. The Company has not entered, and does not plan to enter, into any derivative financial instruments for trading or speculative purposes.

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The following table presents the location in the financial statements of the income (losses) recognized related to the Company's cash flow hedges (in thousands):

	Nine Months Ended September 30,	
	2018	2017
Amount of income (loss) recognized in other comprehensive income	\$ 12,576	\$ (2,652)
Amount of loss subsequently reclassified to earnings	417	2,637

Credit Risk-Related Contingent Features

The Company has agreements with each of its swap counterparties that contain a provision whereby if the Company defaults on certain of its unsecured indebtedness, the Company could also be declared in default on its swaps, resulting in an acceleration of payment under the swaps.

Other Financial Instruments

The Company's other financial instruments had the following carrying values and fair values as of the dates shown (dollars in thousands, inclusive of amounts attributable to noncontrolling interests where applicable):

	Level	September 30, 2018		December 31, 2017	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Notes Receivable (a)	3	\$ 109,410	\$ 107,146	\$ 153,829	\$ 151,712
Mortgage and Other Notes Payable (a)	3	974,544	961,901	921,261	921,891
Investment in non-traded equity securities (b)	3	—	22,824	—	22,824
Unsecured notes payable and Unsecured line of credit (c)	2	517,325	517,352	517,125	515,330

(a) The Company determined the estimated fair value of these financial instruments using a discounted cash flow model with rates that take into account the credit of the borrower or tenant, where applicable, and interest rate risk. The Company also considered the value of the underlying collateral, taking into account the quality of the collateral, the credit quality of the borrower, the time until maturity and the current market interest rate environment.

(b) Represents Fund II's cost-method investment in Albertson's supermarkets (Note 4).

(c) The Company determined the estimated fair value of the unsecured notes payable and unsecured line of credit using quoted market prices in an open market with limited trading volume where available. In cases where there was no trading volume, the Company determined the estimated fair value using a discounted cash flow model using a rate that reflects the average yield of similar market participants.

The Company's cash and cash equivalents, restricted cash, accounts receivable, accounts payable and certain financial instruments included in other assets and other liabilities had fair values that approximated their carrying values at September 30, 2018.

9. Commitments and Contingencies

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, results of operations, or liquidity. The Company's policy is to accrue legal expenses as they are incurred.

Commitments and Guaranties

In conjunction with the development and expansion of various properties, the Company has entered into agreements with general contractors for the construction or development of properties aggregating approximately \$73.0 million and \$92.2 million as of September 30, 2018 and December 31, 2017, respectively.

At each of September 30, 2018 and December 31, 2017, the Company had letters of credit outstanding of \$19.7 million. The Company has not recorded any obligation associated with these letters of credit. The majority of the letters of credit are collateral for existing indebtedness and other obligations of the Company.

10. Shareholders' Equity, Noncontrolling Interests and Other Comprehensive Income

Common Shares and Units

The Company completed the following transactions in its common shares during the nine months ended September 30, 2018:

- The Company withheld 3,288 Restricted Shares to pay the employees' statutory minimum income taxes due on the value of the portion of their Restricted Shares that vested.
- The Company recognized Common Share and Common OP Unit-based compensation totaling \$6.3 million in connection with Restricted Shares and Units ([Note 13](#)) compared to \$6.5 million for the nine months ended September 30, 2017.

The Company completed the following transactions in its common shares during the year ended December 31, 2017:

- The Company withheld 4,314 Restricted Shares to pay the employees' statutory minimum income taxes due on the value of the portion of their Restricted Shares that vested.
- The Company recognized Common Share and Common OP Unit-based compensation totaling \$8.4 million in connection with Restricted Shares and Units ([Note 13](#)).
- At the May 10 Shareholder Meeting, Shareholders approved an amendment to the Company's Declaration of Trust to increase the authorized share capital of the Company from 100 million shares of beneficial interest to 200 million shares which became effective on July 24, 2017.

Share Repurchases

During 2018, the Company revised its share repurchase program. The new share repurchase program authorizes management, at its discretion, to repurchase up to \$200.0 million of its outstanding Common Shares. The program may be discontinued or extended at any time. The Company repurchased 2,294,235 shares for \$55.1 million, inclusive of \$0.1 million of fees, during the nine months ended September 30, 2018. The Company did not repurchase any shares during the year ended December 31, 2017. As of September 30, 2018, management may repurchase up to approximately \$144.9 million of the Company's outstanding Common Shares under this program.

Dividends and Distributions

On August 7, 2018, the Board of Trustees declared a regular quarterly cash dividend of \$0.27 per Common Share, which was paid on October 15, 2018 to the holders of record as of September 28, 2018.

On May 11, 2018, the Board of Trustees declared a regular quarterly cash dividend of \$0.27 per Common Share, which was paid on July 13, 2018 to holders of record as of June 29, 2018.

On February 27, 2018, the Board of Trustees declared a regular quarterly cash dividend of \$0.27 per Common Share, which was paid on April 13, 2018 to holders of record as of March 30, 2018.

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On November 8, 2017, the Board of Trustees declared an increase of \$0.01 to the \$0.27 per Common Share regular quarterly cash dividend, which was paid on January 13, 2018 to holders of record as of December 29, 2017.

Accumulated Other Comprehensive Income

The following table sets forth the activity in accumulated other comprehensive income for the nine months ended September 30, 2018 and 2017 (in thousands):

	Gains or Losses on Derivative Instruments
Balance at January 1, 2018	\$ 2,614
Other comprehensive income before reclassifications	12,576
Reclassification of realized interest on swap agreements	417
Net current period other comprehensive income	12,993
Net current period other comprehensive income attributable to noncontrolling interests	(2,340)
Balance at September 30, 2018	\$ 13,267
Balance at January 1, 2017	\$ (798)
Other comprehensive income before reclassifications	(2,652)
Reclassification of realized interest on swap agreements	2,637
Net current period other comprehensive income	(15)
Net current period other comprehensive loss attributable to noncontrolling interests	260
Balance at September 30, 2017	\$ (553)

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Noncontrolling Interests

The following table summarizes the change in the noncontrolling interests for the nine months ended September 30, 2018 and 2017 (dollars in thousands):

	Noncontrolling Interests in Operating Partnership (a)	Noncontrolling Interests in Partially-Owned Affiliates (b)	Total
Balance at January 1, 2018	\$ 102,921	\$ 545,519	\$ 648,440
Distributions declared of \$0.81 per Common OP Unit	(5,126)	—	(5,126)
Net income (loss) for the nine months ended September 30, 2018	1,977	(35,313)	(33,336)
Conversion of 111,588 Common OP Units to Common Shares by limited partners of the Operating Partnership	(1,957)	—	(1,957)
Other comprehensive income - unrealized gain on valuation of swap agreements	625	1,435	2,060
Reclassification of realized interest expense on swap agreements	10	270	280
Noncontrolling interest contributions	—	46,990	46,990
Noncontrolling interest distributions	—	(24,654)	(24,654)
Employee Long-term Incentive Plan Unit Awards	7,924	—	7,924
Rebalancing adjustment (c)	(2,581)	—	(2,581)
Balance at September 30, 2018	\$ 103,793	\$ 534,247	\$ 638,040
Balance at January 1, 2017	\$ 95,422	\$ 494,126	\$ 589,548
Distributions declared of \$0.78 per Common OP Unit	(4,805)	—	(4,805)
Net income (loss) for the nine months ended September 30, 2017	2,816	(4,010)	(1,194)
Conversion of 61,150 Common OP Units to Common Shares by limited partners of the Operating Partnership	(1,086)	—	(1,086)
Other comprehensive income - unrealized loss on valuation of swap agreements	(68)	(726)	(794)
Reclassification of realized interest expense on swap agreements	116	418	534
Noncontrolling interest contributions	—	20,522	20,522
Noncontrolling interest distributions	—	(7,278)	(7,278)
Employee Long-term Incentive Plan Unit Awards	8,704	—	8,704
Rebalancing adjustment (c)	2,105	—	2,105
Balance at September 30, 2017	\$ 103,204	\$ 503,052	\$ 606,256

(a) Noncontrolling interests in the Operating Partnership are comprised of (i) the limited partners' 3,331,440 and 3,328,873 Common OP Units at September 30, 2018 and December 31, 2017; (ii) 188 Series A Preferred OP Units at September 30, 2018 and December 31, 2017; (iii) 136,593 Series C Preferred OP Units at September 30, 2018 and December 31, 2017; and (iv) 2,547,002 and 2,274,147 LTIP units at September 30, 2018 and December 31, 2017, respectively, as discussed in Share Incentive Plan ([Note 13](#)). Distributions declared for Preferred OP Units are reflected in net income (loss) in the table above.

(b) Noncontrolling interests in partially-owned affiliates comprise third-party interests in Funds II, III, IV and V, and Mervyns I and II, and six other subsidiaries.

(c) Adjustment reflects the difference between the fair value of the consideration received or paid and the book value of the Common Shares, Common OP Units, Preferred OP Units, and LTIP Units involving changes in ownership (the "Rebalancing").

Preferred OP Units

There were no issuances of Preferred OP Units during the nine months ended September 30, 2018.

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In 1999 the Operating Partnership issued 1,580 Series A Preferred OP Units in connection with the acquisition of a property, which have a stated value of \$1,000 per unit, and are entitled to a preferred quarterly distribution of the greater of (i) \$22.50 (9% annually) per Series A Preferred OP Unit or (ii) the quarterly distribution attributable to a Series A Preferred OP Unit if such unit was converted into a Common OP Unit. Through September 30, 2018, 1,392 Series A Preferred OP Units were converted into 185,600 Common OP Units and then into Common Shares. The 188 remaining Series A Preferred OP Units are currently convertible into Common OP Units based on the stated value divided by \$7.50. Either the Company or the holders can currently call for the conversion of the Series A Preferred OP Units at the lesser of \$7.50 or the market price of the Common Shares as of the conversion date.

During 2016, the Operating Partnership issued 442,478 Common OP Units and 141,593 Series C Preferred OP Units to a third party to acquire Gotham Plaza (Note 4). The Series C Preferred OP Units have a value of \$100.00 per unit and are entitled to a preferred quarterly distribution of \$0.9375 per unit and are convertible into Common OP Units at a rate based on the share price at the time of conversion. If the share price is below \$28.80 on the conversion date, each Series C Preferred OP Unit will be convertible into 3.4722 Common OP Units. If the share price is between \$28.80 and \$35.20 on the conversion date, each Series C Preferred OP Unit will be convertible into a number of Common OP Units equal to \$100.00 divided by the closing share price. If the share price is above \$35.20 on the conversion date, each Series C Preferred OP Unit will be convertible into 2.8409 Common OP Units. The Series C Preferred OP Units have a mandatory conversion date of December 31, 2025, at which time all units that have not been converted will automatically be converted into Common OP Units based on the same calculations. Through September 30, 2018, 5,000 Series C Preferred OP Units were converted into 17,165 Common OP Units and then into Common Shares.

11. Leases

Operating Leases

The Company is engaged in the operation of shopping centers and other retail properties that are either owned or, with respect to certain shopping centers, operated under long-term ground leases that expire at various dates through June 20, 2066, with renewal options. Space in the shopping centers is leased to tenants pursuant to agreements that provide for terms ranging generally from one month to sixty years and generally provide for additional rents based on certain operating expenses as well as tenants' sales volumes.

The Company leases land at six of its shopping centers, which are accounted for as operating leases and generally provide the Company with renewal options. Ground rent expense was \$1.2 million and \$1.0 million (including capitalized ground rent at a property under development of \$0.5 million and \$0.4 million) for the nine months ended September 30, 2018 and 2017, respectively. The leases terminate at various dates between 2020 and 2066. These leases provide the Company with options to renew for additional terms aggregating up to 22 years. The Company also leases space for its corporate office. Office rent expense under this lease was \$0.7 million for each of the nine months ended September 30, 2018 and 2017.

Capital Lease

During 2016, the Company entered into a 49-year master lease, which is accounted for as a capital lease. During each of the nine months ended September 30, 2018 and 2017, payments for this lease totaled \$1.9 million. The property under the capital lease is included in Note 2.

Lease Obligations

The scheduled future minimum (i) rental revenues from rental properties under the terms of non-cancelable tenant leases greater than one year (assuming no new or renegotiated leases or option extensions for such premises) and (ii) rental payments under the terms of all non-cancelable operating and capital leases in which the Company is the lessee, principally for office space, land and equipment, as of September 30, 2018, are summarized as follows (in thousands):

Year Ending December 31,	Minimum Rental Revenues	Minimum Rental Payments
2018 (Remainder)	\$ 43,085	\$ 1,216
2019	179,408	4,775
2020	167,449	4,571
2021	148,797	4,354
2022	130,052	4,404
Thereafter	576,090	184,652
Total	\$ 1,244,881	\$ 203,972

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A ground lease expiring during 2078 provides the Company with an option to purchase the underlying land during 2031. If the Company does not exercise the option, the rents that will be due are based on future values and as such are not determinable at this time. Accordingly, the above table does not include rents for this lease beyond 2031.

During the three and nine months ended September 30, 2018 and 2017, no single tenant collectively comprised more than 10% of the Company's consolidated total revenues.

12. Segment Reporting

The Company has three reportable segments: Core Portfolio, Funds and Structured Financing. The Company's Core Portfolio consists primarily of high-quality retail properties located primarily in high-barrier-to-entry, densely-populated metropolitan areas with a long-term investment horizon. The Company's Funds hold primarily retail real estate in which the Company co-invests with high-quality institutional investors. The Company's Structured Financing segment consists of earnings and expenses related to notes and mortgages receivable which are held within the Core Portfolio or the Funds ([Note 3](#)). Fees earned by the Company as the general partner or managing member of the Funds are eliminated in the Company's consolidated financial statements and are not presented in the Company's segments.

The following tables set forth certain segment information for the Company (in thousands):

	For the Three Months Ended September 30, 2018				
	Core Portfolio	Funds	Structured Financing	Unallocated	Total
Revenues	\$ 42,290	\$ 23,785	\$ —	\$ —	\$ 66,075
Depreciation and amortization	(14,856)	(13,820)	—	—	(28,676)
Property operating expenses, other operating and real estate taxes	(12,195)	(10,274)	—	—	(22,469)
General and administrative expenses	—	—	—	(7,982)	(7,982)
Operating income (loss)	15,239	(309)	—	(7,982)	6,948
Gain on disposition of properties	—	5,107	—	—	5,107
Interest income	—	—	3,513	—	3,513
Equity in earnings of unconsolidated affiliates inclusive of gains on disposition of properties	2,005	(1,629)	—	—	376
Interest expense	(6,972)	(11,105)	—	—	(18,077)
Income tax provision	—	—	—	(464)	(464)
Net income (loss)	10,272	(7,936)	3,513	(8,446)	(2,597)
Net loss attributable to noncontrolling interests	115	11,707	—	—	11,822
Net income attributable to Acadia	<u>\$ 10,387</u>	<u>\$ 3,771</u>	<u>\$ 3,513</u>	<u>\$ (8,446)</u>	<u>\$ 9,225</u>

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For the Three Months Ended September 30, 2017

	Core Portfolio	Funds	Structured Financing	Unallocated	Total
Revenues	\$ 41,196	\$ 21,482	\$ —	\$ —	\$ 62,678
Depreciation and amortization	(14,746)	(11,906)	—	—	(26,652)
Property operating expenses, other operating and real estate taxes	(10,327)	(8,162)	—	—	(18,489)
General and administrative expenses	—	—	—	(7,953)	(7,953)
Impairment charge	—	(3,840)	—	—	(3,840)
Operating income (loss)	16,123	(2,426)	—	(7,953)	5,744
Gain on disposition of properties	—	12,972	—	—	12,972
Interest income	—	—	6,461	—	6,461
Equity in earnings of unconsolidated affiliates inclusive of gains on disposition of properties	805	3,196	—	—	4,001
Interest expense	(6,695)	(8,733)	—	—	(15,428)
Income tax provision	—	—	—	(465)	(465)
Net income (loss)	10,233	5,009	6,461	(8,418)	13,285
Net (income) loss attributable to noncontrolling interests	(353)	(65)	—	—	(418)
Net income attributable to Acadia	<u>\$ 9,880</u>	<u>\$ 4,944</u>	<u>\$ 6,461</u>	<u>\$ (8,418)</u>	<u>\$ 12,867</u>

As of or for the Nine Months Ended September 30, 2018

	Core Portfolio	Funds	Structured Financing	Unallocated	Total
Revenues	\$ 124,456	\$ 68,312	\$ —	\$ —	\$ 192,768
Depreciation and amortization	(45,283)	(41,472)	—	—	(86,755)
Property operating expenses, other operating and real estate taxes	(33,599)	(28,107)	—	—	(61,706)
General and administrative expenses	—	—	—	(24,359)	(24,359)
Operating income (loss)	45,574	(1,267)	—	(24,359)	19,948
Gain on disposition of properties	—	5,140	—	—	5,140
Interest income	—	—	10,539	—	10,539
Equity in earnings of unconsolidated affiliates inclusive of gains on disposition of properties	5,171	1,908	—	—	7,079
Interest expense	(20,475)	(30,407)	—	—	(50,882)
Income tax provision	—	—	—	(851)	(851)
Net income (loss)	30,270	(24,626)	10,539	(25,210)	(9,027)
Net loss attributable to noncontrolling interests	241	33,095	—	—	33,336
Net income attributable to Acadia	<u>\$ 30,511</u>	<u>\$ 8,469</u>	<u>\$ 10,539</u>	<u>\$ (25,210)</u>	<u>\$ 24,309</u>
Real estate at cost	<u>\$ 2,060,024</u>	<u>\$ 1,553,150</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,613,174</u>
Total assets	<u>\$ 2,234,521</u>	<u>\$ 1,574,785</u>	<u>\$ 109,410</u>	<u>\$ —</u>	<u>\$ 3,918,716</u>
Cash paid for acquisition of real estate	<u>\$ 1,343</u>	<u>\$ 103,559</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 104,902</u>
Cash paid for development and property improvement costs	<u>\$ 22,892</u>	<u>\$ 43,346</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 66,238</u>

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As of or for the Nine Months Ended September 30, 2017

	Core Portfolio	Funds	Structured Financing	Unallocated	Total
Revenues	\$ 127,130	\$ 57,051	\$ —	\$ —	\$ 184,181
Depreciation and amortization	(46,719)	(30,526)	—	—	(77,245)
Property operating expenses, other operating and real estate taxes	(33,339)	(22,088)	—	—	(55,427)
General and administrative expenses	—	—	—	(25,286)	(25,286)
Impairment charge	—	(3,840)	—	—	(3,840)
Operating income (loss)	47,072	597	—	(25,286)	22,383
Gain on disposition of properties	—	12,972	—	—	12,972
Interest income	—	—	23,648	—	23,648
Equity in earnings of unconsolidated affiliates inclusive of gains on disposition of properties	2,348	18,696	—	—	21,044
Interest expense	(20,783)	(18,883)	—	—	(39,666)
Income tax provision	—	—	—	(1,017)	(1,017)
Net income (loss)	28,637	13,382	23,648	(26,303)	39,364
Net (income) loss attributable to noncontrolling interests	(1,157)	2,351	—	—	1,194
Net income attributable to Acadia	<u>\$ 27,480</u>	<u>\$ 15,733</u>	<u>\$ 23,648</u>	<u>\$ (26,303)</u>	<u>\$ 40,558</u>
Real estate at cost	<u>\$ 1,987,501</u>	<u>\$ 1,492,894</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,480,395</u>
Total assets	<u>\$ 2,237,334</u>	<u>\$ 1,605,429</u>	<u>\$ 250,194</u>	<u>\$ —</u>	<u>\$ 4,092,957</u>
Cash paid for acquisition of real estate	<u>\$ —</u>	<u>\$ 138,429</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 138,429</u>
Cash paid for development and property improvement costs	<u>\$ 4,355</u>	<u>\$ 80,199</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 84,554</u>

13. Share Incentive and Other Compensation

Share Incentive Plan

The Second Amended and Restated 2006 Incentive Plan (the “Share Incentive Plan”) authorizes the Company to issue options, Restricted Shares, LTIP Units and other securities (collectively “Awards”) to, among others, the Company’s officers, trustees and employees. At September 30, 2018 a total of 1,198,594 shares remained available to be issued under the Share Incentive Plan.

Restricted Shares and LTIP Units

During the nine months ended September 30, 2018, the Company issued 373,886 LTIP Units and 5,387 Restricted Share Units to employees of the Company pursuant to the Share Incentive Plan. These awards were measured at their fair value on the grant date, based on a valuation provided by an independent third-party appraiser incorporating the following factors:

- A portion of these annual equity award is granted in performance-based Restricted Share Units or LTIP Units that may be earned based on the Company’s attainment of specified relative total shareholder returns (“Relative TSR”) hurdles.
- In the event the Relative TSR percentile falls between the 25th percentile and the 50th percentile, Relative TSR vesting percentage is determined using a straight-line linear interpolation between 50% and 100% and in the event that the Relative TSR percentile falls between the 50th percentile and 75th percentile, the Relative TSR vesting percentage is determined using a straight-line linear interpolation between 100% and 200%.
- Two-thirds (2/3) of the performance-based LTIP Units will vest based on the Company’s total shareholder return (“TSR”) for the three -year forward-looking performance period ending December 31, 2020 relative to the constituents of the SNL U.S. REIT Retail Shopping Center Index and one-third (1/3) on the Company’s TSR for the three -year forward-looking performance period as compared to the constituents of the SNL U.S. REIT Retail Index (both on a non-weighted basis).
- If the Company’s performance fails to achieve the aforementioned hurdles at the culmination of the three -year performance period, all performance-based shares will be forfeited. Any earned performance-based shares vest 60% at the end of the performance period, with the remaining 40% of shares vesting ratably over the next two years.

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The total value of the above Restricted Share Units and LTIP Units as of the grant date was \$ 10.4 million. Total long-term incentive compensation expense, including the expense related to the Share Incentive Plan, was \$2.0 million and \$2.1 million for the three months ended September 30, 2018 and 2017, respectively and \$6.3 million and \$6.5 million for the nine months ended September 30, 2018 and 2017, respectively and is recorded in General and Administrative on the Consolidated Statements of Income.

In addition, members of the Board of Trustees (the “Board”) have been issued shares and units under the Share Incentive Plan. During 2018, the Company issued 17,427 LTIP Units and 17,050 Restricted Shares to Trustees of the Company in connection with Trustee fees. Vesting with respect to 8,949 of the LTIP Units and 5,181 of the Restricted Shares will be on the first anniversary of the date of issuance and 8,478 of the LTIP Units and 11,869 of the Restricted Shares vest over three years with 33% vesting on each of the next three anniversaries of the issuance date. The Restricted Shares do not carry voting rights or other rights of Common Shares until vesting and may not be transferred, assigned or pledged until the recipients have a vested non-forfeitable right to such shares. Dividends are not paid currently on unvested Restricted Shares, but are paid cumulatively from the issuance date through the applicable vesting date of such Restricted Shares. Total trustee fee expense, including the expense related to the Share Incentive Plan, was \$0.9 million for each of the nine months ended September 30, 2018 and 2017.

In 2009, the Company adopted the Long-Term Investment Alignment Program (the “Program”) pursuant to which the Company may grant awards to employees, entitling them to receive up to 25% of any potential future payments of Promote to the Operating Partnership from Funds III and IV. The Company has granted such awards to employees representing 25% of the potential Promote payments from Fund III to the Operating Partnership and 22.8% of the potential Promote payments from Fund IV to the Operating Partnership. Payments to senior executives under the Program require further Board approval at the time any potential payments are due pursuant to these grants. Compensation relating to these awards will be recognized in each reporting period in which Board approval is granted.

As payments to other employees are not subject to further Board approval, compensation relating to these awards will be recorded based on the estimated fair value at each reporting period in accordance with ASC Topic 718, *Compensation— Stock Compensation*. The awards in connection with Fund IV were determined to have no intrinsic value as of September 30, 2018.

Compensation expense of \$0 million and \$0.5 million was recognized for the nine months ended September 30, 2018 and 2017, respectively, related to the Program in connection with Fund III.

A summary of the status of the Company’s unvested Restricted Shares and LTIP Units is presented below:

Unvested Restricted Shares and LTIP Units	Common Restricted Shares	Weighted Grant-Date Fair Value	LTIP Units	Weighted Grant-Date Fair Value
Unvested at January 1, 2017	46,499	\$ 27.58	856,877	\$ 26.99
Granted	19,442	29.85	310,551	31.80
Vested	(23,430)	30.47	(257,124)	28.27
Forfeited	(1,184)	32.65	(205)	32.49
Unvested at December 31, 2017	41,327	26.92	910,099	28.28
Granted	22,818	23.65	399,248	27.06
Vested	(25,261)	30.79	(303,699)	30.04
Forfeited	(428)	27.25	(12,266)	28.57
Unvested at September 30, 2018	38,456	\$ 22.44	993,382	\$ 27.25

The weighted-average grant date fair value for Restricted Shares and LTIP Units granted for the nine months ended September 30, 2018 and the year ended December 31, 2017 were \$26.88 and \$31.69, respectively. As of September 30, 2018, there was \$18.1 million of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the Share Incentive Plan. That cost is expected to be recognized over a weighted-average period of 1.7 years. The total fair value of Restricted Shares that vested for the nine months ended September 30, 2018 and the year ended December 31, 2017, was \$0.8 million and \$0.7 million, respectively. The total fair value of LTIP Units that vested during the nine months ended September 30, 2018 and the year ended December 31, 2017, was \$9.1 million and \$7.3 million, respectively.

Other Plans

On a combined basis, the Company incurred a total of \$0.3 million related to the following employee benefit plans for each of the nine months ended September 30, 2018 and 2017:

Employee Share Purchase Plan

The Acadia Realty Trust Employee Share Purchase Plan (the "Purchase Plan"), 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. A participant may not purchase more the \$25,000 in Common Shares per year. Compensation expense will be recognized by the Company to the extent of the above discount to the closing price of the Common Shares with respect to the applicable quarter. A total of 2,836 and 3,392 Common Shares were purchased by employees under the Purchase Plan for the nine months ended September 30, 2018 and 2017, respectively.

Deferred Share Plan

During 2006, the Company adopted a Trustee Deferral and Distribution Election, under which the participating Trustees earn deferred compensation.

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, up to \$18,500, for the year ending December 31, 2018.

14. Earnings Per Common Share

Basic earnings per Common Share is computed by dividing net income attributable to Common Shareholders by the weighted average Common Shares outstanding ([Note 10](#)). During the periods presented, the Company had unvested LTIP Units which provide for non-forfeitable rights to dividend equivalent payments. Accordingly, these unvested LTIP Units are considered participating securities and are included in the computation of basic earnings per Common Share pursuant to the two-class method.

Diluted earnings per Common Share reflects the potential dilution of the conversion of obligations and the assumed exercises of securities including the effects of restricted share units ("Restricted Share Units") issued under the Company's Share Incentive Plans ([Note 13](#)). The effect of such shares is excluded from the calculation of earnings per share when anti-dilutive as indicated in the table below.

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The effect of the conversion of Common OP Units is not reflected in the computation of basic and diluted earnings per share, as they are exchangeable for Common Shares on a one-for-one basis. The income allocable to such units is allocated on this same basis and reflected as noncontrolling interests in the accompanying consolidated financial statements. As such, the assumed conversion of these units would have no net impact on the determination of diluted earnings per share.

(dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Numerator:				
Net income attributable to Acadia	\$ 9,225	\$ 12,867	\$ 24,309	\$ 40,558
Less: net income attributable to participating securities	(66)	(135)	(158)	(488)
Income from continuing operations net of income attributable to participating securities	\$ 9,159	\$ 12,732	\$ 24,151	\$ 40,070
Denominator:				
Weighted average shares for basic earnings per share	81,565,805	83,699,850	82,245,020	83,665,749
Effect of dilutive securities:				
Employee unvested restricted shares	—	—	—	3,577
Denominator for diluted earnings per share	81,565,805	83,699,850	82,245,020	83,669,326
Basic and diluted earnings per Common Share from continuing operations attributable to Acadia	\$ 0.11	\$ 0.15	\$ 0.29	\$ 0.48
Anti-Dilutive Shares Excluded from Denominator:				
Series A Preferred OP Units	188	188	188	188
Series A Preferred OP Units - Common share equivalent	25,067	25,067	25,067	25,067
Series C Preferred OP Units	136,593	140,343	136,593	140,343
Series C Preferred OP Units - Common share equivalent	474,278	487,299	474,278	481,878
Restricted shares	38,450	43,202	37,180	—

15. Subsequent Events

Acquisitions

On October 11, 2018, pursuant to the buy-sell provisions of the operating agreement for one of the two joint ventures that is owner of the Broughton Street Portfolio ([Note 4](#)), Fund IV acquired substantially all of the third-party equity underlying 11 properties within the Broughton Street Portfolio for nominal consideration. The remaining joint venture with third-party equity has interests in two of the properties that make up the portfolio.

On October 23, 2018, Fund V acquired a shopping center located in Hiram, Georgia referred to as "Hiram Pavilion" for \$44.4 million.

It is not practicable to disclose the preliminary purchase price allocations for these transactions given the short period of time between the acquisition dates and the filing of this Report.

OVERVIEW

As of September 30, 2018, there were 170 properties, which we own or have an ownership interest in, within our Core Portfolio and Funds. Our Core Portfolio consists of those properties either 100% owned, or partially owned through joint venture interests, by the Operating Partnership, or subsidiaries thereof, not including those properties owned through our Funds. These properties primarily consist of street and urban retail, and dense suburban shopping centers. A summary of our wholly-owned and partially-owned retail properties and their physical occupancies at September 30, 2018 is as follows:

	Number of Properties		Operating Properties	
	Development or Redevelopment	Operating	GLA	Occupancy
Core Portfolio:				
Chicago Metro	2	33	696,069	90.7%
New York Metro	—	20	321,626	93.6%
San Francisco Metro	1	1	148,832	100.0%
Washington DC Metro	—	27	318,922	92.5%
Boston Metro	—	3	55,276	100.0%
Suburban	1	30	4,433,205	94.9%
Total Core Portfolio	4	114	5,973,930	94.4%
Acadia Share of Total Core Portfolio	4	114	5,357,001	94.7%
Fund Portfolio:				
Fund II	—	1	475,000	72.9%
Fund III	2	4	55,753	84.8%
Fund IV	1	38	2,660,715	81.0%
Fund V	—	6	1,732,673	95.9%
Total Fund Portfolio	3	49	4,924,141	85.5%
Acadia Share of Total Fund Portfolio	3	49	1,068,744	85.3%
Total Core and Funds	7	163	10,898,071	90.4%
Acadia Share of Total Core and Funds	7	163	6,425,745	93.2%

The majority of our operating income is derived from rental revenues from operating properties, including expense recoveries from tenants, offset by operating and overhead expenses. As our RCP Venture invests in operating companies, the Operating Partnership invests through a taxable REIT subsidiary ("TRS").

Our primary business objective is to acquire and manage commercial retail properties that will provide cash for distributions to shareholders while also creating the potential for capital appreciation to enhance investor returns. We focus on the following fundamentals to achieve this objective:

- Own and operate a Core Portfolio of high-quality retail properties located primarily in high-barrier-to-entry, densely-populated metropolitan areas and create value through accretive development and re-tenanting activities coupled with the acquisition of high-quality assets that have the long-term potential to outperform the asset class as part of our Core asset recycling and acquisition initiative.
- Generate additional external growth through an opportunistic yet disciplined acquisition program within our Funds. We target transactions with high inherent opportunity for the creation of additional value through:
 - value-add investments in street retail properties, located in established and "next generation" submarkets, with re-tenanting or repositioning opportunities,
 - opportunistic acquisitions of well-located real-estate anchored by distressed retailers, and
 - other opportunistic acquisitions which may include high-yield acquisitions and purchases of distressed debt.

Some of these investments historically have also included, and may in the future include, joint ventures with private equity investors for the purpose of making investments in operating retailers with significant embedded value in their real estate assets.

- Maintain a strong and flexible balance sheet through conservative financial practices while ensuring access to sufficient capital to fund future growth.

SIGNIFICANT DEVELOPMENTS DURING THE NINE MONTHS ENDED SEPTMEBER 30, 2018

Investments

During the nine months ended September 30, 2018, within our Fund portfolio we invested in two new properties as follows ([Note 2](#)):

- On July 18, 2018, Fund V acquired a consolidated suburban shopping center in Elk Grove, California for \$59.3 million referred to as “Elk Grove Commons.”
- On February 21, 2018, Fund V acquired a consolidated suburban shopping center in Trussville, Alabama for \$45.2 million referred to as “Trussville.”

In addition, within our Core Portfolio, we converted a portion of an existing note receivable ([Note 3](#)) into an interest in the underlying real estate collateral as follows:

- On March 28, 2018, we exchanged a total of \$22.0 million of our Brandywine Note Receivable plus accrued interest of \$0.3 million for an incremental 14.11% undivided interest in Town Center ([Note 4](#)).

Dispositions of Real Estate

During the nine months ended September 30, 2018, within our Funds we sold six properties for an aggregate sales price of \$64.5 million as follows ([Note 2](#), [Note 4](#)):

- On August 27, Fund IV sold its Lake Montclair property for \$22.5 million and recognized a gain of \$2.9 million at the property level of which our share was \$0.7 million.
- On August 29, Fund IV sold one of its unconsolidated Broughton Street properties for \$2.1 million, resulting in a loss of \$0.3 million of which our share was \$0.1 million.
- On August 29, Fund IV sold its 1861 Union Street property for \$6.0 million, resulting in a gain of \$2.2 million at the property level of which our share was \$0.5 million.
- On April 17, 2018, Fund II sold its Sherman Avenue property, which was previously classified as held for sale, for \$26.0 million.
- On January 18, 2018, Fund IV sold two unconsolidated Broughton Street properties for aggregate proceeds of \$8.0 million and recognized a loss of \$0.4 million at the property level, of which both Fund IV and our pro-rata share was negligible.

In addition, on June 29, 2018, a Fund IV unconsolidated investee terminated its master leases at two of its Broughton Street properties.

Financings

During the nine months ended September 30, 2018, we obtained aggregate new financing of \$159.5 million including ([Note 7](#)):

- We obtained an aggregate of \$109.5 million in financings with four new non-recourse mortgages for Fund V.
- We obtained a new \$500.0 million Core Credit Facility comprised of a \$150.0 million senior unsecured revolving credit facility and a \$350.0 million senior unsecured term loan and refinanced our existing \$300.0 million credit facility (comprised of the \$150.0 million Core unsecured revolving line of credit and the \$150.0 million term loan) and \$150.0 million in term loans.

During the nine months ended September 30, 2018, we utilized proceeds from the new term loan to repay one Core mortgage in the amount of \$40.4 million. We also repaid two non-recourse Fund mortgages aggregating \$17.8 million in connection with two of the property sales noted above.

Structured Financing

During the nine months ended September 30, 2018 ([Note 3](#)) we entered into the following structured financing transactions:

- As discussed above, on March 28, 2018, we exchanged a total of \$22.0 million of our Core Brandywine Note Receivable plus accrued interest of \$0.3 million for an incremental 14.11% undivided interest in Town Center ([Note 4](#)).
- On March 16, 2018, we funded an additional \$2.8 million on an existing Core \$15.0 million note receivable.
- On January 24, 2018, we received full payment on a \$26.0 million Core note receivable plus \$0.2 million interest thereon.

Share Repurchase Plan

In February 2018, our board of trustees elected to terminate the existing repurchase program and authorized a new common share repurchase program under which we may repurchase, from time to time, up to a maximum of \$200.0 million of our common shares ([Note 10](#)). Through September 30, 2018, we repurchased 2,294,235 shares for \$55.1 million.

RESULTS OF OPERATIONS

See [Note 12](#) in the Notes to Consolidated Financial Statements for an overview of our three reportable segments.

Comparison of Results for the Three Months Ended September 30, 2018 to the Three Months Ended September 30, 2017

The results of operations by reportable segment for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 are summarized in the table below (in millions, totals may not add due to rounding):

	Three Months Ended September 30, 2018				Three Months Ended September 30, 2017				Increase (Decrease)			
	Core	Funds	SF	Total	Core	Funds	SF	Total	Core	Funds	SF	Total
Revenues	\$ 42.3	\$ 23.8	\$ —	\$ 66.1	\$ 41.2	\$ 21.5	\$ —	\$ 62.7	\$ 1.1	\$ 2.3	\$ —	\$ 3.4
Depreciation and amortization	(14.9)	(13.8)	—	(28.7)	(14.7)	(11.9)	—	(26.7)	0.2	1.9	—	2.0
Property operating expenses, other operating and real estate taxes	(12.2)	(10.3)	—	(22.5)	(10.3)	(8.2)	—	(18.5)	1.9	2.1	—	4.0
General and administrative expenses	—	—	—	(8.0)	—	—	—	(8.0)	—	—	—	—
Impairment charge	—	—	—	—	—	(3.8)	—	(3.8)	—	(3.8)	—	(3.8)
Operating income (loss)	15.2	(0.3)	—	6.9	16.1	(2.4)	—	5.7	(0.9)	2.1	—	1.2
Gain on disposition of properties	—	5.1	—	5.1	—	13.0	—	13.0	—	(7.9)	—	(7.9)
Interest income	—	—	3.5	3.5	—	—	6.5	6.5	—	—	(3.0)	(3.0)
Equity in earnings of unconsolidated affiliates inclusive of gains on disposition of properties	2.0	(1.6)	—	0.4	0.8	3.2	—	4.0	1.2	(4.8)	—	(3.6)
Interest expense	(7.0)	(11.1)	—	(18.1)	(6.7)	(8.7)	—	(15.4)	0.3	2.4	—	2.7
Income tax provision	—	—	—	(0.5)	—	—	—	(0.5)	—	—	—	—
Net income (loss)	10.3	(7.9)	3.5	(2.6)	10.2	5.0	6.5	13.3	0.1	(12.9)	(3.0)	(15.9)
Net loss (income) loss attributable to noncontrolling interests	0.1	11.7	—	11.8	(0.4)	(0.1)	—	(0.4)	(0.5)	(11.8)	—	(12.2)
Net income attributable to Acadia	\$ 10.4	\$ 3.8	\$ 3.5	\$ 9.2	\$ 9.9	\$ 4.9	\$ 6.5	\$ 12.9	\$ 0.5	\$ (1.1)	\$ (3.0)	\$ (3.7)

Core Portfolio

The results of operations for our Core Portfolio segment are depicted in the table above under the headings labeled “Core.” Segment net income attributable to Acadia for our Core Portfolio increased \$0.5 million for the three months ended September 30, 2018 compared to the prior year period as a result of the changes further described below.

Revenues for our Core Portfolio increased \$1.1 million for the three months ended September 30, 2018 compared to the prior year period due primarily to an increase in real estate tax recovery of \$1.5 million as a result of increased real estate tax assessments in 2018.

Property operating expenses, other operating and real estate taxes for our Core Portfolio increased \$1.9 million for the three months ended September 30, 2018 compared to the prior year period primarily due to increased real estate taxes.

Equity in earnings of unconsolidated affiliates for our Core Portfolio increased \$1.2 million for the three months ended September 30, 2018 compared to the prior year period primarily due to the conversion of a portion of a note receivable into increased ownership in real estate.

Net income attributable to noncontrolling interests for our Core Portfolio decreased \$0.5 million for the three months ended September 30, 2018 compared to the prior year period based on the noncontrolling interests’ share of the variances discussed above.

Funds

The results of operations for our Funds segment are depicted in the table above under the headings labeled “Funds.” Segment net income attributable to Acadia for the Funds decreased \$1.1 million for the three months ended September 30, 2018 compared to the prior year period as a result of the changes described below.

Revenues for the Funds increased \$2.3 million for the three months ended September 30, 2018 compared to the prior year period primarily due to a \$6.7 million increase from Fund property acquisitions in 2017 and 2018. These increases were partially offset by a decrease of \$4.6 million from Fund property dispositions in 2017 and 2018.

Depreciation and amortization for the Funds increased \$1.9 million for the three months ended September 30, 2018 compared to the prior year period primarily due to a \$2.4 million increase from Fund property acquisitions in 2017 and 2018. These increases were partially offset by a \$0.7 million decrease due to property sales during 2017 and 2018.

Property operating expenses, other operating and real estate taxes for the Funds increased \$2.1 million for the three months ended September 30, 2018 compared to the prior year period primarily due to a \$1.7 million increase from Fund property acquisitions in 2017 and 2018 and a \$1.3 million increase in real estate tax expense due to reassessments. These increases were partially offset by a decrease of \$1.0 million from Fund property dispositions.

Impairment of an asset during the three months ended September 30, 2017 was comprised of a \$3.8 million charge related to a property classified as held for sale in 2017 ([Note 8](#)).

Gain on disposition of properties for the Funds decreased \$7.9 million for the three months ended September 30, 2018 compared to the prior year period due to the sales of Lake Montclair and 1861 Union in Fund IV during 2018 and the sales of 216th street in Fund II and New Hyde Park Shopping Center in Fund III in 2017.

Equity in earnings of unconsolidated affiliates for the Funds decreased \$4.8 million for the three months ended September 30, 2018 compared to the prior year period due to \$2.9 million from the distributions in excess of our carrying value related to Fund II's investment in Mervyns and Albertson's in 2017 along with \$2.0 million from the recognition of 100% of the net loss from Broughton Street in 2018 as our partner is no longer being allocated their share of the losses.

Interest expense for the Funds increased \$2.4 million for the three months ended September 30, 2018 compared to the prior year period due to a \$1.9 million increase related to higher average interest rates during 2018 and \$1.1 million less interest capitalized primarily related to our Fund II City Point project. These increases were partially offset by \$0.8 million related to lower average outstanding borrowings in 2018.

Net income attributable to noncontrolling interests for the Funds decreased \$11.8 million for the three months ended September 30, 2018 compared to the prior year period based on the noncontrolling interests' share of the variances discussed above.

Structured Financing

The results of operations for our Structured Financing segment are depicted in the table above under the headings labeled "SF." Interest income for the Structured Financing portfolio decreased \$3 million for the three months ended September 30, 2018 compared to the prior year period primarily due to a reduction of \$2.0 million from the conversion of a portion of a note receivable into increased ownership in the real estate ([Note 4](#)) and \$1.0 million for loan payoffs during 2017 and 2018.

Unallocated

The Company does not allocate general and administrative expense and income taxes to its reportable segments. These unallocated amounts are depicted in the table above under the headings labeled "Total."

Comparison of Results for the Nine Months Ended September 30, 2018 to the Nine Months Ended September 30, 2017

The results of operations by reportable segment for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 are summarized in the table below (in millions, totals may not add due to rounding):

	Nine Months Ended September 30, 2018				Nine Months Ended September 30, 2017				Increase (Decrease)			
	Core	Funds	SF	Total	Core	Funds	SF	Total	Core	Funds	SF	Total
Revenues	\$ 124.5	\$ 68.3	\$ —	\$ 192.8	\$ 127.1	\$ 57.1	\$ —	\$ 184.2	\$ (2.6)	\$ 11.2	\$ —	\$ 8.6
Depreciation and amortization	(45.3)	(41.5)	—	(86.8)	(46.7)	(30.5)	—	(77.2)	(1.4)	11.0	—	9.6
Property operating expenses, other operating and real estate taxes	(33.6)	(28.1)	—	(61.7)	(33.3)	(22.1)	—	(55.4)	0.3	6.0	—	6.3
General and administrative expenses	—	—	—	(24.4)	—	—	—	(25.3)	—	—	—	(0.9)
Impairment charge	—	—	—	—	—	(3.8)	—	(3.8)	—	(3.8)	—	(3.8)
Operating income (loss)	45.6	(1.3)	—	19.9	47.1	0.6	—	22.4	(1.5)	(1.9)	—	(2.5)
Gain on disposition of properties	—	5.1	—	5.1	—	13.0	—	13.0	—	(7.9)	—	(7.9)
Interest income	—	—	10.5	10.5	—	—	23.6	23.6	—	—	(13.1)	(13.1)
Equity in earnings of unconsolidated affiliates inclusive of gains on disposition of properties	5.2	1.9	—	7.1	2.3	18.7	—	21.0	2.9	(16.8)	—	(13.9)
Interest expense	(20.5)	(30.4)	—	(50.9)	(20.8)	(18.9)	—	(39.7)	(0.3)	11.5	—	11.2
Income tax provision	—	—	—	(0.9)	—	—	—	(1.0)	—	—	—	0.1
Net income (loss)	30.3	(24.6)	10.5	(9.0)	28.6	13.4	23.6	39.4	1.7	(38.0)	(13.1)	(48.4)
Net (income) loss attributable to noncontrolling interests	0.2	33.1	—	33.3	(1.2)	2.4	—	1.2	(1.4)	(30.7)	—	(32.1)
Net income attributable to Acadia	\$ 30.5	\$ 8.5	\$ 10.5	\$ 24.3	\$ 27.5	\$ 15.7	\$ 23.6	\$ 40.6	\$ 3.0	\$ (7.2)	\$ (13.1)	\$ (16.3)

Core Portfolio

Segment net income attributable to Acadia for our Core Portfolio increased \$3 million for the nine months ended September 30, 2018 compared to the prior year period as a result of the changes further described below.

Revenues for our Core Portfolio decreased \$2.6 million for the nine months ended September 30, 2018 compared to the prior year period due primarily to a decrease of \$4.3 million related to tenant bankruptcies in 2018 and \$0.7 million from reduced real estate tax reassessments in 2018. These decreases were partially offset by a \$2.5 million increase from the conversion of a portion of a note receivable into increased ownership in real estate during 2018 ([Note 4](#)).

Depreciation and amortization for our Core Portfolio decreased \$1.4 million for the nine months ended September 30, 2018 compared to the prior year period primarily due to accelerated depreciation of an asset placed into redevelopment in 2017.

Equity in earnings of unconsolidated affiliates for our Core Portfolio increased \$2.9 million for the nine months ended September 30, 2018 compared to the prior year period primarily due to the conversion of a portion of a note receivable into increased ownership in real estate as described above.

Net income attributable to noncontrolling interests for our Core Portfolio decreased \$1.4 million for the nine months ended September 30, 2018 compared to the prior year period based on the noncontrolling interests' share of the variances discussed above.

Funds

Segment net income attributable to Acadia for the Funds decreased \$7.2 million for the nine months ended September 30, 2018 compared to the prior year period as a result of the changes described below.

Revenues for the Funds increased \$11.2 million for the nine months ended September 30, 2018 compared to the prior year period primarily due to a \$17.2 million increase from Fund property acquisitions in 2017 and 2018, a \$2.5 million increase from development projects being placed in service during 2017 and a \$1.3 million write off of a below-market lease liability related to a tenant bankruptcy. These increases were offset by a decrease of \$10.5 million related to property sales in 2017 and 2018.

Depreciation and amortization for the Funds increased \$11 million for the nine months ended September 30, 2018 compared to the prior year period primarily due to an \$8.7 million increase from Fund property acquisitions in 2017 and 2018 and as well as \$5.5 million from development projects being placed in service during 2017. These increases were offset by a decrease of \$3.9 million for property sales in 2017.

Property operating expenses, other operating and real estate taxes for the Funds increased \$6 million for the nine months ended September 30, 2018 compared to the prior year period primarily due to a \$6.8 million increase from Fund property acquisitions in 2017 and 2018 and a \$4.0 million increase from the City Point project being placed in service during 2017. These increases were offset by a decrease of \$4.5 million from property sales in 2017 and 2018.

Impairment of an asset during the nine months ended September 30, 2017 was comprised of a \$3.8 million charge related to a property classified as held for sale in 2017 ([Note 8](#)).

Gain on disposition of properties for the Funds decreased \$7.9 million for the nine months ended September 30, 2018 compared to the prior year period due to the sales of Lake Montclair and 1861 Union in Fund IV in 2018 and the sales of 216th street in Fund II and New Hyde Park Shopping Center in Fund III in 2017.

Equity in earnings of unconsolidated affiliates for the Funds decreased \$16.8 million for the nine months ended September 30, 2018 compared to the prior year period primarily due to the Fund's proportionate share of \$14.8 million in aggregate gains from the sales of Arundel Plaza, 1701 Belmont Avenue and 2819 Kennedy Boulevard during the prior year period, \$2.9 million from distributions in excess of our carrying value related to Fund II's investment in Mervyns and Albertson's in 2017 and \$1.8 million from the recognition of 100% of the net loss from Broughton Street in 2018 as our partner is no longer absorbing their share of the losses. These decreases were offset by \$3.2 million for a distribution from Fund III's investment in the Storage portfolio during 2018.

Interest expense for the Funds increased \$11.5 million for the nine months ended September 30, 2018 compared to the prior year period due to \$8.2 million less interest capitalized primarily related to our Fund II City Point project during 2018 and a \$4.6 million increase related to higher average outstanding rates in 2018. These increases were offset by \$1.3 million for lower average outstanding borrowings in 2018.

Net income attributable to noncontrolling interests for the Funds decreased \$30.7 million for the nine months ended September 30, 2018 compared to the prior year period based on the noncontrolling interests' share of the variances discussed above.

Structured Financing

Interest income for the Structured Financing portfolio decreased \$13.1 million for the nine months ended September 30, 2018 compared to the prior year period primarily due to \$5.9 million from the conversion of a portion of a note receivable into increased ownership in the real estate ([Note 4](#)), the recognition of additional interest of \$3.9 million during the prior year period on the repayment of a note ([Note 3](#)) and loan payoffs during 2017 and 2018.

SUPPLEMENTAL FINANCIAL MEASURES

Net Property Operating Income

The following discussion of net property operating income ("NOI") and rent spreads on new and renewal leases includes the activity from both our consolidated and our pro-rata share of unconsolidated properties within our Core Portfolio. Our Funds invest primarily in properties that typically require significant leasing and development. Given that the Funds are finite-life investment vehicles, these properties are sold following stabilization. For these reasons, we believe NOI and rent spreads are not meaningful measures for our Fund investments.

NOI represents property revenues less property expenses. We consider NOI and rent spreads on new and renewal leases for our Core Portfolio to be appropriate supplemental disclosures of portfolio operating performance due to their widespread acceptance and use within the REIT investor and analyst communities. NOI and rent spreads on new and renewal leases are presented to assist investors in analyzing our property performance, however, our method of calculating these may be different from methods used by other REITs and, accordingly, may not be comparable to such other REITs.

A reconciliation of consolidated operating income to net operating income - Core Portfolio follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Consolidated operating income	\$ 6,948	\$ 5,744	\$ 19,948	\$ 22,383
Add back:				
General and administrative	7,982	7,953	24,359	25,286
Depreciation and amortization	28,676	26,652	86,755	77,245
Impairment charge	—	3,840	—	3,840
Less:				
Above/below market rent, straight-line rent and other adjustments	(4,387)	(4,728)	(15,491)	(14,671)
Consolidated NOI	39,219	39,461	115,571	114,083
Noncontrolling interest in consolidated NOI	(9,482)	(8,877)	(26,913)	(22,462)
Less: Operating Partnership's interest in Fund NOI included above	(2,477)	(2,569)	(6,938)	(6,545)
Add: Operating Partnership's share of unconsolidated joint ventures NOI (a)	6,280	4,728	18,356	14,415
NOI - Core Portfolio	<u>\$ 33,540</u>	<u>\$ 32,743</u>	<u>\$ 100,076</u>	<u>\$ 99,491</u>

(a) Does not include the Operating Partnership's share of NOI from unconsolidated joint ventures within the Funds.

Same-Property NOI includes Core Portfolio properties that we owned for both the current and prior periods presented, but excludes those properties which we acquired, sold or expected to sell, and developed during these periods. The following table summarizes Same-Property NOI for our Core Portfolio (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Core Portfolio NOI	\$ 33,540	\$ 32,743	\$ 100,076	\$ 99,491
Less properties excluded from Same-Property NOI	(1,192)	(1,471)	(5,322)	(5,722)
Same-Property NOI	<u>\$ 32,348</u>	<u>\$ 31,272</u>	<u>\$ 94,754</u>	<u>\$ 93,769</u>
Percent change from prior year period	<u>3.4%</u>		<u>1.1%</u>	
Components of Same-Property NOI:				
Same-Property Revenues	\$ 44,854	\$ 42,447	\$ 129,803	\$ 127,225
Same-Property Operating Expenses	(12,506)	(11,175)	(35,049)	(33,456)
Same-Property NOI	<u>\$ 32,348</u>	<u>\$ 31,272</u>	<u>\$ 94,754</u>	<u>\$ 93,769</u>

Rent Spreads on Core Portfolio New and Renewal Leases

The following table summarizes rent spreads on both a cash basis and straight-line basis for new and renewal leases based on leases executed within our Core Portfolio for the three and nine months ended September 30, 2018. Cash basis represents a comparison of rent most recently paid on the previous lease as compared to the initial rent paid on the new lease. Straight-line basis represents a comparison of rents as adjusted for contractual escalations, abated rent and lease incentives for the same comparable leases.

Core Portfolio New and Renewal Leases	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	Cash Basis	Straight- Line Basis	Cash Basis	Straight- Line Basis
Number of new and renewal leases executed	21	21	55	55
GLA commencing	163,413	163,413	508,145	508,145
New base rent	\$ 17.44	\$ 18.13	\$ 19.15	\$ 19.60
Expiring base rent	\$ 16.14	\$ 15.69	\$ 17.51	\$ 16.75
Percent growth in base rent	8.0%	15.5%	9.4%	17.0%
Average cost per square foot (a)	\$ 1.82	\$ 1.82	\$ 1.70	\$ 1.70
Weighted average lease term (years)	5.2	5.2	5.0	5.0

(a) The average cost per square foot includes tenant improvement costs, leasing commissions and tenant allowances.

Funds from Operations

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 (losses) from sales of depreciated property, depreciation and amortization, and impairment of depreciable real estate. 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 (losses) from sales of depreciated property and impairment of depreciable real estate, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. A reconciliation of net income attributable to Acadia to FFO follows (dollars in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
(dollars in thousands except per share data)				
Net income attributable to Acadia	\$ 9,225	\$ 12,867	\$ 24,309	\$ 40,558
Depreciation of real estate and amortization of leasing costs (net of noncontrolling interests' share)	21,141	20,309	63,812	62,935
Impairment charge (net of noncontrolling interests' share)	—	1,088	—	1,088
Gain on sale (net of noncontrolling interests' share)	(994)	(2,294)	(994)	(5,789)
Income attributable to Common OP Unit holders	596	758	1,572	2,400
Distributions - Preferred OP Units	135	138	404	415
Funds from operations attributable to Common Shareholders and Common OP Unit holders	<u>\$ 30,103</u>	<u>\$ 32,866</u>	<u>\$ 89,103</u>	<u>\$ 101,607</u>
Funds From Operations per Share - Diluted				
Basic weighted-average shares outstanding, GAAP earnings	81,565,805	83,699,850	82,245,020	83,665,749
Weighted-average OP Units outstanding	4,928,636	4,736,815	4,953,549	4,749,057
Basic weighted-average shares outstanding, FFO	86,494,441	88,436,665	87,198,569	88,414,806
Assumed conversion of Preferred OP Units to common shares	499,345	512,366	499,345	506,945
Assumed conversion of LTIP units and restricted share units to common shares	257,658	51,143	201,675	77,392
Diluted weighted-average number of Common Shares and Common OP Units outstanding, FFO	<u>87,251,444</u>	<u>89,000,174</u>	<u>87,899,589</u>	<u>88,999,143</u>
Diluted Funds from operations, per Common Share and Common OP Unit	<u>\$ 0.35</u>	<u>\$ 0.37</u>	<u>\$ 1.01</u>	<u>\$ 1.14</u>

LIQUIDITY AND CAPITAL RESOURCES

Uses of Liquidity and Cash Requirements

Our principal uses of liquidity are (i) distributions to our shareholders and OP unit holders, (ii) investments which include the funding of our capital committed to the Funds and property acquisitions and development/re-tenanting activities within our Core Portfolio, (iii) distributions to our Fund investors, (iv) debt service and loan repayments and (v) share repurchases.

Distributions

In order to qualify as a REIT for federal income tax purposes, we must currently distribute at least 90% of our taxable income to our shareholders. During the nine months ended September 30, 2018, we paid dividends and distributions on our Common Shares, Common OP Units and Preferred OP Units totaling \$72.0 million.

Investments in Real Estate

During the nine months ended September 30, 2018, within our Fund portfolio we invested in two new properties as follows ([Note 2](#)):

- On July 18, 2018, Fund V acquired a consolidated suburban shopping center in Elk Grove, California for \$59.3 million referred to as “Elk Grove Commons.”
- On February 21, 2018, Fund V acquired a consolidated suburban shopping center in Trussville, Alabama for \$45.2 million referred to as “Trussville.”

For activity subsequent to September 30, 2018, see [Note 15](#).

Capital Commitments

During the nine months ended September 30, 2018, we made capital contributions aggregating \$12.8 million to our Funds. At September 30, 2018, our share of the remaining capital commitments to our Funds aggregated \$119.0 million as follows:

- \$6.4 million to Fund III. Fund III was launched in May 2007 with total committed capital of \$450.0 million of which our original share was \$89.6 million. During 2015, we acquired an additional interest, which had an original capital commitment of \$20.9 million.
- \$25.2 million to Fund IV. Fund IV was launched in May 2012 with total committed capital of \$530.0 million of which our original share was \$122.5 million.
- \$87.4 million to Fund V. Fund V was launched in August 2016 with total committed capital of \$520.0 million of which our initial share is \$104.5 million.

In addition, during April 2018, a distribution was made to the Fund II investors, including \$4.3 million to the Operating Partnership. This amount remains subject to re-contribution to Fund II until April 2021.

Development Activities

During the nine months ended September 30, 2018, capitalized costs associated with development activities totaled \$41.9 million. At September 30, 2018 and December 31, 2017, we had a total of seven properties under development and redevelopment for which the estimated total cost to complete these projects through 2020 was \$71.7 million to \$106.7 million and our share was approximately \$35.5 million to \$53.43 million.

Debt

A summary of our consolidated debt, which includes the full amount of Fund related obligations and excludes our pro rata share of debt at our unconsolidated subsidiaries, is as follows (in thousands):

	September 30, 2018	December 31, 2017
Total Debt - Fixed and Effectively Fixed Rate	\$ 967,667	\$ 899,650
Total Debt - Variable Rate	524,202	538,736
	1,491,869	1,438,386
Net unamortized debt issuance costs	(10,919)	(14,833)
Unamortized premium	779	856
Total Indebtedness	\$ 1,481,729	\$ 1,424,409

As of September 30, 2018, our consolidated outstanding mortgage and notes payable aggregated \$1,491.9 million, excluding unamortized premium of \$0.8 million and unamortized loan costs of \$10.9 million, and were collateralized by 43 properties and related tenant leases. Interest rates on our outstanding indebtedness ranged from 1.00% to 6.00% with maturities that ranged from November 15, 2018, to August 23, 2042. Taking into consideration \$575.5 million of notional principal under variable to fixed-rate swap agreements currently in effect, \$967.7 million of the portfolio debt, or 64.9%, was fixed at a 3.60% weighted-average interest rate and \$524.2 million, or 35.1% was floating at a 3.90% weighted average interest rate as of September 30, 2018. Our variable-rate debt includes \$143.8 million of debt subject to interest rate caps.

There is \$37.4 million of debt maturing in 2018 at a weighted-average interest rate of 5.88%; there is \$1.5 million of scheduled principal amortization due in 2018; and our share of scheduled remaining 2018 principal payments and maturities on our unconsolidated debt was \$7.0 million at September 30, 2018. In addition, \$192.8 million of our total consolidated debt and \$1.0 million of our pro-rata share of unconsolidated debt will come due in 2019. As it relates to the maturing debt in 2018 and 2019, we may not have sufficient cash on hand to repay such indebtedness, and, therefore, we expect to refinance at least a portion of this indebtedness or select other alternatives based on market conditions as these loans mature; however, there can be no assurance that we will be able to obtain financing at acceptable terms.

A mortgage loan in the Company's Core Portfolio for \$26.3 million was in default and subject to litigation at September 30, 2018 and December 31, 2017 ([Note 7](#)).

Share Repurchases

The Company repurchased \$55.1 million, or 2,294,235 shares, pursuant to its new share repurchase program during the nine months ended September 30, 2018.

Sources of Liquidity

Our primary sources of capital for funding our liquidity needs include (i) the issuance of both public equity and OP Units, (ii) the issuance of both secured and unsecured debt, (iii) unfunded capital commitments from noncontrolling interests within our Funds, (iv) future sales of existing properties, (v) repayments of structured financing investments, and (vi) cash on hand and future cash flow from operating activities. Our cash on hand in our consolidated subsidiaries at September 30, 2018 totaled \$9.5 million. Our remaining sources of liquidity are described further below.

Issuance of Equity

We have an at-the-market ("ATM") equity issuance program which provides us an efficient and low-cost vehicle for raising public equity to fund our capital needs. Through this program, we have been able to effectively "match-fund" the required equity for our Core Portfolio and Fund acquisitions through the issuance of Common Shares over extended periods employing a price averaging strategy. In addition, from time to time, we have issued and intend to continue to issue, equity in follow-on offerings separate from our ATM program. Net proceeds raised through our ATM program and follow-on offerings are primarily used for acquisitions, both for our Core Portfolio and our pro-rata share of Fund acquisitions, and for general corporate purposes. There were no issuances of equity under the ATM program during the nine months ended September 30, 2018.

Fund Capital

During the nine months ended September 30, 2018, Fund III called capital contributions totaling \$12.4 million, Fund IV called capital contributions of \$8.1 million and Fund V called capital contributions of \$39.3 million, of which our aggregate share was \$12.8 million. At

September 30, 2018, unfunded capital commitments from noncontrolling interests within our Funds III, IV and V were \$19.7 million, \$84.0 million and \$347.5 million, respectively.

Asset Sales

As previously discussed, during the nine months ended September 30, 2018, within our Fund portfolio we sold three unconsolidated properties and three consolidated properties for an aggregate sales price of \$64.5 million ([Note 4](#), [Note 2](#)).

Structured Financing Repayments

During the nine months ended September 30, 2018, we received total collections on one note receivable of \$26.0 million ([Note 3](#)). There are no scheduled principal collections for the remainder of 2018.

Financing and Debt

As of September 30, 2018, we had \$216.3 million of additional capacity under existing Core and Fund revolving debt facilities. In addition, at that date within our Core and Fund portfolios, we had 68 unleveraged consolidated properties with an aggregate carrying value of approximately \$1.5 billion and 14 unleveraged unconsolidated properties for which our share of the carrying value was \$138.6 million, although there can be no assurance that we would be able to obtain financing for these properties at favorable terms, if at all.

HISTORICAL CASH FLOW

The following table compares the historical cash flow for the nine months ended September 30, 2018 with the cash flow for the nine months ended September 30, 2017 (in millions):

	Nine Months Ended September 30,		
	2018	2017	Variance
Net cash provided by operating activities	\$ 67.2	\$ 87.2	\$ (20.0)
Net cash used in investing activities	(76.3)	(152.6)	76.3
Net cash (used in) provided by financing activities	(54.5)	38.5	(93.0)
Decrease in cash and restricted cash	<u>\$ (63.6)</u>	<u>\$ (27.0)</u>	<u>\$ (36.6)</u>

Operating Activities

Our operating activities provided \$20.0 million less cash during the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017, primarily due to a reduction in interest income, an increase in interest expense and an increase in property expenses partially offset by cash flows from the 2017 and 2018 Fund acquisitions.

Investing Activities

During the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017, our investing activities used \$76.3 million less cash, primarily due to (i) \$35.3 million less cash used for the acquisition of real estate, (ii) \$18.3 million less cash used for development and property improvement costs, (iii) \$14.0 million more cash received from repayments of notes receivable in 2018, (iv) \$7.4 million less cash used for the issuance of notes receivable, and (v) \$5.7 million more cash received from the proceeds from dispositions of properties. These reductions in the use of cash were partially offset by \$7.9 million less cash received from return of capital from unconsolidated affiliates.

Financing Activities

Our financing activities used \$93.0 million more cash during the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017, primarily from (i) a decrease of \$60.0 million of cash provided from net borrowings, (ii) \$55.1 million more cash used for the repurchase of Common Shares, (iii) an increase of \$16.9 million in distributions to noncontrolling interests. These items were partially offset by (i) an increase in cash of \$26.5 million from capital contributions from noncontrolling interests and (ii) a decrease of \$10.9 million in cash paid for dividends to common shareholders.

CONTRACTUAL OBLIGATIONS

The following table summarizes: (i) principal and interest obligations under mortgage and other notes, (ii) rents due under non-cancelable operating and capital leases, which includes ground leases at seven of our properties and the lease for our corporate office and (iii) construction commitments as of September 30, 2018 (in millions):

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years
Principal obligations on debt	\$ 1,491.9	\$ 88.8	\$ 767.3	\$ 470.8	\$ 165.0
Interest obligations on debt	228.8	69.6	87.7	43.2	28.3
Lease obligations (a)	204.0	1.2	9.3	8.8	184.7
Construction commitments (b)	73.0	73.0	—	—	—
Total	\$ 1,997.7	\$ 232.6	\$ 864.3	\$ 522.8	\$ 378.0

(a) A ground lease expiring during 2078 provides the Company with an option to purchase the underlying land during 2031. If we do not exercise the option, the rents that will be due are based on future values and as such are not determinable at this time. Accordingly, the above table does not include rents for this lease beyond 2031.

(b) In conjunction with the development of our Core Portfolio and Fund properties, we have entered into construction commitments with general contractors. We intend to fund these requirements with existing liquidity.

OFF-BALANCE SHEET ARRANGEMENTS

We have the following investments made through joint ventures for the purpose of investing in operating properties. We account for these investments using the equity method of accounting. As such, our financial statements reflect our investment and our share of income and loss from, but not the individual assets and liabilities, of these joint ventures.

See [Note 4](#) in the Notes to Consolidated Financial Statements, for a discussion of our unconsolidated investments. The Operating Partnership's pro-rata share of unconsolidated non-recourse debt related to those investments is as follows (dollars in millions):

Investment	Operating Partnership		Interest Rate at September 30, 2018	Maturity Date
	Ownership Percentage	Pro-rata Share of Mortgage Debt		
230/240 W. Broughton	11.6%	\$ 1.2	5.11%	Oct 2018
Promenade at Manassas	22.8%	5.6	3.81%	Nov 2018
650 Bald Hill	20.8%	3.3	4.76%	Apr 2020
Eden Square	22.8%	5.1	4.26%	Jun 2020
Gotham Plaza (a)	49.0%	9.8	3.71%	Jun 2023
Renaissance Portfolio	20.0%	32.0	3.81%	Aug 2023
Crossroads	49.0%	32.6	3.94%	Oct 2024
840 N. Michigan	88.4%	65.0	4.36%	Feb 2025
Georgetown Portfolio	50.0%	8.3	4.72%	Dec 2027
Total		\$ 162.9		

(a) Our unconsolidated affiliate is a party to an interest rate LIBOR swap with a notional value of \$20.1 million, which effectively fixes the interest rate at 3.49% and matures in June 2023.

CRITICAL ACCOUNTING POLICIES

Management's discussion and analysis of financial condition and results of operations is based upon our Consolidated Financial Statements, which have been prepared in accordance with U.S. 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. We base our 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. We believe there have been no material changes to the items that we disclosed as our critical accounting policies under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in our 2017 Annual Report on Form 10-K.

Recently Issued Accounting Pronouncements

Reference is made to [Note 1](#) for information about recently issued accounting pronouncements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Information as of September 30, 2018

Our primary market risk exposure is to changes in interest rates related to our mortgage and other debt. See [Note 7](#) in the Notes to Consolidated Financial Statements, for certain quantitative details related to our mortgage and other debt.

Currently, we manage our exposure to fluctuations in interest rates primarily through the use of fixed-rate debt and interest rate swap and cap agreements. As of September 30, 2018, we had total mortgage and other notes payable of \$1,491.9 million, excluding the unamortized premium of \$0.8 million and unamortized debt issuance costs of \$10.9 million, of which \$967.7 million, or 64.9% was fixed-rate, inclusive of debt with rates fixed through the use of derivative financial instruments, and \$524.2 million, or 35.1%, was variable-rate based upon LIBOR or Prime rates plus certain spreads. As of September 30, 2018, we were party to 27 interest rate swap and three interest rate cap agreements to hedge our exposure to changes in interest rates with respect to \$575.5 million and \$143.8 million of LIBOR-based variable-rate debt, respectively.

The following table sets forth information as of September 30, 2018 concerning our long-term debt obligations, including principal cash flows by scheduled maturity and weighted average interest rates of maturing amounts (dollars in millions):

Core Consolidated Mortgage and Other Debt

Year	Scheduled Amortization	Maturities	Total	Weighted-Average Interest Rate
2018 (Remainder)	\$ 0.6	\$ 26.3	\$ 26.9	6.0%
2019	3.1	—	3.1	—%
2020	3.2	—	3.2	—%
2021	3.4	—	3.4	—%
2022	3.5	28.0	31.5	3.5%
Thereafter	18.3	503.0	521.3	3.6%
	<u>\$ 32.1</u>	<u>\$ 557.3</u>	<u>\$ 589.4</u>	

Fund Consolidated Mortgage and Other Debt

Year	Scheduled Amortization	Maturities	Total	Weighted-Average Interest Rate
2018 (Remainder)	\$ 0.9	\$ 11.1	\$ 12.0	5.6%
2019	3.3	186.5	189.8	5.2%
2020	3.0	461.9	464.9	4.6%
2021	1.7	175.4	177.1	4.1%
2022	0.5	44.6	45.1	4.2%
Thereafter	0.2	13.4	13.6	2.6%
	<u>\$ 9.6</u>	<u>\$ 892.9</u>	<u>\$ 902.5</u>	

Mortgage Debt in Unconsolidated Partnerships (at our Pro-Rata Share)

	Scheduled Amortization		Maturities		Total	Weighted-Average Interest Rate
2018 (Remainder)	\$ 0.3	\$	6.7	\$	7.0	3.8%
2019	1.0		—		1.0	—%
2020	1.1		8.4		9.5	4.1%
2021	1.1		—		1.1	—%
2022	1.2		—		1.2	—%
Thereafter	2.6		140.5		143.1	4.1%
	<u>\$ 7.3</u>	<u>\$</u>	<u>155.6</u>	<u>\$</u>	<u>162.9</u>	

In 2018, \$38.9 million of our total consolidated debt and \$7.0 million of our pro-rata share of unconsolidated outstanding debt will become due. In addition, \$192.8 million of our total consolidated debt and \$1.0 million of our pro-rata share of unconsolidated debt will become due in 2019. As we intend on refinancing some or all of such debt at the then-existing market interest rates, which may be greater than the current interest rate, our interest expense would increase by approximately \$2.3 million annually if the interest rate on the refinanced debt increased by 100 basis points. After giving effect to noncontrolling interests, our share of this increase would be \$0.5 million. Interest expense on our variable-rate debt of \$524.2 million, net of variable to fixed-rate swap agreements currently in effect, as of September 30, 2018, would increase \$5.2 million if LIBOR increased by 100 basis points. After giving effect to noncontrolling interests, our share of this increase would be \$1.2 million. We may seek additional variable-rate financing if and when pricing and other commercial and financial terms warrant. As such, we 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.

Based on our outstanding debt balances as of September 30, 2018, the fair value of our total consolidated outstanding debt would decrease by approximately \$13.0 million if interest rates increase by 1%. Conversely, if interest rates decrease by 1%, the fair value of our total outstanding debt would increase by approximately \$14.0 million.

As of September 30, 2018, and December 31, 2017, we had consolidated notes receivable of \$109.4 million and \$153.8 million, respectively. We determined the estimated fair value of our notes receivable by discounting future cash receipts utilizing a discount rate equivalent to the rate at which similar notes receivable would be originated under conditions then existing.

Based on our outstanding notes receivable balances as of September 30, 2018, the fair value of our total outstanding notes receivable would decrease by approximately \$1.3 million if interest rates increase by 1%. Conversely, if interest rates decrease by 1%, the fair value of our total outstanding notes receivable would increase by approximately \$1.3 million.

Summarized Information as of December 31, 2017

As of December 31, 2017, we had total mortgage and other notes payable of \$1,438.4 million, excluding the unamortized premium of \$0.9 million and unamortized loan costs of \$14.8 million, of which \$899.7 million, or 62.5% was fixed-rate, inclusive of interest rate swaps, and \$538.7 million, or 37.5%, was variable-rate based upon LIBOR plus certain spreads. As of December 31, 2017, we were party to 27 interest rate swaps and four interest rate cap agreements to hedge our exposure to changes in interest rates with respect to \$504.0 million and \$141.1 million of LIBOR-based variable-rate debt, respectively.

Interest expense on our variable-rate debt of \$538.7 million as of December 31, 2017, would have increased \$5.4 million if LIBOR increased by 100 basis points. Based on our outstanding debt balances as of December 31, 2017, the fair value of our total outstanding debt would have decreased by approximately \$15.9 million if interest rates increased by 1%. Conversely, if interest rates decreased by 1%, the fair value of our total outstanding debt would have increased by approximately \$17.3 million.

Changes in Market Risk Exposures from December 31, 2017 to September 30, 2018

Our interest rate risk exposure from December 31, 2017, to September 30, 2018, has decreased on an absolute basis, as the \$538.7 million of variable-rate debt as of December 31, 2017, has decreased to \$524.2 million as of September 30, 2018. As a percentage of our overall debt, our interest rate risk exposure has decreased as our variable-rate debt accounted for 37.5% of our consolidated debt as of December 31, 2017 compared to 35.1% as of September 30, 2018.

ITEM 4. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

Our disclosure controls and procedures include internal controls and other procedures designed to provide reasonable assurance that information required to be disclosed in this and other reports filed under the Exchange Act, is recorded, processed, summarized, and reported within the required time periods specified in the SEC's rules and forms; and that such information is accumulated and communicated to management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosures. It should be noted that no system of controls can provide complete assurance of achieving a company's objectives and that future events may impact the effectiveness of a system of controls. Our chief executive officer and chief financial officer, after conducting an evaluation, together with members of our management, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2018, have concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) were effective as of September 30, 2018, at a reasonable level of assurance.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We are involved in various matters of litigation arising in the normal course of business. While we are unable to predict with certainty the outcome of any particular matter. Management is of the opinion that, when such litigation is resolved, our resulting exposure to loss contingencies, if any, will not have a significant effect on our consolidated financial position, results of operations, or liquidity.

ITEM 1A. RISK FACTORS.

The most significant risk factors applicable to us are described in Item 1A. of our 2017 Annual Report on Form 10-K. There have been no material changes to those previously-disclosed risk factors.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

Due to a clerical error, an incorrect version of the Form of 2018 Long-Term Incentive Plan Award Agreement (Time and Performance Based) was included as Exhibit 10.14 to the 2017 Annual Report on Form 10-K. The corrected version is included as Exhibit 10.14 to this Form 10-Q and supersedes the prior filed version.

ITEM 6. EXHIBITS.

The following is an index to all exhibits including (i) those filed with this Quarterly Report on Form 10-Q and (ii) those incorporated by reference herein:

Exhibit No.	Description	Method of Filing
10.14	<u>Form of 2018 Long-Term Incentive Plan Award Agreement (Time and Performance Based) (corrected version)</u>	Filed herewith
31.1	<u>Certification of Chief Executive Officer pursuant to rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>	Filed herewith
31.2	<u>Certification of Chief Financial Officer pursuant to rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>	Filed herewith
32.1	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>	Filed herewith
32.2	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>	Filed herewith
101.INS	XBRL Instance Document	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Document	Filed herewith
101.DEF	XBRL Taxonomy Extension Definitions Document	Filed herewith
101.LAB	XBRL Taxonomy Extension Labels Document	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Document	Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

**ACADIA REALTY TRUST
(Registrant)**

By: /s/ Kenneth F. Bernstein
Kenneth F. Bernstein
Chief Executive Officer,
President and Trustee

By: /s/ John Gottfried
John Gottfried
Senior Vice President and
Chief Financial Officer

By: /s/ Richard Hartmann
Richard Hartmann
Senior Vice President and
Chief Accounting Officer

Dated: October 29, 2018

**ACADIA REALTY TRUST
2018 LONG-TERM INCENTIVE PLAN
AWARD AGREEMENT**

2018 LONG-TERM INCENTIVE PLAN AWARD AGREEMENT made as of the date set forth on Schedule A hereto between Acadia Realty Trust, a Maryland real estate investment trust (the “Company”), its subsidiary Acadia Realty Limited Partnership, a Delaware limited partnership and the entity through which the Company conducts substantially all of its operations (the “Partnership”), and the party listed on Schedule A (the “Grantee”).

RECITALS

1. The Grantee is a key employee of the Company or one of its Subsidiaries or affiliates and provides services to the Partnership.

2. The Company has adopted the 2018 Long-Term Incentive Plan (the “LTIP”) pursuant to the Second Amended and Restated Acadia Realty Trust 2006 Share Incentive Plan, as amended (the “Plan”), to provide certain key employees of the Company or its Subsidiaries and affiliates, including the Grantee, in connection with their employment with the long-term incentive compensation described in this Award Agreement (this “Agreement” or “Award Agreement”), and thereby provide additional incentive for them to promote the progress and success of the business of the Company and its Subsidiaries and affiliates, including the Partnership, while increasing the total return to the Company’s shareholders. The LTIP Units (as defined herein) may, under certain circumstances, become exchangeable for shares of beneficial ownership of the Company reserved for issuance under the Plan, or any successor equity plan. This Agreement evidences an award to the Grantee under the LTIP (this “Award”), which is subject to the terms and conditions set forth herein.

3. The Grantee was selected to receive this Award as an employee who, through the effective execution of his or her assigned duties and responsibilities, is in a position to have a direct and measurable impact on the Company’s long-term financial results. Effective as of the grant date specified in Schedule A hereto (the “Grant Date”), the Grantee was issued the number of LTIP Units (as defined herein) set forth in Schedule A.

NOW, THEREFORE, the Company, the Partnership and the Grantee agree as follows:

Section 1. Administration. The LTIP and all awards thereunder, including this Award, shall be administered by the Compensation Committee of the Board of Trustees of the Company (the “Committee”), which in the administration of the LTIP shall have all the powers and authority it has in the administration of the Plan, as set forth in the Plan. The Committee may from time to time adopt any rules or procedures it deems necessary or desirable for the proper and efficient administration of the LTIP, consistent with the terms hereof and of the Plan. The Committee’s determinations and interpretations with respect to the LTIP and this Agreement shall be final and binding on all parties.

Section 2. Definitions. Capitalized terms used herein without definitions shall have the meanings given to those terms in the Plan. In addition, as used herein:

“Award LTIP Units” has the meaning set forth in Section 3.

“Cause” means the Grantee has: (A) deliberately made a misrepresentation in connection with, or willfully failed to cooperate with, a bona fide internal investigation or an investigation by regulatory or law enforcement authorities, after being instructed by the Company to cooperate, or willfully destroyed or failed to preserve documents or other materials known to be relevant to such investigation, or willfully induced others to fail to cooperate or to produce documents or other materials; (B) materially breached (other than as a result of the Grantee’s incapacity due to physical or mental illness or death) his/her material duties hereunder, which breach is demonstrably willful and deliberate on the Grantee’s part, is committed in bad faith or without reasonable belief that such breach is in the best interests of the Company and such breach is not cured within a reasonable period of time after written notice from the Company specifying such Breach (but in any event, no less than ninety (90) days thereafter) in which Grantee is diligently pursuing cure; (C) engaged in conduct constituting a material act of willful misconduct in connection with the performance of his/her duties, including, without limitation, misappropriation of funds or property of the Company other than the occasional customary and de minimis use of Company property for personal purposes; (D) materially violated a material Company policy, including but not limited to a policy set forth in the Company’s employee handbook; (E) disparaged the Company, its officers, trustees, employees or partners; (F) committed a felony or misdemeanor involving moral turpitude, deceit, dishonesty or fraud.

“Change of Control” means that any of the following events has occurred: (A) any Person or “group” of Persons, as such terms are used in Sections 13 and 14 of the Exchange Act, other than any employee benefit

plan sponsored by the Company, becomes the “beneficial owner,” as such term is used in Section 13 of the Exchange Act (irrespective of any vesting or waiting periods) of (i) the Company’s Common Shares in an amount equal to thirty percent (30%) or more of the sum total of the Common Shares issued and outstanding immediately prior to such acquisition as if they were a single class and disregarding any equity raise in connection with the financing of such transaction; provided, however, that in determining whether a Change of Control has occurred, Common Shares which are acquired in an acquisition by (i) the Company or any of its subsidiaries or (ii) an employee benefit plan (or a trust forming a part thereof) maintained by the Company or any of its subsidiaries shall not constitute an acquisition which can cause a Change of Control; or (B) the approval of the dissolution or liquidation of the Company by the Board of Trustees of the Company (the “Board”); or (C) the approval of the sale or other disposition of all or substantially all of its assets in one or more transactions (including, without limitation, the approval of a transaction or series of transactions to sell or dispose of all or substantially all of the assets in the Company’s core business line to any Person or “group” of Persons, as such terms are used in Sections 13 and 14 of the Exchange Act); or (D) a turnover, during any two-year period, of the majority of the members of the Board, without the consent of the majority of the members of the Board as to the appointment of the new Board members.

“Code” means the Internal Revenue Code of 1986, as amended.

“Common Shares” means shares of beneficial ownership of the Company, par value \$0.001 per share, either currently existing or authorized hereafter.

“Disability” means (i) if the Grantee is a party to a Service Agreement (as defined in Section 5(b) below), and “Disability” is defined therein, such definition, or (ii) if the Grantee is not party to a Service Agreement that defines “Disability,” a reasonable determination by the Company that the Grantee has become physically or mentally incapable of performing his duties to the Company and/or Partnership and such disability has disabled the Grantee for a cumulative period of one hundred eighty (180) days within a twelve (12) month period.

“Effective Date” means January 1, 2018.

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Fair Market Value” means, as of a particular date, the “Fair Market Value” (as defined in the Plan) of one Common Share; provided, however, if such date is the date of a Public Announcement with respect to a Change of Control, then the fair market value shall be, as determined by the Board, the total consideration payable for one Common Share in the transaction that ultimately results in a Change of Control.

“Good Reason” means the Grantee shall have the right to terminate his/her employment within the 90-day period following the Company’s failure to cure any of the following events that shall constitute “Good Reason” if not cured within the 30-day period following written notice of such default to the Company by the Grantee (the “Good Reason Cure Period”): (A) upon the occurrence of any material breach of this Agreement by the Company; (B) without the Grantee’s consent, a material, adverse alteration in the nature of the Grantee’s duties, responsibilities or authority, or in the 18-month period following a Change of Control only, upon the determination by the Grantee (which determination will be conclusive and binding upon the parties hereto provided it has been made in good faith and in all events will be presumed to have been made in good faith unless otherwise shown clear and convincing evidence) that a material negative change in circumstances has occurred following a Change of Control; (C) without the Grantee’s consent, upon a reduction in Grantee’s base salary or a reduction of ten percent (10%) or greater in Grantee’s other compensation and employee benefits (which includes a ten percent (10%) or greater reduction in target cash and equity bonus, or a ten percent (10%) or greater reduction in total bonus opportunity, but in all cases excludes any grants made under the Long-Term Incentive Alignment Program); or (D) if the Company relocates the Grantee’s office requiring the Grantee to increase his/her commuting time by more than one hour, or in the 18-month period following a Change of Control only, upon the Company requiring the Grantee to travel away from the Grantee’s office in the course of discharging the Grantee’s responsibilities or duties hereunder at least twenty percent (20%) more than was required of the Grantee in any of the three (3) full years immediately prior to the Change of Control, without, in either case, the Grantee’s prior written consent. Any notice hereunder by the Grantee must be made within ninety (90) days after the Grantee first knows or has reason to know about the occurrence of the event alleged to be Good Reason.

“LTIP Units” means units of limited partnership interest of the Partnership designated as “LTIP Units” in the Partnership Agreement awarded under the LTIP, having the rights, voting powers, restrictions, limitations as to distributions, qualifications and terms and conditions of redemption set forth in the Partnership Agreement.

“Partnership Agreement” means the Amended and Restated Limited Partnership Agreement of the Partnership, dated as of March 22, 1999, among the Company, as general partner, and the limited partners who are parties thereto, as amended from time to time.

“Performance Period” means the period beginning on the Effective Date and ending on the Valuation Date.

“Person” means an individual, corporation, partnership, limited liability company, joint venture, association, trust, unincorporated organization, other entity or “group” (as defined in the Exchange Act).

“Public Announcement” means, with respect to a Change of Control, the earliest press release, filing with the Securities and Exchange Commission, or other publicly available or widely disseminated communication issued by the Company or another Person who is a party to such transaction which discloses the consideration payable in connection with and other material terms of the transaction that ultimately results in the Change of Control; provided, however, that if such consideration is subsequently increased or decreased, then the term “Public Announcement” shall be deemed to refer to the most recent such press release, filing or communication disclosing a change in the consideration whereby the final consideration and material terms of the transaction that ultimately results in the Change of Control are announced.

“Securities Act” means the Securities Act of 1933, as amended.

“Special LTIP Units” means LTIP Units as defined in the Partnership Agreement and designated as Special LTIP Units pursuant to Section 8 of this Agreement.

“Units” means OP Units (as defined in the Partnership Agreement) that are outstanding or are issuable upon the conversion, exercise, exchange or redemption of any securities of any kind convertible, exercisable, exchangeable or redeemable for OP Units.

“Valuation Date” means December 31, 2020.

Section 3. Award of LTIP Units; Effectiveness of Award.

(a) Award of LTIP Units. On the terms and conditions set forth in this Agreement, as well as the terms and conditions of the Plan, the Grantee is hereby granted this Award consisting of the number of LTIP Units set forth on Schedule A hereto, which is incorporated herein by reference (the “Award LTIP Units”). Award LTIP Units shall have the rights, voting powers, restrictions, limitations as to distributions, qualifications and terms and conditions of redemption and conversion set forth herein and in the Partnership Agreement and shall constitute and be treated as the property of the Grantee, subject to the terms of this Agreement and the Partnership Agreement. In connection with each subsequent issuance of Award LTIP Units, if any, the Grantee shall execute and deliver to the Company and the Partnership such documents, comparable to the documents executed and delivered in connection with this Agreement, as the Company and/or the Partnership reasonably request in order to comply with all applicable legal requirements, including, without limitation, federal and state securities laws. Award LTIP Units will be subject to vesting as provided in Section 4 hereof, subject to the terms and conditions of Sections 5 and 6.

(b) Effectiveness of Award. As of the Grant Date, the Grantee shall be admitted as a partner of the Partnership with beneficial ownership of the number of Award LTIP Units issued to the Grantee as of such date by: (A) signing and delivering to the Partnership a copy of this Agreement; and (B) signing, as a Limited Partner, and delivering to the Partnership a counterpart signature page to the Partnership Agreement (attached hereto as Exhibit B). The Partnership Agreement shall be amended from time to time as applicable to reflect the issuance to the Grantee of Award LTIP Units, whereupon the Grantee shall have all the rights of a Limited Partner of the Partnership with respect to the number of LTIP Units then held by the Grantee, as set forth in the Partnership Agreement, subject, however, to the restrictions and conditions specified herein and in the Partnership Agreement.

Section 4. Vesting of Award LTIP Units. The Award LTIP Units are subject to time-based vesting and performance-based vesting, as follows.

(a) Time-Based LTIP Units. With respect to the Award LTIP Units listed on Schedule A as Time-Based LTIP Units (the “Time-Based LTIP Units”), vesting shall occur in substantially equal installments commencing on January 6, 2019, and on each of the first, second, third and fourth anniversaries thereof (each a “Vesting Date”), subject to the Grantee’s continuous employment with the Company through each applicable Vesting Date.

(b) Performance-Based LTIP Units.

(i) With respect to the Award LTIP Units listed on Schedule A as Performance-Based Special LTIP Units (the “Performance-Based LTIP Units”), such Performance-Based LTIP Units shall be earned and thereafter vest if and only to the extent the performance criteria set forth on Exhibit A attached hereto for the Performance Period are achieved, subject to the Grantee’s continuous employment with the Company through the end of the Performance Period. Promptly following the conclusion of the Performance Period, but in no event later than forty-five (45) days thereafter, the Company shall determine (and the Committee shall certify) whether and to what extent such performance criteria were achieved and determine the Performance Percentage (as defined on Exhibit A attached hereto) and the number of Performance-Based LTIP Units subject to this Award, if any, that are earned. For the avoidance of doubt, the Grantee shall have no rights to the Performance-Based LTIP Units pursuant to this Section 4(b) until the Committee has determined that such Performance-Based LTIP Units have been earned.

(ii) If the number of earned Performance-Based LTIP Units is smaller than the number of Performance-Based LTIP Units previously issued to the Grantee, then the Grantee, as of the Valuation Date, shall

forfeit a number of Performance-Based LTIP Units equal to the difference without payment of any consideration by the Partnership; thereafter, the term “Performance-Based LTIP Units” will only refer to the Performance-Based LTIP Units that were not so forfeited, and neither the Grantee nor any of his/her successors, heirs, assigns or personal representatives will thereafter have any future rights or interests in the LTIP Units that were so forfeited. If the number of earned Performance-Based LTIP Units is the same as the number of Performance-Based LTIP Units previously issued to the Grantee, then there will be no change to the number of Performance-Based LTIP Units under this Award pursuant to this Section 4.

(iii) If any of the Performance-Based LTIP Units have been earned based on performance as provided in Section 4(b), subject to Sections 5 and 6 hereof, the Performance-Based LTIP Units shall become vested in the following amounts and at the following times, subject to the Grantee’s continuous employment with the Company through and on the applicable vesting date, or the accelerated vesting date provided in Sections 5 and 6 hereof, as applicable:

(A) Sixty percent (60%) of the earned Performance-Based LTIP Units shall become vested on January 6, 2021; and

(B) Forty percent (40%) of the earned Performance-Based LTIP Units shall become vested in substantially equal installments on each of January 6, 2022 and January 6, 2023.

(iv) Any Performance-Based LTIP Units that do not become vested pursuant to Section 4(b)(iii), or Sections 5 and 6 hereof, as applicable, shall, without payment of any consideration by the Company or the Partnership, automatically and without notice be forfeited and be and become null and void, and neither the Grantee nor any of his or her successors, heirs, assigns, or personal representatives will thereafter have any further rights or interests in such unvested Performance-Based LTIP Units.

Section 5. Termination of Grantee’s Employment.

(a) Termination Generally. Except as otherwise provided in this Section 5, (i) if the Grantee’s employment with the Company is voluntarily or involuntarily terminated for any reason prior to the final Vesting Date with respect to the Time-Based LTIP Units, all such Time-Based LTIP Units which have not yet vested shall immediately and automatically be forfeited and returned to the Company; and (ii) if the Grantee’s employment with the Company is voluntarily or involuntarily terminated for any reason prior to the end of the Performance Period with respect to the Performance-Based LTIP Units, such Performance-Based LTIP Units which have not yet been earned shall immediately and automatically be forfeited and returned to the Company.

(b) Qualifying Termination. Notwithstanding the foregoing, and notwithstanding the terms of any employment, consulting or similar service agreement(s) then in effect between the Grantee, on the one hand, and the Company and/or the Partnership on the other hand (a “Service Agreement”), the Award LTIPs shall be treated as follows in the event of certain terminations of employment:

(i) Time-Based LTIP Units. If, prior to the final Vesting Date (or, if sooner, the date of a Change of Control), the Grantee’s employment or service relationship with the Company (i) is terminated by the Company without Cause, (ii) is terminated by the Grantee for Good Reason or (iii) terminates due to the Grantee’s death or Disability (each of (i), (ii) and (iii), a “Qualifying Termination”), then all unvested Time-Based LTIP Units outstanding as of the date of such Qualifying Termination shall accelerate and become vested in full.

(ii) Performance-Based LTIP Units. If, prior to the end of the Performance Period (or, if sooner, the date of a Change of Control), the Grantee experiences a Qualifying Termination, then the Performance-Based LTIP Units shall remain outstanding following such Qualifying Termination and will be subject to the same conditions as are otherwise set forth herein, and the vesting of such Performance-Based LTIP Units will be determined pursuant to the performance criteria set forth in Exhibit A attached hereto in the same manner as they would have been in the absence of a Qualifying Termination. In addition, the service requirements pursuant to Section 4(b)(iii) hereof shall be deemed satisfied.

Section 6. Change of Control. Notwithstanding the foregoing and further notwithstanding any provision of the Grantee’s Service Agreement, if applicable, to the contrary, the Award LTIP Units shall be treated as follows upon the occurrence of a Change of Control.

(a) Time-Based LTIP Units. If a Change of Control occurs prior to the final Vesting Date, then all unvested Time-Based LTIP Units shall accelerate and become vested in full upon the consummation of such Change of Control.

(b) Performance-Based LTIP Units. If a Change of Control occurs prior to the end of the Performance Period, then the Grantee will be deemed to have earned the number of Performance-Based LTIP Units based on the performance criteria set forth in Exhibit A attached hereto, calculated from the Effective Date through the date of the Public Announcement of the Change of Control. In addition, the service requirements pursuant to Section 4(b)(iii) hereof shall be deemed satisfied, subject to the Grantee’s continuous employment with the Company through the consummation of the Change of Control, or, if earlier, the date the Grantee experiences a Qualifying Termination.

Section 7. Payments by Award Recipients. A capital contribution in the amount of \$0.01 per Award LTIP Unit shall be payable to the Company or the Partnership by the Grantee in respect of this Award, with such amount being netted against cash compensation otherwise payable to the Grantee.

Section 8. Distributions. To the extent provided for in the Partnership Agreement, the Grantee shall be entitled to receive distributions with respect to the Award LTIP Units. The Performance-Based LTIP Units shall be designated as “Special LTIP Units” under the Partnership Agreement. In the event of any discrepancy or inconsistency between this Section 8 and the Partnership Agreement, the terms and conditions of the Partnership Agreement shall control. For purposes of this Section 8, all capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Partnership Agreement.

(a) **Time-Based LTIP Units.** The Time-Based LTIP Units shall be treated as “LTIP Units” under the Partnership Agreement and shall not be designated as “Special LTIP Units.” As of the Grant Date, the Time-Based LTIP Units shall be entitled to the full distribution payable on Units outstanding as of the record date for the quarterly distribution period during which the Time-Based LTIP Units are issued, even though it will not have been outstanding for the whole period, and to subsequent distributions. All distributions paid with respect to the Time-Based LTIP Units shall be fully vested and non-forfeitable when paid whether the underlying Time-Based LTIP Units are vested or unvested.

(b) **Performance-Based LTIP Units.** The Performance-Based LTIP Units shall be designated as “Special LTIP Units” under the Partnership Agreement. With respect to the Performance-Based LTIP Units and to the extent provided for in the Partnership Agreement, the Special LTIP Unit Full Distribution Participation Date shall be the Valuation Date; provided that prior to such date, Performance-Based LTIP Units shall be entitled to receive the Special LTIP Unit Sharing Percentage (i.e., ten percent (10%)) of the distributions payable on Units outstanding as of the record date for the quarterly distribution periods occurring during the Performance Period. For the avoidance of doubt, after the Valuation Date, Performance-Based LTIP Units, both vested and (until and unless forfeited pursuant to Section 4(b)(iv) or Section 5(a)) unvested, shall be entitled to receive the same distributions payable with respect to Units if the payment date for such distributions is after the Valuation Date, even though the Partnership Record Date for such distributions is before the Valuation Date. All distributions paid with respect to Performance-Based LTIP Units, both before and after the Valuation Date, shall be fully vested and non-forfeitable when paid, whether or not the underlying LTIP Units have been earned based on performance or have become vested based on the passage of time as provided in Section 4 hereof. Subsequent to the Special LTIP Unit Full Distribution Participation Date, vested Performance-Based LTIP Units may be entitled to receive the Interim Distribution Amount to the extent provided for in the Partnership Agreement.

Section 9. Restrictions on Transfer. None of the Award LTIP Units shall be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of or encumbered (whether voluntarily or involuntarily or by judgment, levy, attachment, garnishment or other legal or equitable proceeding) (each such action a “Transfer”), or redeemed in accordance with the Partnership Agreement (a) prior to vesting, (b) for a period of two (2) years beginning on the Grant Date other than in connection with a Change of Control, and (c) unless such Transfer is in compliance with all applicable securities laws (including, without limitation, the Securities Act, and such Transfer is in accordance with the applicable terms and conditions of the Partnership Agreement; provided that, upon the approval of, and subject to the terms and conditions specified by, the Committee, unvested Award LTIP Units that have been held for a period of at least two (2) years may be Transferred to (i) the spouse, children or grandchildren of the Grantee (“Immediate Family Members”), (ii) a trust or trusts for the exclusive benefit of the Grantee and such Immediate Family Members, (iii) a partnership in which the Grantee and such Immediate Family Members are the only partners, or (iv) one or more entities in which the Grantee has a ten percent (10%) or greater equity interest, provided that the Transferee agrees in writing with the Company and the Partnership to be bound by all the terms and conditions of this Agreement and that subsequent transfers of unvested Award LTIP Units shall be prohibited except those in accordance with this Section 9. In connection with any Transfer of Award LTIP Units, the Partnership may require the Grantee to provide an opinion of counsel, satisfactory to the Partnership, that such Transfer is in compliance with all federal and state securities laws (including, without limitation, the Securities Act). Any attempted Transfer of Award LTIP Units not in accordance with the terms and conditions of this Section 9 shall be null and void, and the Partnership shall not reflect on its records any change in record ownership of any LTIP Units as a result of any such Transfer, shall otherwise refuse to recognize any such Transfer and shall not in any way give effect to any such Transfer of any LTIP Units. This Agreement is personal to the Grantee, is non-assignable and is not transferable in any manner, by operation of law or otherwise, other than by will or the laws of descent and distribution.

Section 10. Changes in Capital Structure. Without duplication with the provisions of the Plan, if (a) the outstanding Common Shares are changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of any recapitalization, reclassification, share split, share dividend, combination or subdivision, merger, consolidation, or other similar transaction or (b) any other event shall occur that in each case in the good faith judgment of the Committee necessitates action by way of appropriate equitable adjustment in the terms of this Award, the LTIP or the LTIP Units, then the Committee shall take such action as it deems necessary to maintain the Grantee’s rights hereunder so that they are substantially proportionate to the rights existing under this Award, the LTIP and the terms of the LTIP Units prior to such event, including, without limitation: (i) adjustments in the Award LTIP Units and (ii) substitution of other awards under the Plan or otherwise. The Grantee shall have the right to vote the Award LTIP Units if and when voting is allowed under the Partnership

Agreement, regardless of whether vesting has occurred.

Section 11. Miscellaneous.

(a) Amendments; Modifications. This Agreement may be amended or modified only with the consent of the Company and the Partnership acting through the Committee; provided that any such amendment or modification materially and adversely affecting the rights of the Grantee hereunder must be consented to by the Grantee to be effective as against him; and provided, further, that the Grantee acknowledges that the Plan may be amended or discontinued in accordance with its terms and that this Agreement may be amended or canceled by the Committee, on behalf of the Company and the Partnership, for the purpose of satisfying changes in law or for any other lawful purpose, so long as no such action shall impair the Grantee's rights under this Agreement without the Grantee's written consent. Notwithstanding the foregoing, this Agreement may be amended in writing signed only by the Company to correct any errors or ambiguities in this Agreement and/or to make such changes that do not materially adversely affect the Grantee's rights hereunder. No promises, assurances, commitments, agreements, undertakings or representations, whether oral, written, electronic or otherwise, and whether express or implied, with respect to the subject matter hereof, have been made by the parties which are not set forth expressly in this Agreement. This grant shall in no way affect the Grantee's participation or benefits under any other plan or benefit program maintained or provided by the Company.

(b) Incorporation of Plan; Committee Determinations. The provisions of the Plan are hereby incorporated by reference as if set forth herein. In the event of a conflict between this Agreement and the Plan, this Agreement shall be controlling and determinative. The Committee will make the determinations and certifications required by this Award as promptly as reasonably practicable following the occurrence of the event or events necessitating such determinations or certifications.

(c) Status of LTIP Units under the Plan. Insofar as the LTIP has been established as an incentive program of the Company and the Partnership, the Award LTIP Units are both issued as equity securities of the Partnership and granted as awards under the Plan. The Company will have the right at its option, as set forth in the Partnership Agreement, to issue Common Shares in exchange for Units into which Award LTIP Units may have been converted pursuant to the Partnership Agreement, subject to certain limitations set forth in the Partnership Agreement, and such Common Shares, if issued, will be issued under the Plan. The Grantee must be eligible to receive the Award LTIP Units in compliance with applicable federal and state securities laws and to that effect is required to complete, execute and deliver certain covenants, representations and warranties (attached as Exhibit C). The Grantee acknowledges that the Grantee will have no right to approve or disapprove such eligibility determination by the Committee.

(d) Legend. If certificates are issued evidencing the Award LTIP Units, the records of the Partnership shall bear an appropriate legend, as determined by the Partnership in its sole discretion, to the effect that such Award LTIP Units are subject to restrictions as set forth herein, in the Plan and in the Partnership Agreement.

(e) Compliance with Securities Laws. The Partnership and the Grantee will make reasonable efforts to comply with all applicable securities laws. In addition, notwithstanding any provision of this Agreement to the contrary, no Award LTIP Units will become vested or be issued at a time that such vesting or issuance would result in a violation of any such laws.

(f) Investment Representations; Registration. The Grantee hereby makes the covenants, representations and warranties and set forth on Exhibit C attached hereto. All of such covenants, warranties and representations shall survive the execution and delivery of this Agreement by the Grantee. The Partnership will have no obligation to register under the Securities Act any LTIP Units or any other securities issued pursuant to this Agreement or upon conversion or exchange of LTIP Units. In addition, any resale shall be made in compliance with the registration requirements of the Securities Act or an applicable exemption therefrom, including, without limitation, the exemption provided by Rule 144 promulgated thereunder (or any successor rule).

(g) Policy for Recoupment of Incentive Compensation. "Covered Officer" means any officer of the Company who (i) is subject to the reporting requirements of Section 16 of the Exchange Act. The Company will endeavor to inform the Grantee if the Grantee is designated as a "Covered Officer," it being understood, however, that failure to notify the Grantee will have no effect on the rights of the Company under the policy. If the Grantee is a Covered Officer, the Grantee hereby agrees that this Award and all compensation consisting of annual cash bonus and long-term incentive compensation in any form (including stock options, restricted stock and LTIP Units, whether time-based or performance-based) ("Incentive Compensation") awarded to the Grantee prior to the date hereof is subject to recoupment under the Company's Corporate Governance Guidelines, as in effect from time to time. For the avoidance of doubt, the purpose and effect of the foregoing agreement by the Grantee is to make such policy effective both prospectively and retroactively. As an example, in addition to this Award, Incentive Compensation previously awarded in the past, prior to this policy being in effect, is subject to such policy and is applicable to the Grantee if he or she was a Covered Officers during any relevant period even if he or she is no longer an employee of the Company at the time the determination to recoup Incentive Compensation is made.

(h) Severability. If, for any reason, any provision of this Agreement is held invalid, such invalidity shall not affect any other provision of this Agreement not so held invalid, and each such other provision shall to the full extent consistent with law continue in full force and effect. If any provision of this Agreement shall be held

invalid in part, such invalidity shall in no way affect the rest of such provision not held so invalid, and the rest of such provision, together with all other provisions of this Agreement, shall to the full extent consistent with law continue in full force and effect.

(i) Governing Law. This Agreement is made under, and will be construed in accordance with, the laws of State of Delaware, without giving effect to the principles of conflict of laws of such state.

(j) No Obligation to Continue Position as an Employee, Consultant or Advisor. Neither the Company nor any affiliate is obligated by or as a result of this Agreement to continue to have the Grantee as an employee, consultant or advisor, and this Agreement shall not interfere in any way with the right of the Company or any affiliate to terminate the Grantee's service relationship at any time.

(k) Notices. Any notice to be given to the Company shall be addressed to the Secretary of the Company at its principal place of business and any notice to be given the Grantee shall be addressed to the Grantee at the Grantee's address as it appears on the employment records of the Company, or at such other address as the Company or the Grantee may hereafter designate in writing to the other.

(l) Withholding and Taxes. No later than the date as of which an amount first becomes includible in the gross income of the Grantee for income tax purposes or subject to the Federal Insurance Contributions Act withholding with respect to this Award, the Grantee will pay to the Company or, if appropriate, any of its affiliates, or make arrangements satisfactory to the Committee regarding the payment of, any United States federal, state or local or foreign taxes of any kind required by law to be withheld with respect to such amount. The obligations of the Company under this Agreement will be conditional on such payment or arrangements, and the Company and its affiliates shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to the Grantee.

(m) Headings. The headings of paragraphs hereof are included solely for convenience of reference and shall not control the meaning or interpretation of any of the provisions of this Agreement.

(n) Counterparts. This Agreement may be executed in multiple counterparts with the same effect as if each of the signing parties had signed the same document. All counterparts shall be construed together and constitute the same instrument.

(o) Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and any successors to the Company and the Partnership, on the one hand, and any successors to the Grantee, on the other hand, by will or the laws of descent and distribution, but this Agreement shall not otherwise be assignable or otherwise subject to hypothecation by the Grantee.

(p) Complete Agreement. This Agreement (together with those agreements and documents expressly referred to herein, for the purposes referred to herein) embody the complete and entire agreement and understanding between the parties with respect to the subject matter hereof, and supersede any and all prior promises, assurances, commitments, agreements, undertakings or representations, whether oral, written, electronic or otherwise, and whether express or implied, which may relate to the subject matter hereof in any way.

[Signature page follows]

IN WITNESS WHEREOF, the undersigned have caused this Award Agreement to be executed as of the [__] day of February, 2018.

ACADIA REALTY TRUST

By: _____

411 Theodore Fremd Avenue
Suite 300
Rye, NY 10580

ACADIA REALTY LIMITED PARTNERSHIP

By: Acadia Realty Trust, its general partner

By: _____

411 Theodore Fremd Avenue
Suite 300
Rye, NY 10580

GRANTEE

[Name]

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO RULE 13a - 14(a)
(SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002)

I, Kenneth F. Bernstein, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Acadia Realty Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Kenneth F. Bernstein

Kenneth F. Bernstein

President and Chief Executive Officer

October 29, 2018

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO RULE 13a - 14(a)
(SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002)

I, John Gottfried, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Acadia Realty Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ John Gottfried

John Gottfried

Senior Vice President and
Chief Financial Officer

October 29, 2018

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350
(SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)

In connection with the Quarterly Report on Form 10-Q of Acadia Realty Trust (the "Company") for the quarter ended September 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kenneth F. Bernstein, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ Kenneth F. Bernstein

Kenneth F. Bernstein
President and Chief Executive Officer
October 29, 2018

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350
(SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)

In connection with the Quarterly Report on Form 10-Q of Acadia Realty Trust (the “Company”) for the quarter ended September 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John Gottfried, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

/s/ John Gottfried

John Gottfried

Senior Vice President and
Chief Financial Officer

October 29, 2018