Unique strategies. Long-term vision.

Acadia Realty Trust Annual Report 2004

Financial Highlights

Acadia Realty Trust (NYSE: AKR), headquartered in White Plains, NY, is a fully integrated and self-managed real estate investment trust ("REIT") which specializes in the acquisition, redevelopment and operation of shopping centers which are anchored by necessity-based and value-oriented retail. Acadia currently owns, or has ownership interests in, and operates 69 properties totaling approximately 9.6 million square feet, located primarily in the Northeast, Mid-Atlantic and Midwest United States.

In thousands	**2004**	2003[1]	2002[1]	2001[1]	2000[1]
Total Revenues	**$ 72,856**	$ 67,847	$ 67,055	$ 58,517	$ 60,628
Funds from Operations[2]	**$ 30,004**	$ 27,664	$ 30,162	$ 13,487	$ 31,789
Real Estate Owned, at Cost	**$ 422,177**	$414,138	$400,538	$385,103	$374,422
Common Shares Outstanding	**31,341**	27,409	25,257	28,698	28,150
Operating Partnership Units Outstanding	**392**	1,139	3,163	5,250	6,804

[1] Amounts for 2000 through 2003 have been restated to reflect the activity and balances from continuing operations only. Consistent with Statement of Financial Accounting Standards No. 144, the results of operations as well as the assets and liabilities of the sold properties are reported separately as discontinued operations in the Company's consolidated financial statements.

[2] 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 and depreciation and amortization. However, our method of calculating FFO may be different from methods used by other REITs and, accordingly, may not be comparable to such other REITs. FFO does not represent cash generated from operations as defined by generally accepted accounting principles ("GAAP") and is not indicative of cash available to fund all cash needs, including distributions. It should not be considered as an alternative to net income for the purpose of evaluating our performance or to cash flows as a measure of liquidity. Consistent with the NAREIT definition, we define FFO as net income (computed in accordance with GAAP), excluding gains (losses) from sales of depreciated property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. See *Management's Discussion and Analysis of Financial Condition and Results of Operations – Funds from Operations* for the reconciliation of net income to FFO.

To Our Shareholders

Elmwood Park Shopping Center, Elmwood Park, NJ

Brandywine Town Center, Brandywine, PA

2004 was a year of significant achievement for Acadia. The following four key components of our business strategy all contributed to our strong performance:

- Refining and maximizing the value of our portfolio
- Creating a highly profitable external growth platform
- Maintaining a solid, safe balance sheet and highly flexible and liquid financial position
- Assembling a management team with the expertise and passion to deliver results.

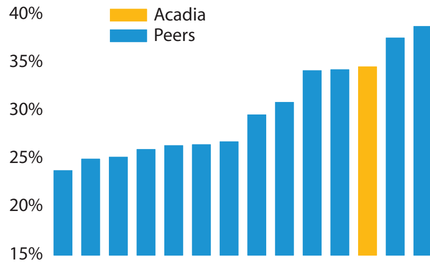
Our continuous goal since inception has been to maximize shareholder value through the aggressive implementation of these key areas.

Kenneth F. Bernstein
President and CEO

Solid Core Portfolio

Throughout 2004, we continually refined the composition of our portfolio through the aggressive leasing, redevelopment, and disposition of assets. Our leasing and redevelopment team did a tremendous job last year increasing our occupancy by 4.7% to 92.3% — an all-time high for Acadia. Additionally, we were able to improve our same store Net Operating Income (NOI) by 3.9% — a difficult feat given the amount of income in our portfolio that is derived from long-term, fixed rate leases. Looking to 2005, we will continue to refine the portfolio by maintaining well located, high barrier-to-entry locations that can drive long-term growth and stability.

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



Safeway Center, San Ramon, CA

External Growth Platform

One of the fundamental drivers for increasing shareholder value is our ability to increase earnings through profitable external growth initiatives. We are fortunate to have an investment team that has consistently proven themselves as well as institutional investors who believe in our ability to generate superior returns and who provide us access to highly accretive, discretionary capital for our acquisition program.

In 2004, we launched Acadia Strategic Opportunity Fund II ("Fund II") with $300M of discretionary equity. Through Fund II, we are focusing on two very important strategic initiatives. The first is our Urban/In-fill program. Retailers are beginning to recognize that many of the nation's urban markets are underserved from a retail standpoint; we aim to capitalize on this trend by investing in redevelopment projects in dense, urban areas where tenant demand has greatly surpassed the supply of available sites. No urban market exemplifies this supply/demand dynamic more than New York City. Thus in 2004, we teamed up with P/A Associates to launch the New York City portion of our Urban/In-fill platform. Last year we acquired two redevelopments in New York and in 2005 we expect to initiate additional projects that fit our criteria.

The second growth vehicle is our Retailer Controlled Property Venture ("RCP Venture"). The goal of this venture is to acquire interests in underlying real estate owned or controlled by major retailers and working with the retailers to maximize the value of their real estate. The investment community is beginning to realize that some of the most valuable retail real estate is controlled by retailers. Our RCP Venture with Klaff Realty and Lubert-Adler enables us to participate in this highly profitable business.

Both our Urban/In-fill program and our RCP Venture were implemented in 2004 and will make important contributions to our bottom line in 2005 and for years to come.

Strong Balance Sheet

In 2004, we announced a healthy 7.8% dividend increase. Over the past years we have been able to increase our dividend on a cumulative basis, by 44%. In 2004, we continued to maintain a highly disciplined approach to our capital structure with a debt to market capitalization ratio of 30%. Furthermore, with the anticipation of rising interest rates, we increased our fixed rate debt to 94%, while still maintaining an average interest rate of 5.9%. In addition, our liquidity has never been stronger. With lines of credit and access to the discretionary capital available through Fund II, we are very well positioned to move quickly to acquire properties that meet our strict underwriting criteria.

Crescent Plaza, Brockton, MA

Gateway Shopping Center, South Burlington, VT

Bloomfield Town Square, Bloomfield Hills, MI

Finally and most telling, due to our fiscal discipline, we continue to maintain a conservative dividend payout ratio, giving our investors further assurance that we not only have a high-quality dividend stream, but one with room to grow.

Strong Management Team

I have always believed that it is extremely critical for any successful company to build a smart, passionate, and experienced management team. When our employees walk into our offices each day, they read a sign that says "integrity, intensity and intelligence." At Acadia, we foster an environment that not only maximizes performance, but affords our associates the opportunity to learn and grow within the company. I am in awe of the energy and dedication of our team, and honored to lead them. Complementing our strong management team is a thoughtful, engaged and very independent board. As a shareholder, I am grateful for the important contribution that each member has made to our success.

New Loudon Center, Latham, NY (suburb of Albany)

Last year, Acadia was able to achieve our objectives and as a result, we continued to provide strong results for our shareholders, as evidenced by a total return of 36% in 2004. More importantly, over the past five years, we have been able to generate total returns for our shareholders averaging 37% per year, putting our performance in the upper echelon of the REIT universe.

Pacesetter Park Shopping Center, Pomona, NY

I am extremely proud of our many accomplishments in 2004, and look forward to implementing strategies to continually adapt to the ever-changing retail real estate environment and to create maximum value for our shareholders.

On behalf of our team, I would like to thank you for your continued confidence and support.

Kenneth F. Bernstein
President and CEO

Continual refinement and improvement

Enhancing our core portfolio

We have built a solid portfolio totaling more than 8.4 million square feet of retail assets primarily anchored by necessity-based or value-oriented retailers. Our objective is to optimize the portfolio composition with an increasing emphasis on shopping centers located in dense, high barrier-to-entry markets. Over the long-term, those centers situated in highly populated areas tend to outperform their more rural peers.

The overall occupancy rate within our wholly-owned portfolio, at year-end 2004 was 92.3% representing a 4.7% increase in occupancy over the previous year — our highest occupancy level since the formation of Acadia in 1998. During 2004, our occupancy gains helped drive our "same store" NOI by almost 4%.

Through the strategic refinement of tenant mix, proactive and tenant-driven redevelopments and through selective and opportunistic dispositions, we are continually improving the composition of the portfolio to create the platform for quality-oriented FFO growth.

An example of our 2004 accomplishments in these areas include the redevelopment of our Rocky Hill, Connecticut property as shown below. We replaced a former A & P supermarket at Town Line Plaza with a 66,000 square foot Super Stop & Shop grocery store. Not only did we realize a 28% increase in rent, but also created a much stronger shopping center tenant mix. This 206,000 square foot shopping center is also co-anchored by Wal-Mart.

Selective/Opportunistic Disposition

In addition to strengthening our portfolio through proactive redevelopment and re-tenanting strategies, when appropriate, we also dispose of assets that no longer fit our portfolio strategy. For example, in 2004, we sold our East End Centre located in Wilkes-Barre, PA at a 5.6% capitalization rate. The profitable pruning of riskier or low-growth properties helps contribute to both our earnings growth as well as the overall quality of our portfolio.

Town Line Plaza, Rocky Hill, CT. Replaced existing anchor with a new 66,000 square foot Super Stop & Shop.

Abington Towne Center, Philadelphia, PA
Multi-level 157,000 square foot Target.

Fordham Place — High profile, mixed-use redevelopment in the heart of The Bronx, NY.

239 Greenwich Avenue, Greenwich, CT
33,000 square foot multi-level property anchored by Restoration Hardware.

One of our key value-added strategies is an exciting Urban/In-fill acquisition and redevelopment program. We believe that the redevelopment of high barrier-to-entry, urban real estate provides our investors and shareholders with a very attractive investment opportunity on a risk-adjusted basis. We are targeting the acquisition of those properties where our redevelopment capability provides the opportunity for national, big-box retailers to enter these substantially underserved markets. According to the International Council of Shopping Centers, the average retail square footage per capita in the United States is now in excess of 20 square feet per person. In contrast, the per capita retail square footage in the boroughs of New York is slightly over 5 square feet per capita. National retailers are recognizing that the strong sales potential in these markets outweighs the difficulties in finding locations and doing business in an urban environment, even if they have to compromise on what were previously deemed “sacred” issues, such as parking fields and store configuration. Our competitive advantage in this arena lies in our familiarity with the redevelopment process and our tenant relationships.

Urban/In-fill: Stacked in our favor

Fordham Place, Bronx, NY

In September 2004, we purchased 400 East Fordham Road in The Bronx, NY, in conjunction with our partners, P/A Associates. This six-story property, a multi-level retail and commercial building, is located on Fordham Road, the strongest retail market in The Bronx and the third strongest retail market in New York City. The market boasts over 650,000 people in a two-mile radius and retail sales in excess of $500 million. The property is currently anchored by a Sears department store. We intend to redevelop the property into a multi-level project including retail and some office, thus creating a dominant retail presence in this vibrant market.

Pelham Manor, NY

In October of 2004, Acadia signed a long-term ground lease to redevelop a 16-acre site currently improved with warehouse space. The property is located on the border of New York City and Westchester County, approximately 10 miles from Manhattan. The redevelopment contemplates demolition of the existing warehouse buildings, which will be replaced by a 200,000+ square foot, multi-anchor community retail center.

Pelham Manor Shopping Plaza, Pelham Manor, NY (suburb of NYC). Redevelopment rendering.

Rethinking
the
“big box”

RCP

[Retailer Controlled Property]

AKR

[Acadia Realty Trust]

ROI

[Positive Return on Investment]

Our RCP venture is an important part of our acquisition strategy

Making opportunistic acquisitions

Our second growth strategy, the RCP Venture, formed in 2004 in conjunction with our partners at Klaff Realty and Lubert-Adler, was created to acquire real estate owned by retailers, or jointly developing sites with those retailers in order to maximize value. These opportunities may come from financially healthy retailers or through the bankruptcy process.

With the abundance of capital and investor groups competing for stable, cash-flowing shopping centers, strip center prices are continuing to increase, making projected returns less attractive. While there may be too much capital chasing too few deals with respect to shopping centers in general, there are far fewer buyers with the ability and levels of capital necessary to compete for the more complex transactions that are characteristic of our RCP Venture.

We believe that our competitive advantage in this acquisition arena lies in the strength and expertise of our joint venture partners, our ability to leverage existing tenant relationships and our redevelopment expertise. Recently, Acadia announced that its RCP Venture was a participant in the acquisition of the 257-store Mervyn's department store chain from the Target Corporation. We look forward to continuing to grow this platform as certain segments of the retail sector continue to consolidate.

As is the case with both our RCP Venture and our Urban/In-fill program, Acadia's acquisition team prides itself on its ability to uncover unique and highly profitable investment opportunities. Once these opportunities are identified, Acadia's experienced leasing, construction and redevelopment teams ensure timely and effective execution of these value-added acquisitions. Having the ability to identify and execute on these types of investments ensures that Acadia can continue to create long-term value even in this highly competitive marketplace.

Acadia is a participant in the acquisition of the 257-store Mervyn's department store chain.

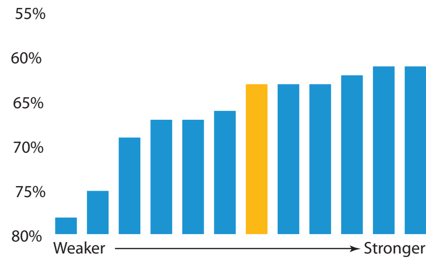
Acadia completed a $20 million equity investment in a 2.5 million square foot portfolio of properties leased to Levitz Furniture stores.

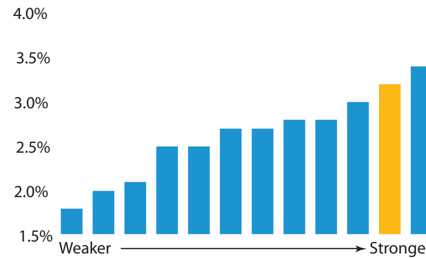
The Mervyn's investment consortium also includes Lubert-Adler, Klaff Realty, Cerberus, and Sun Capital.

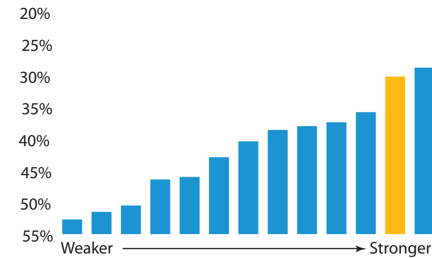
Acadia versus Shopping Center REIT Sector

Based on a combination of commonly used financial metrics, Acadia ranks among the strongest in our peer group.

Acadia
Peers







Balance Sheet

For many years, our strong balance sheet has served as the financial foundation for the successful operation and redevelopment of our core portfolio and as a solid platform providing ample capital for our external growth initiatives. In 2004, we further strengthened our balance sheet, which was already one of the strongest in our peer group.

Proactive Management of Debt

Our balance sheet continues to benefit from our disciplined and forward-thinking use of debt. Given historically low long-term interest rates and a clear risk of rising rates in the future, we significantly reduced our variable-rate debt exposure and extended the maturities of our fixed-rate debt at favorable rates during 2004. We accomplished this while maintaining a low average cost of portfolio debt, below 6%.

We have made significant progress since 2000, when our variable rate debt exceeded 25% of our total market capitalization. At the beginning of 2004, it was 6% — now it is only 2%. This very low exposure protects us from the potential earnings impact associated with rising rates. We accomplished this by locking in favorable long-term rates and extending maturities on $109 million, or 51% of our debt portfolio, inclusive of our pro-rata share of joint venture debt and interest rate swaps. At the beginning of 2004, our average maturity was four years — now it is seven years.

In 2001, our ratio of debt to total market capitalization reached a high of 55%. We have since decreased this to almost half. At the beginning of 2004 our debt to total market capitalization was 39% — now it is 30%. Another important industry leverage ratio is fixed charge coverage (EBITDA/interest rate expense and preferred distributions). Ours is among the highest in our peer group at 3.2 times.

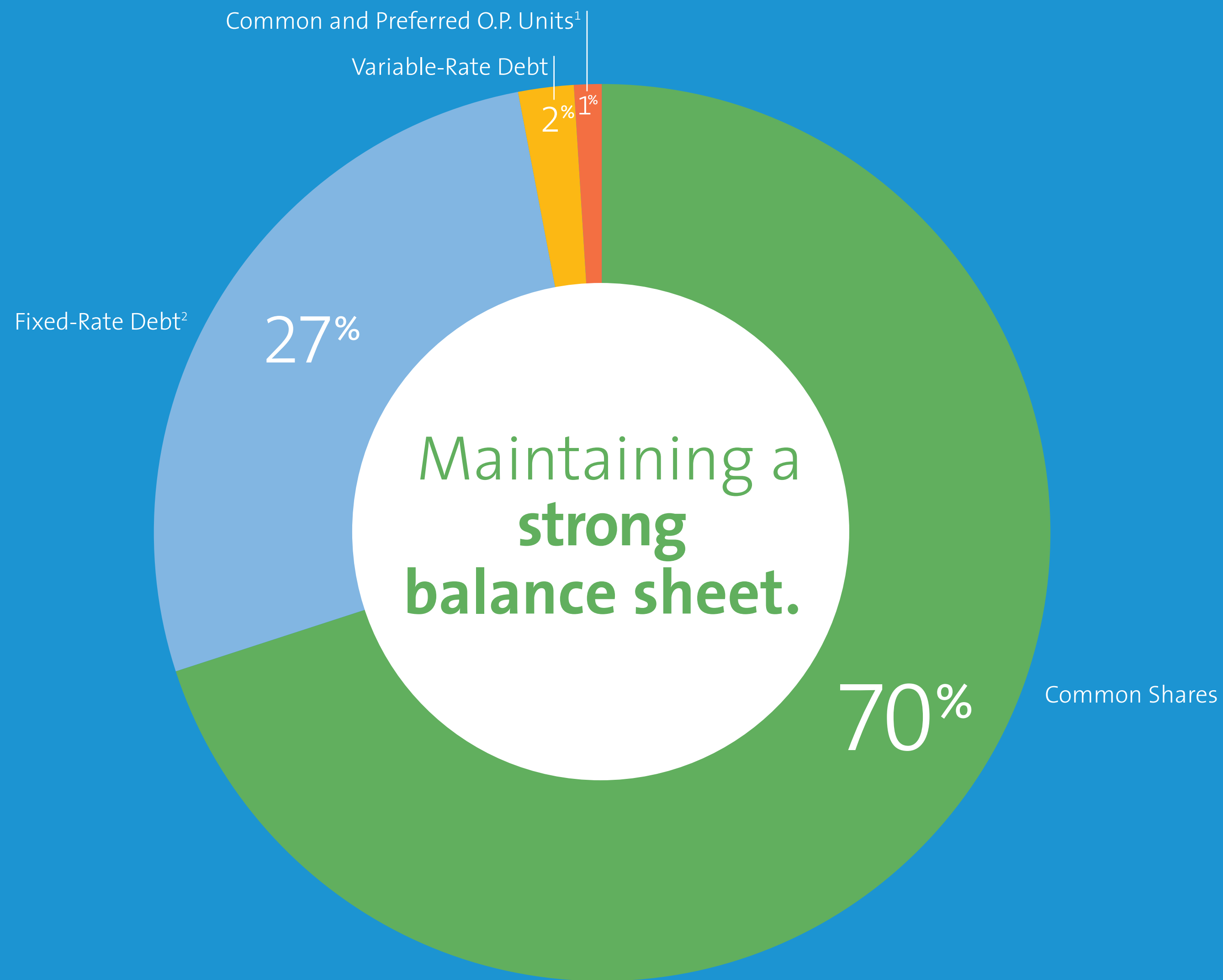
Access to Equity

In 2004, we accessed the public capital markets for approximately $28 million. We believe that it is prudent to be extremely disciplined in this area. We have also found that utilizing our strong institutional capital relationships can enable us to leverage our shareholder equity much more effectively than if we were to rely solely on public capital sources. In 2004, we launched our second acquisition joint venture, Fund II, with an additional $240 million of institutional capital and $60 million of internal capital. Having alternative sources of equity enables us to access sufficient equity to fuel our future growth.

Maintaining a Safe and Growing Dividend

Our conservative dividend policy has been essential to our continued financial strength and to our shareholders. Commencing for the fourth quarter of 2004, we raised our dividend 7.8%. More importantly, we have been able to grow our dividend by over 44%, on a cumulative basis, over the past three fiscal years, while continuously maintaining a conservative payout ratio.

In terms of our debt and equity structure as well as our prudent dividend policy, 2004 saw our already strong balance sheet become stronger than ever.



[1] In connection with the acquisition of the Pacesetter Park Shopping Center in 1999, the Company issued 2,212 Preferred OP Units, of which 632 have been converted to Common OP Units to date. The remaining Preferred OP Units are reflected above at their stated cost of $1,000 per unit. Also includes $4,000 of Preferred OP Units issued to Klaff L.P. related to the acquisition of management contracts.

[2] Fixed-rate debt includes notional principal fixed through interest rate swap transactions and conversely, variable-rate debt excludes this amount.

MN
MI
NY
VT
MA
CT
RI
PA
IL
IN
OH
NJ
DE
VA
NC
AR
SC

Headquarters
Regional Offices
Core Properties
RCP Properties (Levitz)
Fund Properties
Kroger/Safeway Properties

Acadia Locations

Core Properties

239 Greenwich Avenue
Greenwich, CT

Town Line Plaza
Rocky Hill, CT

Hobson West Plaza
Naperville, IL

Merrillville Plaza
Hobart, IN

Crescent Plaza
Brockton, MA

Methuen Shopping Center
Methuen, MA

Bloomfield Town Square
Bloomfield Hills, MI

Berlin Shopping Center
Berlin, NJ

Elmwood Park Shopping Center
Elmwood Park, NJ

Ledgewood Mall
Ledgewood, NJ

Marketplace of Absecon
Absecon, NJ

Bartow Avenue
Bronx, NY

The Branch Plaza
Smithtown, NY

New Loudon Center
Latham, NY

Pacesetter Park Shopping Center
Pomona, NY

Soundview Marketplace
Port Washington, NY

Village Commons Shopping Center
Smithtown, NY

Crossroads Shopping Center
White Plains, NY

Mad River Station
Dayton, OH

Abington Towne Center
Abington, PA

Blackman Plaza
Wilkes-Barre, PA

Bradford Towne Centre
Towanda, PA

Greenridge Plaza
Scranton, PA

Luzerne Street Shopping Center
Scranton, PA

Mark Plaza
Edwardsville, PA

Pittston Plaza
Pittston, PA

Plaza 422
Lebanon, PA

Route 6 Mall
Honesdale, PA

Walnut Hill Plaza
Woonsocket, RI

The Gateway Shopping Center
South Burlington, VT

Fund Properties

Brandywine Town Center
Wilmington, DE

Market Square Shopping Center
Wilmington, DE

Sterling Heights Shopping Center
Sterling Heights, MI

Fordham Place
Bronx, NY

Pelham Manor Shopping Plaza
Pelham, NY

Tarrytown Centre
Tarrytown, NY

Amherst Marketplace
Amherst, OH

Granville Center
Columbus, OH

Sheffield Crossing
Sheffield, OH

Hitchcock Plaza
Aiken, SC

Haygood Shopping Center
Virginia Beach, VA

Kroger/Safeway Locations
Cary, NC
Atlanta, TX
Cincinnati, OH
Batesville, AR
Conroe, TX
Benton, AR
Great Bend, KS
Carthage, TX
Hanrahan, LA
Little Rock, AR
Indianapolis, IN
Longview, WA
Irving, TX
Mustang, OK
Pratt, KS
Roswell, NM
Roanoke, VA
Ruidoso, NM
Shreveport, LA
San Ramon, CA
Wichita, KS (2 stores)
Springerville, AZ
Tucson, AZ
Tulsa, OK

Headquarters

White Plains, NY

Regional Offices

Dayton, OH
Edwardsville, PA
Woonsocket, RI

Trustees and Officers

Trustees

Kenneth F. Bernstein
President and Chief Executive Officer

Douglas Crocker II
Former Chief Executive Officer, Equity Residential

Alan S. Forman
Director of Investments Office
Yale University

Suzanne M. Hopgood
President and Chief Executive Officer
The Hopgood Group, LLC

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

Wendy Luscombe
President and CEO
WKL Associates, Inc.

Lee S. Wielansky *(Lead Trustee)*
Chairman of the Board and Chief Executive Officer, Midland Development Group Inc.

Senior Officers

Kenneth F. Bernstein
President and Chief Executive Officer

Joel Braun
Sr. Vice President,
Chief Investment Officer

Joseph Hogan
Sr. Vice President,
Director of Construction

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

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

Michael Nelsen
Sr. Vice President,
Chief Financial Officer

Joseph Povinelli
Sr. Vice President,
Director of Leasing

Shareholder Information

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

Internet Address
Visit us online at **www.acadiarealty.com** for more information about Acadia Realty Trust and its real estate portfolio. The 2004 Annual Report is available online, as well as current news and quarterly financial and operational supplementary information.

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

Annual Meeting
Acadia's Board of Trustees has scheduled the Annual Shareholders Meeting for Wednesday, May 18, 2005 at 9:30 AM, local time, to be held at the offices of Paul, Hastings, Janofsky & Walker, LLP, Park Avenue Tower, 75 East 55th Street, New York, NY 10022. The record date for determination of shareholders entitled to vote is March 31, 2005.

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

Stock Exchange
NYSE: AKR

The Company has filed the Section 302 certifications as an exhibit to its Form 10-K, and the Chief Executive Officer has provided the annual certification to the NYSE.

Transfer Agent and Registrar
American Stock Transfer & Trust Company
59 Maiden Lane
Plaza Level
New York, NY 10038
Tel: 877.777.0800
website: www.amstock.com
email: info@amstock.com

Investor Relations
Jon Grisham
Vice President
Chief Accounting Officer
Tel: 914.288.8100
email: jgrisham@acadiarealty.com

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

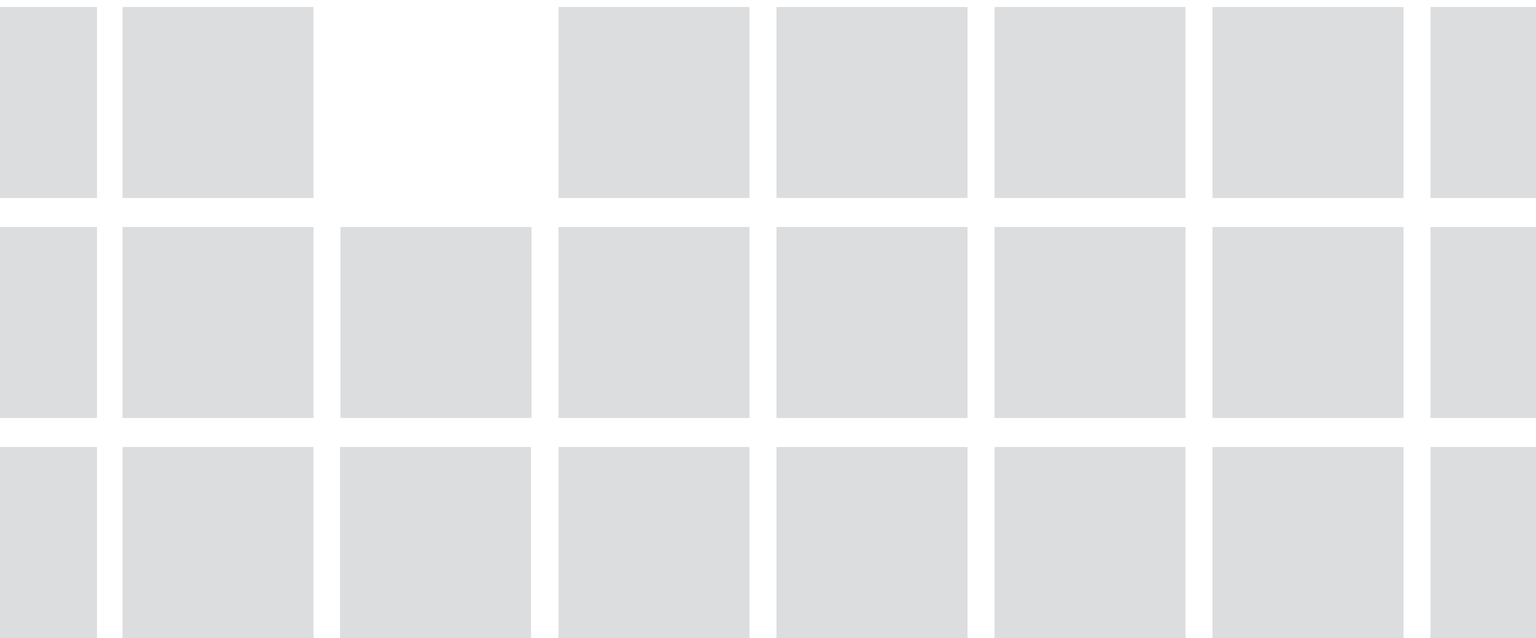
Dividend Reinvestment
Acadia Realty Trust offers a dividend reinvestment plan that enables its shareholders to automatically reinvest dividends as well as make voluntary cash payments toward the purchase of additional shares. To participate, contact Acadia Realty Trust's dividend reinvestment agent at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

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

For further information contact Investor Relations.

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

Unique strategies. Long-term vision.



Acadia Realty Trust. Selected Financials 2004

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Management's Discussion and Analysis

Financial Condition and Results of Operations

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

Overview

The Company currently operates 69 properties, which it owns or has an ownership interest in, consisting of 64 neighborhood and community shopping centers, one shopping center under development, one enclosed mall, one mixed-use property (retail/residential) and two multi-family properties, which are located primarily in the Northeast, Mid-Atlantic and Midwestern regions of the United States and, in total, comprise approximately 9.6 million square feet. The Company receives income primarily from the rental revenue from its properties, including recoveries from tenants, offset by operating and overhead expenses.

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

- Focus on maximizing the return on its existing portfolio through leasing and property redevelopment activities. The Company's redevelopment program is a significant and ongoing component of managing its existing portfolio and focuses on selecting well-located neighborhood and community shopping centers and creating significant value through re-tenanting and property redevelopment.
- Pursue above-average returns though a disciplined and opportunistic acquisition program. The primary conduits for the Company's acquisition program are through its existing acquisition joint ventures, Acadia Strategic Opportunity Fund, LP ("Fund I") and Acadia Strategic Opportunity Fund II, LLC ("Fund II"), as well as the Retailer Controlled Property Venture ("RCP Venture") established to invest in surplus or underutilized properties owned or controlled by retailers and the New York Urban Infill Redevelopment initiative which focuses on investing in redevelopment projects in urban, dense areas where retail tenant demand has effectively surpassed the supply of available sites.
- Maintain a strong balance sheet, which provides the Company with the financial flexibility to fund both property redevelopment and acquisition opportunities.

Results of Operations

Comparison of the year ended December 31, 2004 ("2004") to the year ended December 31, 2003 ("2003")

Total revenues increased $5.0 million to $72.8 million for 2004 compared to $67.8 million for 2003.

Minimum rents increased $2.6 million, or 5%, to $51.5 million for 2004 compared to $48.9 million for 2003. This increase was attributable to an increase in rents following the redevelopment of the Gateway shopping center in 2003 and an increase in rents from re-tenanting activities as well as increased occupancy across the portfolio.

In total, expense reimbursements increased $0.1 million, or 1%, from $13.2 million for 2003 to $13.3 million for 2004. Real estate tax reimbursements increased $0.4 million primarily as a result of general increases in real estate taxes as well as re-tenanting activities throughout the portfolio. Common area maintenance ("CAM") expense reimbursements decreased $0.3 million, or 4%, from

$6.4 million in 2003 to $6.1 million in 2004. This resulted primarily from tenant reimbursements of lower snow removal costs in 2004 offset by increased tenant reimbursements following re-tenanting activities across the portfolio.

Management fee income increased $2.8 million, or 142%, to $4.8 million in 2004 from $2.0 million in 2003. This was the result of asset management fees from Fund II and an increase in management fees related to the acquisition of certain management contract rights in 2004.

Interest income increased in 2004 by $0.7 million. This net change was a combination of additional interest income on the Company's advances and notes receivable originated in 2004 offset by lower interest earning cash deposits in 2004.

Other income decreased $1.0 million, from $1.2 million in 2003 to $0.2 million in 2004. This was primarily due to a lump sum additional rent payment of $1.2 million received from a former tenant during 2003 in connection with the re-anchoring of the Branch Plaza.

Total operating expenses decreased $1.2 million, or 2%, to $50.1 million for 2004, from $51.3 million for 2003.

Property operating expenses increased $0.2 million, or 1%, to $14.9 million for 2004 compared to $14.7 million for 2003. This was a result primarily of a non-recurring charge of approximately $0.7 million related to flood damage at the Mark Plaza in 2004 offset by higher snow removal costs during 2003.

Real estate taxes increased $0.5 million, or 7%, from $8.5 million in 2003 to $9.0 million in 2004. This increase was primarily attributable to a real estate tax refund received in 2003 related to the appeal of taxes paid in prior years at the Greenridge Plaza and higher real estate taxes throughout the portfolio in 2004.

General and administrative expense decreased $0.2 million, or 2%, from $10.7 million for 2003 to $10.5 million for 2004. This decrease was primarily the result of certain employee termination costs and the Company's capitalization of internal leasing costs in 2004 offset by additional professional fees related to Sarbanes-Oxley compliance in 2004.

Depreciation and amortization decreased $1.7 million, or 10%, from $17.4 million for 2003 to $15.7 million for 2004. Depreciation expense decreased $2.5 million. This was a result of the write-off of $2.7 million of unamortized tenant improvement costs related to the buyout and termination of the former anchor at the Town Line Plaza redevelopment project in 2003. This decrease was offset by increased depreciation expense in 2004 following the Gateway redevelopment project being placed in service during the second quarter of 2003. Amortization expense increased $0.8 million primarily as a result of the amortization of investment in management contracts in 2004.

Interest expense of $10.4 million for 2004 increased $0.5 million, or 5%, from $9.9 million for 2003. This was primarily attributable to an increase of $0.4 million as a result of higher average interest rates on the portfolio debt for 2004 and a decrease of $0.1 million in capitalized interest in 2004.

Income from discontinued operations increased $6.6 million due to a property sale in 2004.

Comparison of the year ended December 31, 2003 ("2003") to the year ended December 31, 2002 ("2002")

Total revenues increased $0.8 million to $67.8 million for 2003 compared to $67.0 million for 2002.

Minimum rents increased $2.3 million, or 5%, to $48.9 million for 2003 compared to $46.6 million for 2002. This increase was attributable to an increase in rents following the redevelopment of the Elmwood Park and Gateway shopping centers and an increase in rents from re-tenanting activities and renewals of tenant leases across the portfolio. These increases were partially offset by a decrease in rents following Ames Department Stores' bankruptcy.

In total, expense reimbursements increased $2.2 million, or 20%, from $11.0 million for 2002 to $13.2 million for 2003. CAM expense reimbursements increased $1.7 million, or 38%, from $4.5 million in 2002 to $6.2 million in 2003. This resulted primarily from tenant reimbursements of higher snow removal costs following the harsh winter of 2003 as well as tenant reimbursements of higher insurance costs throughout the portfolio. Real estate tax reimbursements increased $0.5 million primarily as a result of the variance in real estate tax expense as discussed below.

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

Management fee income increased $0.7 million, or 50%, to $2.0 million in 2003 from $1.3 million in 2002. This increase was the result of an increase in management fee income received from Fund I in 2003 as a result of the acquisition of the Ohio Portfolio in September 2002 and the Brandywine and Kroger/Safeway Portfolios in January of 2003.

Interest income decreased $1.3 million, or 62%, from $2.1 million in 2002 to $0.8 million in 2003. This decrease was attributable to a decrease in interest income during 2003 due to lower interest earning assets, including cash investments and notes receivable, as well as the decline in interest rates.

Other income increased $0.7 million, or 141%, to $1.2 million in 2003 from $0.5 million in 2002. This was primarily due to a lump sum additional rent payment of $1.2 million received from a former tenant during 2003 in connection with the re-anchoring of the Branch Plaza partially offset by the settlement of claims against certain tenants in 2002.

Total operating expenses increased $6.6 million, or 15%, to $51.3 million for 2003, from $44.7 million for 2002.

Property operating expenses increased $2.8 million, or 23%, to $14.7 million for 2003 compared to $11.9 million for 2002. This was a result of higher snow removal costs due to the harsh winter of 2003 and higher insurance costs throughout the portfolio.

Real estate taxes increased $0.4 million, or 5%, from $8.1 million in 2002 to $8.5 million in 2003. This increase was attributable to higher real estate taxes experienced generally throughout the portfolio and a 2002 adjustment of accrued real estate taxes for an acquired property. These increases were primarily offset by a real estate tax refund agreed to in 2003 related to the appeal of taxes paid in prior years at the Greenridge Plaza.

General and administrative expense increased $0.5 million, or 6%, from $10.2 million for 2002 to $10.7 million for 2003. This increase was primarily attributable to stock-based compensation. These increases were offset by additional costs paid in 2002 related to the Company's tender offer and repurchase of its Common Shares.

Depreciation and amortization increased $3.2 million, or 22%, from $14.2 million for 2002 to $17.4 million for 2003. Depreciation expense increased $3.6 million. This was a result of the write-off of $2.7 million of unamortized tenant improvement costs related to the buyout and termination of the former anchor at the Town Line Plaza redevelopment project. In addition, depreciation expense increased following the Elmwood Park redevelopment project being placed in service during the fourth quarter of 2002 and the Gateway project being placed in service during the first quarter of 2003. Amortization expense decreased $0.4 million, which was primarily attributable to the write-off of deferred leasing costs during 2002 related to certain tenant leases.

Interest expense of $9.9 million for 2003 increased $0.2 million, or 2%, from $9.7 million for 2002. This was primarily attributable to a decrease of $0.5 million in capitalized interest in 2003 and a $0.2 million increase in interest expense as a result of higher average interest rates on the portfolio debt for 2003. These increases were offset by a $0.5 million decrease resulting from lower average outstanding borrowings during 2003.

Income from discontinued operations decreased $8.6 million due to property sales in 2002.

Funds from Operations

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

Company's performance or to cash flows as a measure of liquidity.

Consistent with the NAREIT definition, the Company defines FFO as net income (computed in accordance with GAAP), excluding gains (losses) from sales of depreciated property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. The reconciliations of net income to FFO for the years ended December 31, 2004, 2003, 2002, 2001 and 2000 are as follows:

Reconciliation of Net Income to Funds from Operations

	Years Ended December 31,				
	2004	2003	2002	2001	2000
Net income	**$ 19,585**	$ 7,853	$19,399	$ 9,802	$19,907
Depreciation of real estate and amortization of leasing costs:					
Wholly owned and consolidated partnerships	**14,411**	16,957	15,305	18,422	19,325
Unconsolidated partnerships	**2,329**	2,107	662	627	625
Income attributable to minority interest in operating partnership[1]	**375**	747	2,928	2,221	5,674
(Gain) loss on sale of properties	**(6,696)**	—	(8,132)	(17,734)	(13,742)
Cumulative effect of change in accounting principle	**—**	—	—	149	—
Funds from operations	**$30,004**	$27,664	$ 30,162	$13,487	$ 31,789

Notes:

[1]Represents income attributable to Common Operating Partnership ("OP") Units and does not include distributions paid to Series A and B Preferred OP Unitholders.

Liquidity and Capital Resources

Uses of Liquidity

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

Distributions

In order to qualify as a REIT for Federal income tax purposes, the Company must currently distribute at least 90% of its taxable income to its shareholders. For the first three quarters during 2004, the Company paid a quarterly dividend of $0.16 per Common Share and Common OP Unit. In December of 2004, the Board of Trustees approved and declared a 7.8% increase in the Company's quarterly dividend to $0.1725 per Common Share and Common OP Unit for the fourth quarter of 2004 which was paid January 14, 2005. On February 4, 2005, the Board of Trustees approved and declared a quarterly dividend of $0.1725 per Common Share and Common OP Unit payable April 15, 2005 to shareholders and OP unitholders of record as of March 31, 2005.

Acadia Strategic Opportunity Fund, LP ("Fund I")

In September of 2001, the Company committed $20.0 million to a newly formed joint venture formed with four of its institutional shareholders, who committed $70.0 million, for the purpose of acquiring a total of approximately $300.0 million of community and neighborhood shopping centers on a leveraged basis.

The Company is the manager and general partner of Fund I with a 22% interest. In addition to a pro-rata return on its invested equity, the Company is entitled to a profit participation based upon certain investment return thresholds. Cash flow is to be distributed pro-rata to the partners (including the Company) until they have received a 9% cumulative return on, and a return of all capital contributions. Thereafter, remaining cash flow is to be distributed 80% to the partners (including the Company) and 20% to the Company. The Company also earns a fee for asset management services equal to 1.5% of the total equity commitments, as well as market-rate fees for property management, leasing and construction services.

To date, Fund I has purchased a total of 35 assets totaling 2.7 million square feet. Details of these are as follows:

2004 Acquisitions

On March 11, 2004, Fund I, in conjunction with the Company's long-time investment partner, Hendon Properties ("Hendon"), purchased a $9.6 million first mortgage loan from New York Life Insurance Company for $5.5 million. The loan, which was secured by a 235,000 square foot shopping center in Aiken, South Carolina, was in default at acquisition. Fund I and Hendon acquired the loan with the intention of pursuing ownership of the property securing the debt. Fund I provided 90% of the equity capital and Hendon provided the remaining 10% of the equity capital used to acquire the loan. Hendon is entitled to receive profit participation in excess of its proportionate equity interest. The property is currently anchored by a Kroger supermarket and was only 56% occupied at acquisition due to the vacancy of a former Kmart store. Subsequent to the acquisition of the loan, Fund I and Hendon obtained fee title to this property and currently plan to redevelop and re-anchor the center. The Company loaned $3.2 million to the property-owning entity in connection with the purchase of the first mortgage loan. The note matures March 9, 2006, and bears interest at 7% for the first year and 6% for the second year. In addition to its loan to Fund I, the Company invested $0.9 million, primarily its pro-rata share of equity as a partner in Fund I. In September 2004, Fund I and Hendon purchased the Pine Log Plaza for $1.5 million. The 35,000 square foot center is located in front of and adjacent to the Hitchcock Plaza. Related to this transaction, the Company provided an additional $0.75 million loan to Fund I with a March 2006 maturity and interest at 7% for the first year and 6% for the second year.

In May 2004, Fund I and an unaffiliated partner, each with a 50% interest, acquired a 35,000 square foot shopping center in Tarrytown, New York, for $5.3 million. Related to this acquisition, the Company loaned $2.0 million to Fund I which bears interest at the prime rate and matures May 2005. The 35,000 square foot, Westchester, New York property (New York City MSA), was formerly anchored by a 25,000 square foot Grand Union supermarket. The redeveloped property will include a 15,000 square foot Walgreen's drugstore, a 10,000 square foot junior anchor with the balance of space leased to shop tenants.

In May 2004, Fund I acquired a 50% interest in the Haygood Shopping Center and the Sterling Heights Shopping Center for an aggregate investment of $3.2 million. These assets are part of the portfolio that the Company currently manages as a result of its January 2004 acquisition of certain management contracts. The Haygood Shopping Center is a 165,000 square foot shopping center located in Virginia Beach, Virginia. It is currently 69% occupied and anchored by Rose's Department Store and Eckerd Drug. Redevelopment of this property will most likely include the replacement of Rose's with a new supermarket anchor. The Sterling Heights Shopping Center, located in Sterling Heights, Michigan (suburb of Detroit), totals 141,000 square feet. The property is also 69% occupied and is anchored by Burlington Coat Factory. Redevelopment activities will include the complete renovation of the property and the re-leasing of the current vacancy.

2003 and 2002 Acquisitions

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

Market Square Shopping Center is a 103,000 square foot community shopping center (including a 15,000 square foot outparcel building) which is 100% leased and anchored by a T.J. Maxx and a Trader Joe's gourmet food market.

Brandywine Town Center is a two phase open-air value retail center. The first phase ("Phase I") is approximately 450,000 square feet and 100% occupied, with tenants including Lowe's, Bed Bath & Beyond, Regal Cinema, Michaels, Petsmart, Old Navy, Annie Sez, Thomasville Furniture and Dick's Sporting Goods. The second phase ("Phase II") consists of approximately 420,000 square feet of existing space, of which Target occupies 138,000 square feet and Bombay occupies 9,000 square feet. The balance of Phase II is currently not occupied.

The initial investment for the portfolio was approximately $86.3 million, inclusive of closing and other related acquisition costs. Fund I assumed $38.1 million of fixed rate debt on the two properties at a blended rate of 8.1%. A new $30.0 million, 4.7% fixed-rate loan was also obtained in conjunction with the acquisition and is collateralized by a portion of the Brandywine Town Center. The balance of the purchase price was funded

by Fund I, of which the Company's share was $4.3 million. Fund I will also pay additional amounts in conjunction with the lease-up of the current vacant space in Phase II (the "Earn-out"). To date, Fund I has incurred costs of $20.6 million for Earn-out space. The additional investment for Earn-out space is projected to be between $25.0 million and $30.0 million, of which the Company's share would be between $5.5 million and $6.6 million. To the extent Fund I places additional mortgage debt upon the lease-up of Phase II, the required equity contribution for the Earn-out would be less. The Earn-out is structured such that Fund I has no time requirement or payment obligation for any portion of currently vacant space which it is unable to lease.

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

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

Ohio Portfolio In September of 2002, Fund I acquired three supermarket-anchored shopping centers located in Cleveland and Columbus, Ohio for a total purchase price of $26.7 million. Fund I assumed $12.6 million of fixed-rate debt on two of the properties at a blended rate of 8.1%. A new $6.0 million loan was obtained on the third property at a floating rate of LIBOR plus 200 basis points. The balance of the purchase price was funded by Fund I, of which the Company's share was $1.8 million.

Acadia Strategic Opportunity Fund II, LLC ("Fund II")

On June 15, 2004, the Company closed its second acquisition fund, Acadia Strategic Opportunity Fund II, LLC ("Fund II"), which includes all of the investors from Fund I as well as two new institutional investors. With $300 million of committed discretionary capital, Fund II expects to be able to acquire up to $900 million of real estate assets on a leveraged basis. The Company is the managing member with a 20% interest in the joint venture. The terms and structure of Fund II are substantially the same as Fund I with the exceptions that the preferred return is 8% and the asset management fee is calculated on committed equity of $250 million through June 15, 2004 and then on the total committed equity of $300 million thereafter. To date, Fund II has invested in the RCP Venture and the New York Urban Infill Redevelopment initiative as discussed below.

New York Urban Infill Redevelopment Initiative

Fordham Road On September 29, 2004, in conjunction with an investment partner, P/A Associates, LLC ("P/A"), Fund II purchased 400 East Fordham Road in the Bronx, New York for $30.2 million, inclusive of closing and other related acquisition costs. The Company had provided a bridge loan of $18.0 million to Fund II on market terms in connection with this acquisition. Subsequent to the acquisition, Fund II repaid this loan from the Company with $18.0 million of proceeds from a new loan from a bank. The property, a multi-level retail and commercial

building, is located at the intersection of East Fordham Road and Webster Avenue, near Fordham University, one of the strongest retail areas in The Bronx and the third largest retail corridor in New York City, with over 650,000 people in a two-mile radius and retail sales in excess of $500 million. Sears is the major tenant of the property, retailing on four levels. The redevelopment of the property is scheduled to commence in 2007 following the expiration of the Sears lease, which was originally signed in 1964. However, depending on current negotiations with both Sears and other potential anchors, the timeframe of the redevelopment may be accelerated. The strength of the retail market in The Bronx is evidenced by core retail rents exceeding $75 per square foot with many retailers utilizing multi-level formats. As part of the redevelopment, there is the potential for additional expansion of up to 85,000 square feet of space. The total cost of the redevelopment project, including the acquisition cost of $30 million, is estimated to be between $65 and $70 million, depending on the ultimate scope of the project.

Pelham Manor On October 1, 2004, Fund II initiated its second urban/infill project in conjunction with P/A. Fund II entered into a 95-year ground lease to redevelop a 16-acre site in Pelham Manor, Westchester County, New York. The property is in an upper middle-income, infill neighborhood located approximately 10 miles from Manhattan with over 400,000 people in a three-mile radius. The redevelopment contemplates the demolition of the existing industrial and warehouse buildings, and replacing them with a multi-anchor community retail center. The Company anticipates the redevelopment to cost between $30 and $33 million, with construction anticipated to commence within the next 12 to 24 months. In the interim, the property will continue to be operated as an industrial and warehouse facility. Prior to commencement of the redevelopment process, the ground rent payment is projected to equal the warehouse rents collected.

RCP Venture with Klaff Realty, L.P. ("Klaff")

On January 27, 2004, the Company entered into the Retailer Controlled Property Venture (the "RCP Venture") with Klaff and Klaff's long-time capital partner Lubert-Adler Management, Inc. ("Lubert-Adler") for the purpose of making investments in surplus or underutilized properties owned by retailers. The initial size of the RCP Venture is expected to be approximately $300 million in equity based on anticipated investments of approximately $1 billion. Each participant in the RCP Venture has the right to opt out of any potential investment. The Company and its current acquisition funds, Funds I and II, anticipate investing 20% of the equity of the RCP Venture. Cash flow is to be distributed to the partners until they have received a 10% cumulative return and a full return of all contributions. Thereafter, remaining cash flow is to be distributed 20% to Klaff ("Klaff's Promote") and 80% to the partners (including Klaff). The Company will also earn market-rate fees for property management, leasing and construction services on behalf of the RCP Venture.

In September 2004, the Company made its first RCP Venture investment with its participation in the acquisition of Mervyn's. Affiliates of Funds I and Fund II, through separately organized, newly formed limited liability companies on a non-recourse basis, invested in the acquisition of Mervyn's from the Target Corporation through the RCP Venture, as part of an investment consortium of Sun Capital and Cerberus. The total acquisition price was approximately $1.2 billion subject to debt of approximately $800.0 million. Affiliates of Funds I and II invested equity aggregating $23.2 million on a non-recourse basis which was divided equally between them, of which $4.9 million was the Company's total share of the equity investment. Mervyn's is a 257-store discount retailer with a very strong West Coast concentration. The majority of the stores are well-located in high-barrier to entry markets, which we believe gives a recapitalized and refocused operator the opportunity to create a productive retail platform and subsequent future value.

Other Investments

In January 2004, the Company acquired Klaff's rights to provide asset management, leasing, disposition, development and construction services for an existing portfolio of retail properties and/or leasehold interests comprised of approximately 10 million square feet of retail space located throughout the United States (the "Klaff Properties"). The acquisition involves only Klaff's rights associated with operating the Klaff Properties and does not include equity interests in assets owned by Klaff or Lubert-Adler. The Operating Partnership issued $4.0 million of Series B Preferred OP Units to Klaff in consideration of this acquisition.

On March 18, 2004, the Company provided a $3.0 million mezzanine loan to an unrelated entity. The loan is for a term of three years with interest of 11% for year one, 10% for year two and prime plus 6% for year three.

On April 8, 2004, the Company provided a $3.6 million mezzanine loan to an unrelated party. The loan carried interest at the rate of 15%. The loan was paid in full on June 23, 2004, which resulted in an additional 10% interest pre-payment penalty over the period the loan was outstanding.

The Company provided a $3.2 million loan to its joint venture partner in the Tarrytown Centre. The loan matures on May 12, 2005, and bears interest at the prime rate.

In March of 2005, the Company invested $20 million in a preferred equity position ("Preferred Equity") with Levitz SL, L.L.C. ("Levitz SL"), the owner of 2.5 million square feet of fee and leasehold interests in 30 locations (the "Properties"), the majority of which are currently leased to Levitz Furniture Stores. Klaff is a managing member of Levitz SL. The Preferred Equity receives a return of 10%, plus a minimum return of capital of $2 million per annum. At the end of 12 months, the rate of return will be reset to the six-month LIBOR plus 644 basis points. The Preferred Equity is redeemable at the option of Levitz SL at any time, although if redeemed during the first 12 months, the redemption price is equal to the outstanding amount of the Preferred Equity, plus the return calculated for the remainder of the 12-month period.

Property Redevelopment and Expansion

The Company's redevelopment program focuses on selecting well-located neighborhood and community shopping centers and creating significant value through re-tenanting and property redevelopment. During 2004, the Company substantially completed the redevelopment of two shopping centers as follows:

During 2004, the Company completed the redevelopment of the New Loudon Center, located in Latham, New York. A new anchor, The Bon Ton Department Store, opened for business during the fourth quarter of 2003 as part of the redevelopment of this shopping center. Occupying 66,000 square feet formerly occupied by an Ames department store, Bon Ton is paying base rent at a 15% increase over that of Ames. During 2004, Marshall's, an existing tenant at the center, expanded its current 26,000 square foot store to 37,000 square feet. The Company also installed a new 49,000 square foot Raymour and Flanigan Furniture store at this center during 2004. This community shopping center is now 100% occupied. Costs incurred by the Company for this project totaled $418,000.

The Company has re-anchored the Town Line Plaza, located in Rocky Hill, Connecticut, with a new Super Stop & Shop supermarket, replacing a former GU Markets supermarket. The former building was demolished and replaced with a 66,000 square foot Super Stop & Shop. The new supermarket anchor is paying gross rent at a 33% increase over that of the former tenant with no interruption in rent payments. Costs incurred by the Company for this project totaled $1.7 million.

Additionally, for the year ending December 31, 2005, the Company currently estimates that capital outlays of approximately $4.0 million to $7.0 million will be required for tenant improvements, related renovations and other property improvements.

Share Repurchase

The Company's repurchase of its Common Shares is an additional use of liquidity. Upon completion of a tender offer in February 2002, the Company purchased a total of 5,523,974 Common Shares and Common OP Units (collectively, "Shares"), comprised of 4,136,321 Common Shares and 1,387,653 Common OP Units (which were converted to Common Shares upon tender), at a Purchase Price of $6.05 per Share. The aggregate purchase price paid for the 5,523,974 Shares was $33.4 million. In addition to the tender offer, the Company has an existing share repurchase program that authorizes management, at its discretion, to repurchase up to $20.0 million of the Company's outstanding Common Shares. Through March 14, 2005, the Company had repurchased 2.1 million Common Shares at a total cost of $11.7 million of which 1.4 million of these Common Shares have been subsequently reissued. The program may be discontinued or extended at any time and there is no assurance that the Company will purchase the full amount authorized. There were no Common Shares repurchased by the Company during the fiscal year ended December 31, 2004.

Sources of Liquidity

The Company intends on using Funds I and II as the primary vehicles for future acquisitions, including investments in the RCP Venture and New York Urban-Infill redevelopment initiative. Sources of capital for funding the Company's joint venture commitments, other property acquisitions, redevelopment, expansion and re-tenanting, as well as future repurchases of Common Shares are expected to be obtained primarily from issuance of public equity or debt instruments, cash on hand, additional debt financings and future sales of existing properties. As of December 31, 2004, the Company had a total of approximately $33.4 million of additional capacity with four line of credit facilities, cash and cash equivalents on hand of $13.5 million, and 15 properties that are unencumbered and available as potential collateral for future borrowings. The Company anticipates that cash flow from operating activities will continue to provide adequate capital for all debt service payments, recurring capital expenditures and REIT distribution requirements.

Issuance of Equity

During November 2004, the Company issued 1,890,000 Common Shares (the "Offering"). The $28.3 million in proceeds to the Company from the Offering, net of related costs, were used to retire above-market, fixed-rate indebtedness as well as to invest in real estate assets.

Financing and Debt

At December 31, 2004, mortgage notes payable aggregated $153.4 million and were collateralized by 16 properties and related tenant leases. Interest rates on the Company's outstanding mortgage indebtedness ranged from 3.8% to 7.6% with maturities that ranged from July 2007 to September 2014. Taking into consideration $86.2 million of notional principal under variable to fixed-rate swap agreements currently in effect, $146.4 million of the portfolio, or 95%, was fixed at a 6.1% weighted average interest rate and $7.0 million, or 5% was floating at a 3.8% weighted average interest rate. There is no debt maturing in 2005 and 2006. In 2007, $12.5 million is scheduled to mature at a weighted average interest rate of 6.5%. As the Company does not anticipate having sufficient cash on hand to repay such indebtedness, it will need to refinance this indebtedness or select other alternatives based on market conditions at that time.

The following summarizes the financing and refinancing transactions since December 31, 2003:

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

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

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

On March 11, 2004, the Company drew down $4.5 million under an existing $20.0 million revolving facility and $4.5 million under an existing $7.4 million revolving facility.

On March 26, 2004, the Company paid down $10.4 million and modified and extended $40.0 million of an existing $50.4 million loan with a bank. The loan, secured by two of the Company's properties, now matures April 1, 2011 and requires the monthly payment of interest at LIBOR plus 150 basis points and principal amortized over 30 years.

On April 19, 2004, a $1.4 million letter of credit was placed with a lender in the Company's name. This letter of credit was necessary to maintain coverage ratios following the rejection of a tenant's lease at a Fund I property.

During the second quarter of 2004, the Company drew down an additional $8.0 million under an existing $20.0 million revolving facility and an additional $2.5 million under an existing $7.4 million revolving facility. The balances on these revolving facilities were paid in full during the third quarter 2004.

On June 30, 2004, the Company closed on a $45.9 million cross collateralized revolving facility, which is collateralized by five of the Company's properties. The existing combined outstanding debt of $23.0 million was modified to allow the Company to borrow an additional $22.9 million. The facility matures in 2012 and bears interest at LIBOR plus 140 basis points. The Company drew down $16.8 million under this facility on June 30, 2004 of which the proceeds were used to pay down the two revolving facilities mentioned above. During the

third quarter, the Company drew down an additional $4.7 million on this facility.

On June 30, 2004, the Company closed on a $12.1 million revolving facility secured by one of its properties. The existing outstanding debt of $8.9 million was modified to allow the Company to borrow an additional $3.2 million. The facility matures in 2012 and bears interest at LIBOR plus 140 basis points.

On August 13, 2004, the Company refinanced an existing $7.9 million floating rate mortgage loan with a $15 million fixed rate mortgage loan maturing in 2014. The terms of the new mortgage loan, bearing interest at 5.6%, provide for interest-only payments for two years, and principal and interest thereafter based on a 30-year amortization with a balloon payment due at maturity of $13.1 million. In connection with the refinancing, the Company was required to prepay $1.6 million of debt collateralized by two other properties, and pay a prepayment penalty of $0.1 million.

On September 28, 2004, the Company drew down $20 million from existing lines of credit from two different banks. The proceeds from these borrowings were utilized to advance $18 million to Fund II as a bridge loan to finance Fund II's acquisition of a property located in the Bronx, New York. Fund II's advance was repaid upon financing of the acquisition with a bank during the fourth quarter 2004.

On December 1, 2004, the Company paid down $0.8 million of outstanding balance on a line of credit and fully repaid $13.0 million from two other lines of credit.

During December of 2004, the Company retired $33.4 million of mortgage debts with two banks.

In connection with the sale of the East End Centre, the Company extinguished $23.8 million of 8.13% fixed-rate mortgage debt which was scheduled to mature in 2010 and cross-collateralized by the East End Centre and Crescent Plaza.

Asset Sales

Asset sales are an additional source of liquidity for the Company. A significant component of the Company's business has been its multi-year plan to dispose of non-core real estate assets. The Company began this initiative following a major reorganization in 1998 ("RDC Transaction") and completed it in 2002. Non-core assets were identified based on factors including property type and location, tenant mix and potential income growth as well as whether a property complemented other assets within the Company's portfolio. The Company sold 28 non-core assets in connection with this initiative comprising a total of approximately 4.6 million square feet of retail properties and 800 multi-family units, for a total sales price of $158.4 million which generated net sale proceeds to the Company of $82.5 million.

Although the Company completed the non-core disposition initiative in 2002, the Company continues to periodically identify non-core assets within its portfolio. During November of 2004, Acadia disposed of the East End Centre located in Wilkes-Barre, Pennsylvania for approximately $12.4 million. In connection with this sale, the mortgage debt which was cross-collateralized by the East End Centre and Crescent Plaza was extinguished.

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

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

On November 8, 2002, a joint venture between the Company and an unaffiliated joint venture partner completed the sale of a contract to purchase land in Bethel, Connecticut, to the Target Corporation for $2.4 million. The joint venture received a $1.6 million note receivable for the net purchase price and additional reimbursements due from the buyer, which was paid in full during 2003. The Company's share of the net proceeds totaled $1.4 million.

Contractual Obligations and Other Commitments

At December 31, 2004, maturities on the Company's mortgage notes ranged from July 2007 to September 2014. In addition, the Company has non-cancelable ground leases at three of its shopping centers. The Company also leases space for its White Plains corporate office for a term expiring in 2010. The following table summarizes the Company's debt maturities, excluding scheduled monthly amortization payments, and obligations under non-cancelable operating leases of December 31, 2004:

AMOUNTS IN MILLIONS	Payments due by period				
Contractual obligation	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Future debt maturities	$122.3	$ —	$12.5	$ 8.0	$101.8
Operating lease obligations	23.1	1.0	2.0	2.0	18.1
Total	$145.4	$ 1.0	$14.5	$10.0	$119.9

Off Balance Sheet Arrangements

The Company has investments in three joint ventures for the purpose of investing in operating properties as follows:

The Company owns a 49% interest in two partnerships which own the Crossroads Shopping Center ("Crossroads"). The Company accounts for its investment in Crossroads using the equity method of accounting as it has a non-controlling investment in Crossroads, but exercises significant influence. As such, the Company's financial statements reflect its share of income from, but not the assets and liabilities of, Crossroads. The Company's pro rata share of Crossroads mortgage debt as of December 31, 2004 was $31.4 million. This fixed-rate debt, which was refinanced in October of 2004, bears interest at 5.4% and matures in December 2014. In connection with the refinancing, the Company paid $1.3 million to settle two variable to fixed-rate swap agreements which served to hedge the former LIBOR based floating rate debt.

Reference is made to the discussion of Funds I and II under "Uses of Liquidity" in this Annual Report for additional detail related to the Company's investment in and commitments to Funds I and II. The Company owns a 22% interest in Fund I and 20% in Fund II for which it also uses the equity method of accounting. The Company's pro rata share of Funds I and II fixed-rate mortgage debt as of December 31, 2004 was $21.7 million at a weighted average interest rate of 6.4%. The Company's pro rata share of Fund I and II variable-rate mortgage debt as of December 31, 2004 was $5.7 million at an interest rate of 4.3%. Maturities on these loans range from May 2005 to January 2023.

Historical Cash Flow

The following discussion of historical cash flow compares the Company's cash flow for the year ended December 31, 2004 ("2004") with the Company's cash flow for the year ended December 31, 2003 ("2003").

Cash and cash equivalents were $13.5 million and $14.1 million at December 31, 2004 and 2003, respectively. The decrease of $0.6 million was a result of the following increases and decreases in cash flows:

	Years Ended December 31,		
AMOUNTS IN MILLIONS	**2004**	2003	Variance
Net cash provided by operating activities	**$20.6**	$ 18.2	$ 2.4
Net cash (used in) investing activities	**(14.7)**	(19.3)	4.6
Net cash used in financing activities	**(6.5)**	(29.9)	23.4

The variance in net cash provided by operating activities resulted from an increase of $4.3 million in operating income before non-cash expenses in 2004, which was primarily due to an increase in rents following the redevelopment of the Gateway shopping center, re-tenanting activities and an increase in management fee income.

Offsetting this increase was a net decrease in cash provided by changes in operating assets and liabilities of $1.9 million.

The variance in net cash used in investing activities was primarily the result of an additional $15.2 million of distributions received from unconsolidated partnerships in 2004, a $2.5 million Earn-out payment in 2003 related to a redevelopment project and a $6.0 million decrease in expenditures for real estate acquisitions, development and tenant installations during 2004. In addition, $0.9 million of proceeds from the sale of land were received in 2004. These increases were offset by additional investments in and advances to unconsolidated partnerships of $10.4 million in 2004 as well as $10.4 million of notes issued in 2004.

The decrease in net cash used in financing activities resulted from $28.3 million of proceeds received in 2004 related to the issuance of Common Shares and $9.3 million of cash provided by the exercise of stock options in 2004. These decreases were partially offset by $9.8 million of additional cash used in 2004 for net repayments of outstanding mortgage debt, $2.8 million of additional cash paid for dividends and distributions on Common OP Units in 2004, $1.4 million of cash used for additional deferred financing costs in 2004, and $1.3 million of cash used to terminate a derivative instrument in 2004.

Critical Accounting Policies

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

Valuation of Property Held for Use and Sale

On a quarterly basis, the Company reviews the carrying value of both properties held for use and for sale. The Company records impairment losses and reduces the carrying value of properties when indicators of impairment are present and the expected undiscounted cash flows related to those properties are less than their carrying amounts. In cases where the Company does not expect to recover its carrying costs on properties held for use, the Company reduces its carrying cost to fair value, and for properties held for sale, the Company reduces its carrying value to the fair value less costs to sell. For the year ended December 31, 2002, an impairment loss of $0.2 million was recognized related to properties which were held for sale and subsequently sold. Management does not believe that the value of any properties in its portfolio was impaired as of December 31, 2004 or 2003.

Bad Debts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of tenants to make payments on arrearages in billed rents, as well as the likelihood that tenants will not have the ability to make payment on unbilled rents including estimated expense recoveries and straight-line rent. As of December 31, 2004, the Company had recorded an allowance for doubtful accounts of $2.8 million. If the financial condition of the Company's tenants were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Inflation

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

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

Recently Issued Accounting Pronouncements

Reference is made to the Notes to Consolidated Financial Statements.

Quantitative and Qualitative Disclosures About Market Risk

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

Currently, the Company manages its exposure to fluctuations in interest rates primarily through the use of fixed-rate debt and interest rate swap agreements. As of December 31, 2004, the Company had total mortgage debt of $153.4 million of which $146.4 million, or 95%, was fixed-rate, inclusive of interest rate swaps, and $7.0 million, or 5%, was variable-rate based upon LIBOR plus certain spreads. As of December 31, 2004, the Company was a party to five interest rate swap transactions to hedge the Company's exposure to changes in interest rates with respect to $86.2 million of LIBOR based variable-rate debt. The Company also has four forward-starting interest rate swaps which commence during 2005, 2006 and 2007 and mature from 2010 to 2012 that will hedge the Company's exposure to changes in interest rates with respect to $62.2 million of refinanced LIBOR-based variable rate debt with the matching maturities.

The following table sets forth information as of December 31, 2004 concerning the Company's long-term debt obligations, including principal cash flows by scheduled maturity and weighted average interest rates of maturing amounts (amounts in millions):

Consolidated mortgage debt:

Year	Scheduled Amortization	Maturities	Total	Weighted Average Interest Rate
2005	$ 1.6	$ —	$ 1.6	N/A
2006	2.2	—	2.2	N/A
2007	3.8	12.5	16.3	6.5%
2008	4.5	8.0	12.5	3.8%
2009	5.2	—	5.2	N/A
Thereafter	13.8	101.8	115.6	4.8%
	$31.1	$122.3	$153.4	

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

Year	Scheduled Amortization	Maturities	Total	Weighted Average Interest Rate
2005	$ 1.4	$ 1.1	$ 2.5	5.3%
2006	1.5	—	1.5	N/A
2007	1.5	4.5	6.0	4.4%
2008	1.5	6.7	8.2	4.7%
2009	1.5	—	1.5	N/A
Thereafter	3.6	35.5	39.1	5.7%
	$11.0	$47.8	$58.8	

Of the Company's total outstanding debt, $12.5 million will become due in 2007. As the Company intends on refinancing some or all of such debt at the then-existing market interest rates which may be greater than the current interest rate, the Company's interest expense would increase by approximately $0.1 million annually if the interest rate on the refinanced debt increased by 100 basis points. Interest expense on the Company's variable debt as of December 31, 2004 would not increase materially as the Company has only $7.0 million of floating rate debt after taking into account the effect of interest rate swaps hedging $86.2 million of notional principal. The Company may seek additional variable-rate financing if and when pricing and other commercial and financial terms warrant. As such, the Company would consider hedging against the interest rate risk related to such additional variable-rate debt through interest rate swaps and protection agreements, or other means.

Controls and Procedures

Disclosure Controls and Procedures

The Company conducted an evaluation, under the supervision and with the participation of management including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2004.

Changes in internal control over financial reporting. There was no change in the Company's internal control over financial reporting during the Company's fourth fiscal quarter ended December 31, 2004 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Management of Acadia Realty Trust is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Securities Exchange Act of 1934 Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004 as required by the Securities Exchange Act of 1934 Rule 13a-15(c). In making this assessment, we used the criteria set forth in the framework in ***Internal Control–Integrated Framework*** issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in ***Internal Control–Integrated Framework,*** our management concluded that our internal control over financial reporting was effective as of December 31, 2004.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2004 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which appears in this Annual Report.

Acadia Realty Trust

White Plains, New York
March 10, 2005

Attestation Report of the Independent Registered Public Accounting Firm

To the Shareholders and Trustees of Acadia Realty Trust

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Acadia Realty Trust and subsidiaries maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in ***Internal Control–Integrated Framework*** issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Acadia Realty Trust and subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Acadia Realty Trust and subsidiaries maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Acadia Realty Trust maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Acadia Realty Trust and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2004 and our report dated March 10, 2005 expressed an unqualified opinion thereon.

Ernst & Young LLP

New York, New York
March 10, 2005

Report of Independent Registered Public Accounting Firm

To the Shareholders and Trustees of Acadia Realty Trust

We have audited the accompanying consolidated balance sheets of Acadia Realty Trust and subsidiaries (the "Company") as of December 31, 2004 and 2003, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Acadia Realty Trust and subsidiaries at December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Acadia Realty Trust and subsidiaries' internal control over financial reporting as of December 31, 2004, based on criteria established in ***Internal Control–Integrated Framework*** issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 10, 2005 expressed an unqualified opinion thereon.

Ernst & Young LLP

New York, New York
March 10, 2005

Consolidated Balance Sheets

IN THOUSANDS, EXCEPT PER SHARE AMOUNTS	December 31, 2004	2003
Assets		
Real Estate		
Land	**$ 53,804**	$ 53,804
Buildings and improvements	**362,477**	354,476
Construction in progress	**5,896**	5,858
	422,177	414,138
Less: accumulated depreciation	**107,352**	93,670
Net real estate	**314,825**	320,468
Cash and cash equivalents	**13,499**	14,159
Restricted cash	**612**	504
Cash in escrow	**4,467**	3,342
Investment in management contracts, net of accumulated amortization of $578	**3,422**	—
Investments in and advances to unconsolidated partnerships	**18,135**	13,630
Rents receivable, net	**10,891**	10,157
Notes receivable	**10,087**	3,586
Prepaid expenses	**3,029**	2,976
Deferred charges, net	**13,478**	11,140
Other assets	**3,898**	1,731
Assets of discontinued operations	**—**	6,491
	$396,343	$ 388,184
Liabilities and Shareholders' Equity		
Mortgage notes payable	**$ 153,361**	$ 174,847
Accounts payable and accrued expenses	**7,640**	5,639
Dividends and distributions payable	**5,597**	4,619
Due to related parties	**—**	48
Derivative instruments	**2,136**	4,044
Other liabilities	**3,134**	3,712
Liabilities of discontinued operations	**—**	15,856
Total liabilities	**171,868**	208,765
Minority interest in Operating Partnership	**5,743**	7,875
Minority interests in majority-owned partnerships	**1,808**	1,810
Total minority interests	**7,551**	9,685
Shareholders' equity:		
Common shares, $.001 par value, authorized 100,000,000 shares, issued and outstanding 31,340,637 and 27,409,141 shares, respectively	**31**	27
Additional paid-in capital	**222,715**	177,891
Accumulated other comprehensive loss	**(3,180)**	(5,505)
Deficit	**(2,642)**	(2,679)
Total shareholders' equity	**216,924**	169,734
	$396,343	$ 388,184

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

Consolidated Statements of Income

	Years Ended December 31,		
IN THOUSANDS, EXCEPT PER SHARE AMOUNTS	**2004**	2003	2002
Revenues			
Minimum rents	**$ 51,469**	$48,912	$ 46,643
Percentage rents	**952**	988	1,064
Expense reimbursements	**13,350**	13,222	10,988
Lease termination income	**—**	—	3,945
Other property income	**643**	748	535
Management fee income (net of submanagement fees of $1,591)	**4,763**	1,971	1,314
Interest income	**1,469**	788	2,062
Other	**210**	1,218	504
Total revenues	**72,856**	67,847	67,055
Operating Expenses			
Property operating	**14,908**	14,726	11,965
Real estate taxes	**9,025**	8,469	8,086
General and administrative	**10,468**	10,734	10,173
Depreciation and amortization	**15,650**	17,374	14,221
Abandoned project costs	**—**	—	274
Total operating expenses	**50,051**	51,303	44,719
Operating income	**22,805**	16,544	22,336
Equity in earnings of unconsolidated partnerships	**1,797**	2,411	628
Interest expense	**(10,446)**	(9,954)	(9,720)
Gain on sale of land	**932**	1,187	1,530
Minority interest	**(1,197)**	(1,433)	(3,032)
Income from continuing operations	**13,891**	8,755	11,742
Discontinued operations:			
Operating (loss) income from discontinued operations	**(886)**	(988)	907
Impairment of real estate	**—**	—	(197)
Gain on sale of properties	**6,696**	—	8,132
Minority interest	**(116)**	86	(1,185)
Income (loss) from discontinued operations	**5,694**	(902)	7,657
Net income	**$ 19,585**	$ 7,853	$ 19,399

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

Consolidated Statements of Income continued

	Years Ended December 31,		
	2004	2003	2002
IN THOUSANDS, EXCEPT PER SHARE AMOUNTS			
Basic Earnings per Share			
Income from continuing operations	**$0.47**	$ 0.33	$ 0.47
Income (loss) from discontinued operations	**0.20**	(0.03)	0.30
Basic earnings per share	**$0.67**	$ 0.30	$ 0.77
Diluted Earnings per Share			
Income from continuing operations	**$0.46**	$ 0.32	$0.46
Income (loss) from discontinued operations	**0.19**	(0.03)	0.30
Diluted earnings per share	**$0.65**	$ 0.29	$ 0.76

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

Consolidated Statements of Shareholders' Equity

	Common Shares		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Deficit	Total Shareholders' Equity
	Shares	Amount				
IN THOUSANDS, EXCEPT PER SHARE AMOUNTS						
Balance at December 31, 2001	28,698	$29	$189,378	$ (1,206)	$ (9,103)	$179,098
Conversion of 2,086,736 OP Units to Common Shares by limited partners of the Operating Partnership	2,087	2	14,901	—	—	14,903
Dividends declared ($0.52 per Common Share)	—	—	—	—	(12,975)	(12,975)
Repurchase of Common Shares	(5,525)	(6)	(33,414)	—	—	(33,420)
Forfeiture of restricted Common Shares	(3)	—	(14)	—	—	(14)
Unrealized loss on valuation of swap agreements	—	—	—	(5,668)	—	(5,668)
Net income	—	—	—	—	19,399	19,399
Balance at December 31, 2002	**25,257**	**25**	**170,851**	**(6,874)**	**(2,679)**	**161,323**
Conversion of 2,058,804 OP Units to Common Shares by limited partners of the Operating Partnership	2,059	2	14,898	—	—	14,900
Conversion of 632 Preferred OP Units to Common Shares by limited partners of the Operating Partnership	84	—	632	—	—	632
Employee restricted share award	8	—	410	—	—	410
Settlement of vested options	—	—	(750)	—	—	(750)
Dividends declared ($0.595 per Common Share)	—	—	(8,160)	—	(7,853)	(16,013)
Employee exercise of 250 options	—	—	2	—	—	2
Unrealized gain on valuation of swap agreements	—	—	—	1,369	—	1,369
Common Shares purchased under Employee Stock Purchase Plan	1	—	8	—	—	8
Net income	—	—	—	—	7,853	7,853
Balance at December 31, 2003	**27,409**	**27**	**177,891**	**(5,505)**	**(2,679)**	**169,734**
Conversion of 746,762 OP Units to Common Shares by limited partners of the Operating Partnership	747	1	6,395	—	—	6,396
Shares issued to Trustees and Employees	5	—	443	—	—	443
Employee restricted share award	22	—	394	—	—	394
Settlement of vested options	—	—	(67)	—	—	(67)
Dividends declared ($0.6525 per Common Share)	—	—	—	—	(19,548)	(19,548)
Employee and Trustee exercise of 1,262,000 options	1,262	1	9,265	—	—	9,266
Unrealized gain on valuation of swap agreements	—	—	—	2,325	—	2,325
Common Shares issued under Employee Stock Purchase Plan	6	—	84	—	—	84
Issuance of 1,890,000 Common Shares, net of issuance costs	1,890	2	28,310	—	—	28,312
Net income	—	—	—	—	19,585	19,585
Balance at December 31, 2004	**31,341**	**$ 31**	**222,715**	**$ (3,180)**	**$ (2,642)**	**$216,924**

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

Consolidated Statements of Cash Flows

	Years Ended December 31,		
IN THOUSANDS, EXCEPT PER SHARE AMOUNTS	**2004**	2003	2002

Cash Flows from Operating Activities

	2004	2003	2002
Net income	**$ 19,585**	$ 7,853	$ 19,399
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**16,077**	17,909	16,429
Gain on sale of land	**(932)**	(1,187)	(1,530)
Gain on sale of properties	**(6,696)**	—	(8,132)
Minority interests	**1,313**	1,347	4,217
Abandoned project costs	**—**	—	274
Equity in earnings of unconsolidated partnerships	**(1,797)**	(2,411)	(628)
Amortization of derivative settlement included in interest expense	**99**	—	—
Provision for bad debts	**783**	523	602
Adjustment to carrying value of property held for sale	**—**	—	197
Changes in assets and liabilities:			
Restricted cash	**(108)**	(504)	—
Funding of escrows, net	**(1,125)**	105	(161)
Rents receivable	**(1,288)**	(3,958)	(1,135)
Prepaid expenses	**99**	(1,085)	266
Other assets	**(3,004)**	(891)	1,266
Accounts payable and accrued expenses	**2,464**	218	(534)
Due to/from related parties	**(974)**	(126)	67
Other liabilities	**(673)**	785	(1,131)
Net cash provided by operating activities	**23,823**	18,578	29,466

Cash Flows from Investing Activities

	2004	2003	2002
Expenditures for real estate and improvements	**(7,139)**	(13,531)	(14,408)
Net proceeds from sale of property	**—**	—	24,169
Payment of accrued expense related to redevelopment project	**—**	(2,488)	—
Investment in and advances to unconsolidated partnerships	**(16,422)**	(6,032)	(2,956)
Distributions from unconsolidated partnerships	**16,781**	1,602	1,049
Collections on notes receivable	**3,929**	3,232	41,042
Payment of deferred leasing costs	**(2,378)**	(2,183)	(801)
Proceeds from sale of land	**932**	—	—
Advances of notes receivable	**(10,429)**	—	—
Net cash (used in) provided by investing activities	**(14,726)**	(19,400)	48,095

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

Consolidated Statements of Cash Flows continued

IN THOUSANDS, EXCEPT PER SHARE AMOUNTS	Years Ended December 31,		
	2004	2003	2002
Cash Flows from Financing Activities			
Principal payments on mortgage notes payable	**$ (100,928)**	$ (32,917)	$ (24,565)
Proceeds received on mortgage notes payable	**76,251**	21,000	7,758
Payment of deferred financing and other costs	**(1,630)**	(241)	(812)
Dividends paid	**(18,507)**	(14,896)	(13,131)
Distributions to minority interests in Operating Partnership	**(416)**	(1,207)	(2,023)
Distributions on Preferred Operating Partnership Units	**(283)**	(199)	(199)
Distributions to minority interests in majority-owned partnership	**(606)**	(985)	(139)
Settlement of vested options	**(67)**	(750)	—
Repurchase of Common Shares	**—**	—	(33,420)
Common Shares issued under Employee Stock Purchase Plan	**84**	8	—
Exercise of options to purchase Common Shares	**9,340**	—	—
Termination of derivative instrument	**(1,307)**	—	—
Issuance of Common Shares	**28,312**	—	—
Net cash used in financing activities	**(9,757)**	(30,187)	(66,531)
(Decrease) increase in cash and cash equivalents	**(660)**	(31,009)	11,030
Cash and cash equivalents, beginning of year	**14,159**	45,168	34,138
Cash and cash equivalents, end of year	**$ 13,499**	$ 14,159	$ 45,168
Supplemental Disclosure of Cash Flow Information			
Cash paid during the period for interest, net of amounts capitalized of $304, $403, and $931, respectively	**$ 11,473**	$ 11,242	$ 12,346
Supplemental Disclosure of Non-Cash Investing and Financing Activities			
Notes received in connection with sale of properties	**$ —**	$ —	$ 22,425
Disposition of real estate through assumption of debt	**$ 12,405**	$ —	$ 42,438
Acquisition of management contract rights through issuance of preferred Operating Partnership Units	**$ 4,000**	$ —	$ —

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

In thousands, except per share amounts

Note 1

Organization, Basis of Presentation and Summary of Significant Accounting Policies

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

All of the Company's assets are held by, and all of its operations are conducted through, Acadia Realty Limited Partnership (the "Operating Partnership") and its majority owned partnerships. As of December 31, 2004, the Company controlled 99% of the Operating Partnership as the sole general partner. As the general partner, the Company is entitled to share, in proportion to its percentage interest, in the cash distributions and profits and losses of the Operating Partnership. The limited partners represent entities or individuals who contributed their interests in certain properties or partnerships to the Operating Partnership in exchange for common or preferred units of limited partnership interest ("Common or Preferred OP Units"). Limited partners holding Common OP Units are generally entitled to exchange their units on a one-for-one basis for common shares of beneficial interest of the Company ("Common Shares"). This structure is commonly referred to as an umbrella partnership REIT or "UPREIT."

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

As of December 31, 2004, the Company operated 69 properties, which it owns or has an ownership interest in, consisting of 64 neighborhood and community shopping centers, one shopping center under development, one enclosed mall, one mixed-use property (retail/residential) and two multi-family properties, which are located primarily in the Northeast, Mid-Atlantic and Midwestern regions of the United States and, in total, comprise approximately 9.6 million square feet.

Principles of Consolidation

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

Variable interest entities within the scope of Financial Accounting Statements Board ("FASB") Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46-R") are required to be consolidated by their primary beneficiary. The primary beneficiary of a variable interest entity is determined to be the party that absorbs a majority of the entity's expected losses, receives a majority of its expected returns, or both. Management has evaluated the applicability of FIN 46-R to its investments in certain joint ventures and determined that these joint ventures do not meet the requirements of a variable interest entity and, therefore, consolidation of these ventures is not required. Accordingly, these investments are accounted for using the equity method.

Use of Estimates

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

Properties

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

The Company reviews its long-lived assets used in operations for impairment when there is an event, or change in circumstances that indicates impairment in value. The Company records impairment losses and reduces the carrying value of properties when indicators of impairment are present and the expected undiscounted cash flows related to those properties are less than their carrying amounts. In cases where the Company does not expect to recover its carrying costs on properties held for use, the Company reduces its carrying cost to fair value, and for properties held for sale, the Company reduces its carrying value to the fair value less costs to sell. During the year ended December 31, 2002, an impairment loss of $197 was recognized related to a property that was sold as of December 31, 2002. Management does not believe that the values of its properties within the portfolio are impaired as of December 31, 2004.

Deferred Costs

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

Management Contracts

Income from management contracts, net of submanagement fees, is recognized on an accrual basis as such fees are earned. The initial acquisition cost of the management contracts is being amortized over the estimated lives of the contracts acquired.

Revenue Recognition

Leases with tenants are accounted for as operating leases. Minimum rents are recognized on a straight-line basis over the term of the respective leases. As of December 31, 2004 and 2003 unbilled rents receivable relating to straight-lining of rents were $6,506 and $5,873, respectively.

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

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

An allowance for doubtful accounts has been provided against certain tenant accounts receivable that are estimated to be uncollectible. Rents receivable at December 31, 2004 and 2003 are shown net of an allowance for doubtful accounts of $2,841 and $2,420, respectively.

Interest income from notes receivable is recognized on an accrual basis based on the contractual terms of the notes.

Cash and Cash Equivalents

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

Cash in Escrow

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

Income Taxes

The Company has made an election to be taxed, and believes it qualifies as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"). To maintain REIT status for federal income tax purposes, the Company is generally required to distribute to its stockholders at least 90% of its REIT taxable income as well as comply with certain other requirements as defined by the Code. The Company is not subject to federal corporate income tax to the extent that it distributes 100% of its REIT taxable

income each year. Accordingly, no provision has been made for Federal income taxes for the Company in the accompanying consolidated financial statements. The Company is subject to state income or franchise taxes in certain states in which some of its properties are located. These state taxes, which in total are not significant, are included in general and administrative expenses in the accompanying consolidated financial statements.

Stock-based Compensation

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

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

	Years Ended December 31,		
	2004	2003	2002
Net income:			
As reported	**$19,585**	$7,853	$19,399
Pro forma	**19,561**	7,829	19,363
Basic earnings per share:			
As reported	**$ 0.67**	$ 0.30	$ 0.77
Pro forma	**0.67**	0.29	0.76
Diluted earnings per share:			
As reported	**$ 0.65**	$ 0.29	$ 0.76
Pro forma	**0.65**	0.29	0.76

Recent Accounting Pronouncements

On December 16, 2004, the FASB issued SFAS No. 153: "Exchanges of Nonmonetary Assets–An Amendment of APB Opinion No. 29." The amendments made by SFAS No. 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have "commercial substance." SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not believe the adoption of SFAS No. 153 on June 15, 2005 will have a material effect on the Company's consolidated financial statements.

On December 16, 2004, the FASB issued SFAS No. 123: (Revised 2004) – "Share-Based Payment" ("SFAS No. 123R"). SFAS 123R replaces SFAS No. 123, which the Company adopted on January 1, 2003. SFAS No. 123R requires that the compensation cost relating to share-based payment transactions be recognized in financial statements and be measured based on the fair value of the equity or liability instruments issued. SFAS No. 123R is effective as of the first interim or annual reporting period that begins after June 15, 2005. The Company does not believe that the adoption of SFAS No. 123R will have a material effect on the Company's consolidated financial statements.

Comprehensive Income

The following table sets forth comprehensive income for the years ended December 31, 2004, 2003 and 2002:

	Years Ended December 31,		
	2004	2003	2002
Net income	**$19,585**	$7,853	$ 19,399
Other comprehensive income (loss)[1]	**2,325**	1,369	(5,668)
Comprehensive income	**$21,910**	$9,222	$ 13,731

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

The following table sets forth the change in accumulated other comprehensive loss for the years ended December 31, 2004, 2003 and 2002:

	2004	2003	2002
Beginning balance	**$ 5,505**	$6,874	$1,206
Unrealized (gain) loss on valuation of derivative instruments	**(2,325)**	(1,369)	5,668
Ending balance	**$ 3,180**	$5,505	$6,874

As of December 31, 2004, the balance in accumulated other comprehensive loss related solely to amounts attributable to interest rate swap agreements accounted for as cash flow hedges.

Reclassifications

Certain 2003 and 2002 amounts were reclassified to conform to the 2004 presentation.

Note 2

Acquisition and Disposition of Properties

Currently the primary vehicle for the Company's acquisitions are through its acquisition joint ventures (Note 4).

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

Dispositions relate to the sale of shopping centers, multi-family properties and land. Gains from these sales are recognized in accordance with the provisions of SFAS No. 66, "Accounting for Sales of Real Estate."

2002 Acquisitions and Dispositions

On November 8, 2002, the Company and an unaffiliated joint venture partner completed the sale of a contract to purchase land in Bethel, Connecticut, to the Target Corporation for $1,540 after closing and other related costs. The joint venture received a $1,632 note receivable for the net purchase price and additional reimbursements due from the buyer and deferred recognition of the gain on sale in accordance with SFAS No. 66. The note was paid in full on January 10, 2003, and as such, the Company's share of the deferred gain, or $634, was recognized in 2003. Additional amounts held in escrow from the closing of $932 were released to the Company during 2004 and recognized as additional gain. Of this amount, $466 was attributable to the Company's joint venture partner and reflected in minority interest in the accompanying consolidated statement of income.

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

On April 24, 2002, the Company sold a multi-property portfolio for $52,700. The portfolio consisted of 17 retail properties, which were cross-collateralized in a securitized loan program and in the aggregate contained approximately 2.3 million square feet. As part of the transaction, the buyer assumed the outstanding mortgage debt of $42,438. The Company retained a senior, preferred interest in the acquiring entity in the amount of $6,262, which earned an initial annual preferred return of 15%. On December 31, 2002, the Company's interest was purchased at par by an affiliate of the purchaser of the portfolio. The Company recorded an $8,134 gain on the sale.

On January 16, 2002, the Company sold Union Plaza, a 218,000 square foot shopping center located in New Castle, Pennsylvania, for $4,750. The Company received a $3,563 purchase money note. The note, which was extended and now matures January 15, 2006, requires monthly interest of 7% for year one, increasing at a rate of 1% per annum throughout the term. As part of the transaction, the Company agreed to reimburse the purchaser 50% of a former tenant's rent, or $22 a month, through July 15, 2003. The Company recorded a loss of $166 on the sale.

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

Discontinued Operations

SFAS No. 144 requires discontinued operations presentation for disposals of a "component" of an entity. In accordance with SFAS No. 144, for all periods presented, the company reclassified its consolidated statements of income to reflect income and expenses for properties which became held for sale subsequent to December 31, 2001, as discontinued operations and reclassified its consolidated balance sheets to reflect assets and liabilities related to such properties as assets related to discontinued operations and liabilities related to discontinued operations.

The results of operations of sold properties is reported separately as discontinued operations for the years ended December 31, 2004, 2003 and 2002. Revenues from discontinued operations for the years ended December 31, 2004, 2003, and 2002 totaled $1,354, $1,598, and $8,587 respectively.

On November 22, 2004, the Company disposed of the East End Centre, a 308,000 square foot shopping center in Wilkes-Barre, Pennsylvania, for approximately $12,405 resulting in a $6,696 gain on the sale. The assets, liabilities, revenues and expenses of the properties classified as discontinued operations are summarized as follows:

	December 31, 2003
Assets:	
Net real estate	$6,070
Rents receivable, net	237
Prepaid expenses	151
Deferred charges, net	33
	$6,491
Liabilities and Deficit	
Mortgage note payable	$15,597
Accounts payable and accrued expenses	165
Other liabilities	94
Total liabilities	$15,856
Deficit	(9,365)
Total liabilities and deficit	$ 6,491

	Years Ended December 31,		
	2004	2003	2002
Total revenue	**$ 1,354**	$1,598	$8,587
Total expenses	**2,356**	2,500	9,062
	(1,002)	(902)	(475)
Gain on sale of properties	**6,696**	—	8,132
Income (loss) from discontinued operations	**$ 5,694**	$ (902)	$ 7,657

Note 3

Segment Reporting

The Company has two reportable segments: retail properties and multi-family properties. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates property performance primarily based on net operating income before depreciation, amortization and certain nonrecurring items. The reportable segments are managed separately due to the differing nature of the leases and property operations associated with the retail versus residential tenants. The following table sets forth certain segment information for the Company, reclassified for discontinued operations, as of and for the years ended December 31, 2004, 2003, and 2002 (does not include unconsolidated partnerships):

	2004				2003				2002			
	Retail Properties	Multi-Family Properties	All Other	Total	Retail Properties	Multi-Family Properties	All Other	Total	Retail Properties	Multi-Family Properties	All Other	Total
Revenues	**$ 58,799**	**$ 7,596**	**$ 6,461**	**$ 72,856**	$ 56,552	$ 7,318	$3,977	$ 67,847	$ 56,206	$ 6,969	$3,880	$ 67,055
Property operating expenses and real estate taxes	**19,799**	**4,134**	**—**	**23,933**	19,008	4,187	—	23,195	16,360	3,691	—	20,051
Net property income before depreciation and amortization	**$ 39,000**	**$ 3,462**	**$ 6,461**	**$ 48,923**	$ 37,544	$ 3,131	$3,977	$ 44,652	$ 39,846	$ 3,278	$3,880	$ 47,004
Depreciation and amortization	**$ 13,889**	**$ 1,433**	**$ 328**	**$ 15,650**	$ 15,717	$ 1,336	$ 321	$ 17,374	$ 12,704	$ 1,201	$ 316	$ 14,221
Interest expense	**$ 8,928**	**$ 1,518**	**$ —**	**$ 10,446**	$ 8,424	$ 1,530	$ —	$ 9,954	$ 8,093	$ 1,627	$ —	$ 9,720
Real estate at cost	**$381,562**	**$40,615**	**$ —**	**$ 422,177**	$374,364	$ 39,774	$ —	$ 414,138	$ 362,142	$38,396	$ —	$ 400,538
Total assets	**$338,722**	**$36,872**	**$20,749**	**$396,343**	$ 337,724	$36,830	$13,630	$ 388,184	$ 368,547	$36,224	$ 6,164	$ 410,935
Gross leasable area (multi-family – 1,474 units)	**4,848**	**1,207**	**—**	**6,055**	4,848	1,207	—	6,055	4,848	1,207	—	6,055
Expenditures for real estate and improvements	**$ 6,297**	**$ 842**	**$ —**	**$ 7,139**	$ 12,003	$ 1,378	$ —	$ 13,381	$ 13,107	$ 1,000	$ —	$ 14,107
Revenues												
Total revenues for reportable segments	**$ 74,983**				$ 69,487				$ 68,121			
Elimination of intersegment management fee income	**(1,290)**				(1,340)				(1,066)			
Elimination of intersegment asset management fee income	**(708)**				(300)				—			
Elimination of intersegment service fees and interest income	**(129)**				—				—			
Total consolidated revenues	**$ 72,856**				$ 67,847				$ 67,055			
Property Operating Expenses and Real Estate Taxes												
Total property operating expenses and real estate taxes for reportable segments	**$ 25,059**				$ 24,352				$ 21,108			
Elimination of intersegment management fee expense	**(1,126)**				(1,157)				(1,057)			
Total consolidated expenses	**23,933**				$ 23,195				$ 20,051			
Reconciliation to Net Income												
Net property income before depreciation and amortization	**$ 48,923**				$ 44,652				$ 47,004			
Depreciation and amortization	**(15,650)**				(17,374)				(14,221)			
General and administrative and abandoned project costs	**(10,468)**				(10,734)				(10,447)			
Equity in earnings of unconsolidated partnerships	**1,797**				2,411				628			
Interest expense	**(10,446)**				(9,954)				(9,720)			
Gain on sale of property	**932**				1,187				1,530			
Income from discontinued operations	**5,694**				(902)				7,657			
Minority interest	**(1,197)**				(1,433)				(3,032)			
Net income	**$ 19,585**				$ 7,853				$ 19,399			

Note 4

Investments in Unconsolidated Partnerships

Crossroads

The Company owns a 49% interest in Crossroads Joint Venture LLC and Crossroads II LLC (collectively, "Crossroads") which collectively own a 311,000 square foot shopping center in White Plains, New York. The Company accounts for its investment in Crossroads using the equity method. Summary financial information of Crossroads and the Company's investment in and share of income from Crossroads follows:

	December 31,	
	2004	2003
Balance Sheets		
Assets:		
Rental property, net	**$ 6,939**	$ 7,402
Other assets	**6,129**	3,710
Total assets	**$ 13,068**	$ 11,112
Liabilities and partners' equity		
Mortgage note payable	**64,000**	$ 32,961
Other liabilities	**2,481**	4,696
Partners' equity	**(53,413)**	(26,545)
Total liabilities and partners' equity	**$ 13,068**	$ 11,112
Company's investment	**$ (9,304)**	$ 3,665

	Years Ended December 31,		
	2004	2003	2002
Statements of Income			
Total revenue	**$8,160**	$8,324	$7,091
Operating and other expenses	**2,707**	2,465	2,150
Interest expense	**2,740**	2,542	2,722
Depreciation and amortization	**778**	570	547
Net income	**$ 1,935**	$ 2,747	$1,672
Company's share of net income	**$ 1,112**	$ 1,377	$ 934
Amortization of excess investment (see below)	**392**	392	392
Income from partnerships	**$ 720**	$ 985	$ 542

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

Acadia Strategic Opportunity Fund, LP ("Fund I")

In 2001, the Company formed a joint venture, Fund I, with four of its institutional investors for the purpose of acquiring real estate assets. The total committed capital for Fund I totals $90,000, of which the Company's share is $20,000. The Company is the sole general partner with 22% interest in the joint venture and is also entitled to a profit participation in excess of its invested capital based on certain investment return thresholds. The Company also earns market-rate fees for asset management as well as for property management, construction and leasing services. Decisions made by the general partner as it relates to purchasing, financing and disposition of properties are subject to the unanimous disapproval of the Advisory Committee, which is comprised of representatives from each of the four institutional investors.

Acquisitions completed during 2004 and 2003 were as follows:

On March 11, 2004, Fund I, in conjunction with the Company's long-time investment partner, Hendon Properties ("Hendon"), purchased a $9,600 first mortgage loan from New York Life Insurance Company for $5,500. The loan, which was secured by a 235,000 square foot shopping center in Aiken, South Carolina, was in default at acquisition. Fund I and Hendon acquired the loan with the intention of pursuing ownership of the property securing the debt. Fund I provided 90% of the equity capital and Hendon provided the remaining 10% of the equity capital used to acquire the loan. Hendon is entitled to receive profit participation in excess of its proportionate equity interest. The property is currently anchored by a Kroger supermarket and was only 56% occupied at acquisition due to the vacancy of a former Kmart store. Subsequent to the acquisition of the loan, Fund I and Hendon obtained fee title to this property and currently plan to redevelop and re-anchor the center. The Company loaned $3,150 to Fund I in connection

with the purchase of the first mortgage loan. The note matures March 9, 2006, and bears interest at 7% for the first year and 6% for the second year. In addition to its loan to Fund I, the Company invested approximately $900, primarily its pro-rata share of equity as a partner in Fund I. In September 2004, Fund I and Hendon purchased the Pine Log Plaza for $1,500. The 35,000 square foot center is located in front of and adjacent to the Hitchcock Plaza. Related to this transaction, the Company provided an additional $750 loan to Fund I with a March 2006 maturity and interest at 7% for the first year and 6% for the second year.

In May 2004, Fund I acquired a 50% interest in Haygood Shopping Center and Sterling Heights Shopping Center for an aggregate investment of $3,184. These assets are part of the portfolio that the Company currently manages as a result of its January 2004 acquisition of certain management contracts. The Haygood Shopping Center is a 165,000 square foot shopping center located in Virginia Beach, Virginia. The Sterling Heights Shopping Center is a 141,000 square foot shopping center located in Sterling Heights, Michigan.

In May 2004, Fund I and an unaffiliated partner, each with a 50% interest, acquired a 35,000 square foot shopping center in Tarrytown, New York, for approximately $5,300. Related to this acquisition, the Company loaned $2,000 to Fund I which bears interest at the prime rate and matures May 2005.

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

In January 2003, Fund I acquired a one million square foot portfolio for an initial purchase price of $86,287, inclusive of closing and other related acquisition costs. The portfolio consists of two shopping centers located in Wilmington, Delaware ("Brandywine Portfolio"). A portion of one of the properties is currently unoccupied, which Fund I will pay for on an "earn-out" basis only when it is leased. To date, Fund I has incurred costs of $20,600 for Earn-out space. At closing, Fund I assumed $38,082 of fixed-rate debt which bears interest at a weighted average rate of 6.2% as well as obtained an additional fixed-rate loan of $30,000 which bears interest at 4.7%. Fund I invested equity of $19,270 in the acquisition, of which the Company's share was $4,282.

The Company accounts for its investment in Fund I using the equity method. Summary financial information of Fund I and the Company's investment in and share of income from Fund I is as follows:

	December 31,	
	2004	2003
Balance Sheets		
Assets:		
Rental property, net	**$187,046**	$ 173,507
Other assets	**13,077**	4,763
Total assets	**$200,123**	$ 178,270
Liabilities and partners' equity		
Mortgage note payable	**$120,188**	$120,609
Other liabilities	**24,060**	11,731
Partners' equity	**55,875**	45,930
Total liabilities and partners' equity	**$200,123**	$ 178,270
Company's investment	**$ 12,115**	$ 9,965

	Year ended December 31, 2004	Year ended December 31, 2003	Year ended December 31, 2002
Statements of Income			
Total revenue	**$26,664**	$26,008	$ 1,224
Operating and other expenses	**5,807**	5,017	342
Management and other fees	**2,106**	2,171	1,391
Interest expense	**6,673**	6,399	350
Depreciation and amortization	**8,731**	8,055	145
Minority interest	**166**	157	—
Loss in unconsolidated subsidiary	**207**	—	—
Net income (loss)	**$ 2,974**	$ 4,209	$(1,004)
Company's share of net income	**$ 1,170**	$ 1,426	$ 86

Acadia Strategic Opportunity Fund II, LLC ("Fund II")

In June of 2004, the Company formed a joint venture, Fund II, with the investors from Fund I as well as two new institutional investors for the purpose of acquiring real estate assets. The total committed capital for Fund II totals $300,000, of which the Company's share is $60,000. The Company is the sole managing member with 20% interest in the joint venture and is also entitled to a profit participation in excess of its invested capital based on certain investment return thresholds. The Company also earns market-rate fees for asset management as well as for property management, construction, legal and leasing services. Decisions made by the managing member as it relates to purchasing, financing and disposition of properties are subject to the unanimous disapproval of the Advisory Committee, which is comprised of representatives from each of the six institutional investors.

On September 29, 2004, in conjunction with an investment partner, P/A Associates, LLC ("P/A"), Fund II purchased 400 East Fordham Road in the Bronx, NY for $30,197, inclusive of closing and other related acquisition costs. The Company had provided a bridge loan of $18,000 to Fund II in connection with this acquisition. Subsequent to the acquisition, Fund II repaid this loan from the Company with $18,000 of proceeds from a new loan from a bank which bears interest at LIBOR plus 175 basis points and matures September 2014.

On October 1, 2004, Fund II initiated its second urban/infill project in conjunction with P/A. Fund II entered into a 95-year ground lease to redevelop a 16-acre site in Pelham Manor, Westchester County, New York.

At December 31, 2004, Fund II had total assets of $33,492, total liabilities of $18,321 (including mortgage debt of $18,000) and members equity of $15,171 of which the company's share was $2,760. For the period ended December 31, 2004, Fund II had revenues of $885, expenses of $3,457, and net loss of $2,572, of which the Company's share was $93.

Other

In September 2004, affiliates of Funds I and Fund II, through separately organized, newly formed limited liability companies invested in the acquisition of Mervyn's from Target Corporation as part of an investment consortium of Sun Capital and Cerberus. The total acquisition price was approximately $1,175,000 subject to debt of approximately $800,000. Each of the affiliates of Funds I and II invested approximately $11,600, of which the Company's share of equity totalled $4,898. Included in investments in and advances to unconsolidated partnerships at December 31, 2004 are advances aggregating $7,666.

Note 5

Deferred Charges

Deferred charges consist of the following as of December 31, 2004 and 2003:

	December 31,	
	2004	2003
Deferred financing costs	**$ 7,263**	$ 6,372
Deferred leasing and other costs	**17,743**	15,286
	25,006	21,658
Accumulated amortization	**(11,528)**	(10,518)
	$ 13,478	$ 11,140

Note 6

Mortgage Loans

At December 31, 2004, mortgage notes payable aggregated $153,361 and were collateralized by 15 properties and related tenant leases. Interest rates ranged from 3.8% to 7.6%. Taking into consideration $86,156 of notional principal under variable to fixed-rate swap agreements currently in effect, $146,407 of the portfolio, or 95%, was fixed at a 6.1% weighted average interest rate and $6,954, or 5% was floating at a 3.8% weighted average interest rate. Mortgage payments are due in monthly installments of principal and/or interest and mature on various dates through 2014. Certain loans are cross-collateralized and cross-defaulted. The loan agreements contain customary representations, covenants and events of default. Certain loan agreements require the Company to comply with certain affirmative and negative covenants, including the maintenance of certain debt service coverage and leverage ratios.

In connection with the disposition of the East End Centre during November of 2004, the Company extinguished $23,734 of mortgage debt which was scheduled to mature in 2010 and which was cross-collateralized by the East End Centre and Crescent Plaza.

On December 1, 2004, the Company paid down $800 of an outstanding balance on a line of credit. At the same time, the Company fully repaid the outstanding balances on two other lines of credit totaling $13,029.

During December of 2004, the Company retired $33,401 of mortgage debts with two banks.

On August 13, 2004, the Company refinanced an existing $7,936 floating rate mortgage loan with a $15,000 fixed rate mortgage loan maturing in 2014. The terms of the new mortgage loan, bearing interest at 5.6%, provide for interest-only payments for two years, and principal and interest thereafter based on a 30-year amortization with a balloon payment due at maturity of $13,064. In connection with the refinancing, the Company was required to prepay $1,587 of debt collateralized by two other properties, and pay a prepayment penalty of $95.

On June 30, 2004, the Company closed on a $45,900 cross collateralized revolving facility, which is collateralized by five of the Company's properties. The existing combined outstanding debt of $23,000 was modified to allow the Company to borrow an additional $22,900. The facility matures in 2012 and bears interest at LIBOR plus 140 basis points.

On June 30, 2004, the Company closed on a $12,100 revolving facility secured by one of its properties. The existing outstanding debt of $8,900 was modified to allow the Company to borrow an additional $3,200. The facility matures in 2012 and bears interest at LIBOR plus 140 basis points.

On March 26, 2004, the Company paid down $10,363 and modified and extended $40,000 of an existing $50,363 loan with a bank. The loan, secured by two of the Company's properties, now matures April 1, 2011 and requires the monthly payment of interest at LIBOR plus 150 basis points and principal amortized over 30 years.

The following table summarizes the Company's mortgage indebtedness (exclusive of mortgage debt of discontinued operations) as of December 31, 2004 and 2003:

	December 31,		Interest Rate at		Properties	Monthly
	2004	2003	December 31, 2004	Maturity	Encumbered	Payment Terms
Mortgage notes payable – variable-rate						
Washington Mutual Bank, FA	**$29,900**	$ 50,686	3.82% (LIBOR + 1.50%)	04/01/11	(1)	(11)
Bank of America, N.A.	**44,485**	8,992	3.79% (LIBOR + 1.40%)	06/29/12	(2)	(12)
Bank of America, N.A.	**10,252**	6,256	3.82% (LIBOR + 1.40%)	06/29/12	(3)	(11
Bank of America, N.A.	**8,473**	8,598	3.79% (LIBOR + 1.40%)	12/01/08	(4)	(11)
Washington Mutual Bank, FA	**—**	—	— (LIBOR + 1.50%)	11/22/07	(5)	(15)
Bank of America, N.A.	**—**	—	— (LIBOR + 1.50%)	03/01/08	(6)	(16)
Sun America Life Insurance Company	**—**	9,191	—	N/A	N/A	N/A
Bank of America, N.A.	**—**	12,009	—	N/A	N/A	N/A
Washington Mutual Bank, FA	**—**	20,083	—	N/A	N/A	N/A
Bank of America, N.A.	**—**	4,865	—	N/A	N/A	N/A
Bank of America, N.A. – Interest Rate Swaps	**(86,156)**	(86,669)	(Note 16)			
Total variable-rate debt	**6,954**	34,011				
Mortgage notes payable – fixed-rate						
Bank of America, N.A.	**16,062**	16,226	7.55%	01/01/11	(7)	(11)
RBS Greenwich Capital	**15,000**	—	5.64%	09/06/14	(8)	(14)
RBS Greenwich Capital	**16,000**	16,000	5.19%	06/01/13	(9)	(13)
SunAmerica Life Insurance Company	**13,189**	13,425	6.46%	07/01/07	(10)	(11)
Metropolitan Life Insurance Company	**—**	8,516	8.13%	N/A	N/A	N/A
Bank of America, N.A. – Interest Rate Swaps	**86,156**	86,669	5.95% (Note 16)			
Total fixed-rate debt	**146,407**	140,836				
	$ 153,361	$ 174,847				

Notes:

(1) Bradford Towne Centre
Ledgewood Mall

(2) Branch Shopping Center
Abington Towne Center
Methuen Shopping Center
Town Line Plaza
Gateway Shopping Center; there is additional capacity of $970 on this facility.

(3) Smithtown Shopping Center

(4) Soundview Marketplace; there is additional capacity of $5,000 on this facility.

(5) Elmwood Park Shopping Center; no amounts are outstanding under this $20,000 revolving facility.

(6) Marketplace of Absecon; no amounts are outstanding under this $7,400 revolving facility.

(7) GHT Apartments/Colony Apartments

(8) New Loudon Center

(9) 239 Greenwich Avenue

(10) Merrillville Plaza

(11) Monthly principal and interest

(12) Annual principal and monthly interest

(13) Interest only until 5/05; monthly principal and interest thereafter

(14) Interest only until 9/06; monthly principal and interest thereafter

(15) Interest only monthly

(16) Interest only monthly until fully drawn; monthly principal and interest thereafter

The scheduled principal repayments of all mortgage indebtedness as of December 31, 2004 are as follows:

2005	$ 1,605
2006	2,188
2007	16,362
2008	12,434
2009	5,156
Thereafter	115,616
	$153,361

Note 7

Shareholders' Equity and Minority Interests

Common Shares

In March of 2004, a secondary public offering was completed for a total of 5,750,000 Common Shares. The selling shareholders, Yale University and its affiliates ("Yale") and Ross Dworman, a former trustee, sold 4,191,386 and 1,558,614 Common Shares, respectively. The Company did not sell any Common Shares in the offering and did not receive any proceeds from the offering.

During November 2004, the Company issued 1,890,000 Common Shares (the "Offering"). The $28,312 in proceeds from the Offering, net of related costs, was used to retire above-market, fixed-rate indebtedness as well as to invest in real estate assets. Yale and Kenneth F. Bernstein, the Company's Chief Executive Officer, also sold 1,000,000, and 110,000 Common Shares, respectively, in connection with this transaction. Mr. Bernstein sold 110,000 Common Shares in connection with his exercise of options to purchase 150,000 Common Shares. In connection with the Offering, the Company and all insiders, including Yale, agreed to a 90-day lockup period. After the Offering, Yale owns approximately 3,600,000 Common Shares, or approximately 12% of all outstanding Common Shares of the Company.

In May 2004, the Board of Trustees approved a resolution permitting one of its institutional shareholders, which currently owns approximately 2% of the Company's outstanding Common Shares, to acquire additional shares through open market purchases. This waiver of the Company's share ownership limitation will permit this shareholder to acquire up to an additional 3% of the Company's shares through December 31, 2004, or an aggregate of up to 5% of the Company's Common Shares.

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

Through December 31, 2004, the Company had repurchased 2,051,605 Common Shares at a total cost of $11,650 (of which 1,425,643 of these Common Shares have been subsequently reissued) under the expanded share repurchase program that allows for the repurchase of up to $20,000 of the Company's outstanding Common Shares. The repurchased shares are reflected as a reduction of par value and additional paid-in capital.

Minority Interests

Minority interest in Operating Partnership represents the limited partners' interest of 392,255 and 1,139,017 units in the Operating Partnership ("Common OP Units") at December 31, 2004 and 2003, respectively. During 2004 and 2003, various limited partners converted a total of 746,762 and 2,058,804 Common OP Units into Common Shares on a one-for-one basis, respectively. Mr. Dworman, a former trustee of the Company, received 34,841 of Common OP Units through various affiliated entities during 2003 (Note 8).

Minority interest in Operating Partnership also includes 1,580 units of preferred limited partnership interests designated as Series A Preferred Units at December 31, 2004 and 2003 and 4,000 preferred limited partnership interests designated as Series B Preferred Units at December 31, 2004.

The Series A Preferred OP Units were issued on November 16, 1999 in connection with the acquisition of all the partnership interests of the limited partnership which owns the Pacesetter Park Shopping Center. Certain Series A Preferred OP Unit holders converted 632 Series

A Preferred OP Units into 84,267 Common OP Units and then into Common Shares during 2003. The Series A Preferred OP Units, which have a stated value of $1,000 each, are entitled to a quarterly preferred distribution of the greater of (i) $22.50 (9% annually) per Series A Preferred OP Unit or (ii) the quarterly distribution attributable to a Series A Preferred OP Unit if such unit were converted into a Common OP Unit. The Series A Preferred OP Units are currently convertible into Common OP Units based on the stated value divided by $7.50. After the seventh anniversary following their issuance, either the Company or the holders can call for the conversion of the Series A Preferred OP Units at the lesser of $7.50 or the market price of the Common Shares as of the conversion date.

The Series B Preferred OP Units were issued to Klaff Realty LP ("Klaff") in January 2004 in consideration for the acquisition of certain management contract rights. The Series B Preferred OP Units, with a stated value of a $1,000 each, are entitled to a preferred quarterly distribution of the greater of (i) $13.00 (5.2% annually) per unit or (ii) the quarterly distribution attributable to a Series B Preferred OP Unit if such unit were converted into a Common OP Unit. The Series B Preferred OP Units are convertible into Common OP Units based on the stated value of $1,000 divided by $12.82 at any time. The Company's Board of Trustees approved a waiver on February 24, 2004, which allows Klaff to redeem 1,500 Series B Preferred OP Units at any time for cash. As of December 31, 2004, none of these units have been redeemed.

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

Note 8

Related Party Transactions

The Company managed one property in which a shareholder of the Company had an ownership interest, for which the Company earned a management fee of 3% of tenant collections. Management fees earned by the Company under this contract aggregated $142, $212 and $229 for the years ended 2004, 2003 and 2002, respectively. In addition, the Company also earned leasing commissions of $157 related to this property for the year ended December 31, 2004. In connection with the sale of the property on July 12, 2004, the management contract was terminated and the Company earned a $75 disposition fee.

The Company also earns certain management and service fees in connection with its investment in Fund I and Fund II (Note 4). Such fees earned by the Company (after adjusting for intercompany fees) aggregated $3,504, $1,689 and $1,082 for the years ended December 31, 2004, 2003 and 2002, respectively.

The Company also earns fees in connection with its rights to provide asset management, leasing, disposition, development and construction services for an existing portfolio of retail properties and/or leasehold interests in which Klaff, a preferred OP unit holder, has an interest, which was acquired during 2004. Net fees earned by the Company (after payment of submanagement fees of $1,591) in connection with this portfolio were $885 for the year ended December 31, 2004.

On March 19, 2004, Mr. Dworman and certain entities controlled by Mr. Dworman converted 1,000,000 share options and 548,614 OP Units held by them in connection with Mr. Dworman's resignation from the Company's Board of Trustees and in connection with a secondary public offering. Included in the Common OP Units converted to Common Shares during 2003 were 2,300 Common OP Units converted by Mr. Dworman who then transferred them to a charitable foundation in accordance with a pre-existing arrangement.

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

During the year ended December 31, 2004, Kenneth F. Bernstein, President and Chief Executive Officer, and certain former trustees of the Company exercised 400,000 and 20,000 options to purchase Common Shares, respectively.

Note 9

Tenant Leases

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

Minimum future rentals to be received under non-cancelable leases for shopping centers and other retail properties as of December 31, 2004 are summarized as follows:

2005	$ 42,868
2006	41,189
2007	37,871
2008	32,982
2009	28,875
Thereafter	171,903
	$355,688

Minimum future rentals above include a total of $4,805 for two tenants (with three leases), which have filed for bankruptcy protection. None of these leases have been rejected nor affirmed. During the years ended December 31, 2004, 2003 and 2002, no single tenant collectively accounted for more than 10% of the Company's total revenues.

Note 10

Lease Obligations

The Company leases land at four of its shopping centers, which are accounted for as operating leases and generally provide the Company with renewal options. Ground rent expense was $791, $780 and $791 for the years ended December 31, 2004, 2003 and 2002, respectively. The leases terminate during the years 2020 to 2066. One of these leases provides the Company with options to renew for additional terms aggregating from 20 to 44 years. The Company leases space for its White Plains corporate office for a term expiring in 2010. Office rent expense was $239, $242 and $109 for the years ended December 31, 2004, 2003 and 2002, respectively. Future minimum rental payments required for leases having remaining non-cancelable lease terms are as follows:

2005	$ 1,042
2006	1,051
2007	1,068
2008	1,129
2009	1,149
Thereafter	17,088
	$22,527

Note 11

Share Incentive Plan

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

The 1999 Plan also provides for the granting of share appreciation rights, restricted shares and performance units/shares. Share appreciation rights provide for the participant to receive, upon exercise, cash and/or Common Shares, at the discretion of the committee, equal to the excess of the market value of the Common Shares at the exercise date over the market value of the Common Shares at the Grant Date. The Committee will determine the award and restrictions placed on restricted shares, including the dividends thereon and the term of such restrictions. The Committee also determines the award and vesting of performance units and performance shares based on the attainment of specified performance objectives of the Company within a specified performance

period. Through December 31, 2004, no share appreciation rights or performance units/shares have been awarded.

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

As of December 31, 2004, the Company has 464,650 options outstanding to officers and employees. These fully vested options are for 10-year terms from the grant date and, except for 10,000 options which vested fully as of the grant date, vested in three equal annual installments which began on the grant date. In addition, 26,000 options have been issued to non-employee Trustees of which 8,200 options were vested as of December 31, 2004.

During 2004, the Committee granted a total of 126,853 restricted shares (net of subsequent forfeitures) pursuant to the 2003 Plan to certain employees of the Company (the "Recipients"). In general, the restricted shares carry all the rights of Common Shares including voting and dividend rights, but may not be transferred, assigned or pledged until the Recipients have a vested non-forfeitable right to such shares. Vesting with respect to these restricted shares, which is subject to the Recipients' continued employment with the Company through the applicable vesting dates, is as follows:

i. 85,157 restricted shares vest 20% on each of the next five anniversaries of the grant date, January 2, 2004 ("Grant Date"),

ii. 20,848 restricted shares vest 20% on each of the next five anniversaries of the Grant Date, provided that in addition to the Recipients' continued employment through the vesting date, the Company's total shareholder return, as determined by the Committee in its discretion, is 8% or more either for such fiscal year or, on average, for such fiscal year and each other fiscal year occurring after January 2, 2004 — in which case vesting shall occur for any restricted shares that did not vest in a prior fiscal year based on this 8% condition.

iii. 20,848 restricted shares vest 20% on each of the next five anniversaries of the Grant Date, provided that in addition to the Recipients' continued employment through the vesting date, the Company's total shareholder return, as determined by the Committee in its discretion, is 11% or more either for such fiscal year or, on average, for such fiscal year and each other fiscal year occurring after January 2, 2004 — in which case vesting shall occur for any restricted shares that did not vest in a prior fiscal year based on this 11% condition.

The total value of the above restricted share awards on the date of grant was $1,586 which will be recognized in expense over the vesting period.

For the year ended December 31, 2003, 107,834 restricted shares were issued pursuant to the 2003 Plan. The total value of the restricted share awards on the date of grant was $752 which will be recognized in expense over the vesting period. No restricted shares were issued for the year ended December 31, 2002. No awards of share appreciation rights or performance units/shares were granted for the years ended December 31, 2004, 2003 and 2002.

For the years ended December 31, 2004, 2003 and 2002, $764, $410 and $121, respectively, was recognized in compensation expense related to restricted share grants. Unearned compensation of $1,400 as of December 31, 2004 will be recognized in expense as such shares vest.

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

The Company has used the Black-Scholes option-pricing model for purposes of estimating the fair value in determining compensation expense for options granted for the years ended December 31, 2004, 2003 and 2002.

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

	Years Ended December 31,		
	2004	2003	2002
Risk-free interest rate	**4.0%**	4.4%	3.3%
Dividend yield	**4.2%**	5.8%	7.0%
Expected life	**7.5 yrs.**	10.0 yrs.	7.0 yrs.
Expected volatility	**18.0%**	18.0%	19.1%
Fair value at date of grant (per option)	**$ 2.17**	$0.82	$0.44

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

	Years Ended December 31,		
	2004	2003	2002
Outstanding at beginning of year	**2,095,150**	2,472,400	2,593,400
Granted	**19,000**	8,000	5,000
Option price per share granted	**$12.55–$14.13**	$9.11–$11.66	$7.10
Cancelled	**—**	—	—
Exercisable at end of period	**446,850**	2,082,750	2,313,436
Settled[1]	**39,500**	385,000	126,000
Exercised	**1,610,000**	250	—
Expired	**—**	—	—
Outstanding at end of year	**464,650**	2,095,150	2,472,400
Option prices per share outstanding	**$5.75–$14.13**	$4.89–$11.66	$4.89–$7.50

[1]Pursuant to the 1999 Plan these options were settled and did not result in the issuance of any additional Common Shares.

As of December 31, 2004 the outstanding options had a weighted average exercise price of $6.61 and a weighted average remaining contractual life of approximately 5.4 years.

Note 12

Employee Stock Purchase Plan and Deferred Share Plan

In 2003, the Company adopted the Acadia Realty Trust Employee Stock Purchase Plan (the “Purchase Plan”), which allows eligible employees of the Company to purchase Common Shares through payroll deductions. The Purchase Plan provides for employees to purchase Common Shares on a quarterly basis at a 15% discount to the closing price of the Company’s Common Shares on either the first day or the last day of the quarter, whichever is lower. The amount of the payroll deductions will not exceed a percentage of the participant’s annual compensation that the Committee establishes from time to time, and a participant may not purchase more than 1,000 Common Shares per quarter. Compensation expense will be recognized by the Company to the extent of the above discount to the average closing price of the Common Shares with respect to the applicable quarter. During 2004 and 2003, 6,397 and 810 Common Shares, respectively, were purchased by Employees under the Purchase Plan and the associated compensation expense was $15 and $1, respectively.

In August of 2004, the Company adopted a Deferral and Distribution Election (“Deferred Share Election”) pursuant to the 1999 Share Incentive Plan and 2003 Share Incentive Plan, whereby the participants elected to defer receipt of 190,487 Common Shares (“Share Units”) that would otherwise be issued upon the exercise of certain options. The payment of the option exercise price was made by tendering Common Shares that the participants owned for at least six months prior to the option

exercise date. The Share Units are equivalent to a Common Share on a one-for-one basis and carry a dividend equivalent right equal to the dividend rate for the Company's Common shares. The deferral period is determined by each of the participants and generally terminates after the cessation of the participants continuous service with the Company, as defined in the agreement. In December 2004, optionees exercised 346,000 options pursuant to the Deferred Share Election and tendered 155,513 Common Shares in consideration of the option exercise price. The Company issued 155,513 Common Shares to optionees and 190,487 Share Units.

Note 13

Employee 401(k) Plan

The Company maintains a 401(k) plan for employees under which the Company currently matches 50% of a plan participant's contribution up to 6% of the employee's annual salary. A plan participant may contribute up to a maximum of 15% of their compensation but not in excess of $13 for the year ended December 31, 2004. The Company contributed $109, $110, and $115 for the years ended December 31, 2004, 2003 and 2002, respectively.

Note 14

Dividends and Distributions Payable

On December 7, 2004, the Company declared a cash dividend for the quarter ended December 31, 2004 of $0.1725 per Common Share. The dividend was paid on January 14, 2005 to shareholders of record as of December 31, 2004.

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

	Years Ended December 31,		
	2004	2003	2002
Ordinary income	**59%**	100%	44%
Long-term capital gain	**0%**	0%	56%
Section 1250 gain	**32%**	0%	0%
Return of capital	**9%**	0%	0%
	100%	100%	100%

Note 15

Income Taxes

The Company believes it qualifies as a REIT and therefore is not liable for income taxes at the federal level or in most states for the current year as well as for future years. Accordingly, for the years ended December 31, 2004, 2003 and 2002, no provision was recorded for federal or state income taxes.

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

	Years Ended December 31,		
	2004 Estimate	2003 Actual	2002 Actual
Book net income	**$ 19,585**	$ 7,853	$19,399
Book/tax difference in depreciation and amortization	**3,438**	3,828	(6,802)
Book/tax difference on gains/losses from capital transactions	**(1,354)**	—	904
Book/tax difference on exercise of options to purchase common shares	**(8,970)**	—	—
Other book/tax differences, net	**1,953**	(326)	1,380
REIT taxable income before dividends paid deduction	**$ 14,652**	$11,355	$ 14,881

Note 16

Financial Instruments

Fair Value of Financial Instruments

SFAS No. 107, "Disclosures About Fair Value of Financial Instruments" requires disclosure on the fair value of financial instruments. Certain of the Company's assets and liabilities are considered financial instruments. Fair value estimates, methods and assumptions are set forth below.

Cash and Cash Equivalents, Cash in Escrow, Rents Receivable, Notes Receivable, Prepaid Expenses, Other Assets, Accounts Payable and Accrued Expenses,

Dividends and Distributions Payable, Due to Related Parties and Other Liabilities — The carrying amount of these assets and liabilities approximates fair value due to the short-term nature of such accounts.

Derivative Instruments — The fair value of these instruments is based upon the estimated amounts the Company would receive or pay to terminate the contracts as of December 31, 2004 and 2003 and is determined using interest rate market pricing models.

Mortgage Notes Payable — As of December 31, 2004 and 2003, the Company has determined the estimated fair value of its mortgage notes payable are approximately $153,612 and $193,619, respectively, by discounting future cash payments utilizing a discount rate equivalent to the rate at which similar mortgage notes payable would be originated under conditions then existing.

Derivative Financial Instruments

Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. As required by SFAS 133, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

For derivatives designated as fair value hedges, changes in the fair value of the derivative and the hedged item related to the hedged risk are recognized in earnings. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings) and subsequently reclassified to earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. The Company assesses the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or transaction. For derivatives not designated as hedges, changes in fair value are recognized in earnings.

As of December 31, 2004 and 2003, 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 as hedges.

During November 2004, the Company terminated interest rate swaps with a total notional amount of $16,974 in connection with its investment in the Crossroads joint venture, which completed a refinancing of an existing variable-rate mortgage with a new fixed-rate mortgage. The fair value of these interest rate swaps was $1,307 which was paid by the Company to the counter-party at the termination date. This amount has been deferred in accumulated other comprehensive income and will be reclassified as additional interest expense as the hedged forecasted interest payments occur. Of this amount, $62 was reclassified from accumulated other comprehensive income as additional interest expense during 2004.

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

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

In January and February 2004, the Company entered into four forward starting variable to fixed interest rate swap agreements as described in the table below.

The following table summarizes the notional values and fair values of the Company's derivative financial instruments as of December 31, 2004. The notional value does not represent exposure to credit, interest rate or market risks:

Hedge Type	Notional Value	Rate	Forward Start Date	Interest Maturity	Fair Value
LIBOR Swap	$30,000	4.80%	N/A	4/1/05	$ (171)
LIBOR Swap	20,000	4.53%	N/A	10/1/06	(436)
LIBOR Swap	8,866	4.47%	N/A	6/1/07	(213)
LIBOR Swap	15,387	4.32%	N/A	1/1/07	(289)
LIBOR Swap	11,903	4.11%	N/A	1/1/07	(176)
	$ 86,156				
LIBOR Swap[1]	$ 37,667	4.35%	4/1/05	1/1/11	(449)
LIBOR Swap[1]	11,410	4.90%	10/2/06	10/1/11	(187)
LIBOR Swap[1]	4,640	4.71%	10/2/06	1/1/10	(57)
LIBOR Swap[1]	8,434	5.14%	6/1/07	3/1/12	(158)
	$ 62,151				
Interest rate swap payable					$ (2,136)

[1]Forward starting interest swap agreements.

As of December 31, 2004 and 2003, the derivative instruments were reported at fair value as derivative instrument liabilities of $2,136 and $5,860 (of which $1,816 was reflected as a reduction of investments in and advances to unconsolidated partnerships for 2003), respectively. As of December 31, 2004 and 2003, unrealized losses totaling $3,219 and $5,734 represented the fair value of the aforementioned derivatives, of which $3,180 and $5,505 was reflected in accumulated other comprehensive loss, and $39 and $229 as a reduction of minority interest in Operating Partnership. For the years ended December 31, 2004 and 2003, the Company recorded in interest expense an unrealized (loss) gain of ($37) and $51, respectively, due to partial ineffectiveness on one of the swaps which was terminated in November 2004. The ineffectiveness resulted from differences between the derivative notional and the principal amount of the hedged variable rate debt.

The Company's interest rate hedges are designated as cash flow hedges and hedge the future cash outflows on mortgage debt. Interest rate swaps that convert variable payments to fixed payments, such as those held by the Company, as well as interest rate caps, floors, collars, and forwards are cash flow hedges. The unrealized gains and losses in the fair value of these hedges are reported on the balance sheet with a corresponding adjustment to either accumulated other comprehensive income or earnings depending on the type of hedging relationship. For cash flow hedges, offsetting gains and losses are reported in accumulated other comprehensive income. Over time, the unrealized gains and losses held in accumulated other comprehensive income will be reclassified to earnings. This reclassification occurs over the same time period in which the hedged items affect earnings. Within the next twelve months, the Company expects to reclassify to earnings as interest expense approximately $1,300 of the current balance held in accumulated other comprehensive loss.

Note 17

Earnings per Common Share

Basic earnings per share was determined by dividing the applicable net income to common shareholders for the year by the weighted average number of Common Shares outstanding during each year consistent with SFAS No. 128. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue Common Shares were exercised or converted into Common Shares or resulted in the issuance of Common Shares that then shared in the earnings of the Company. The following table sets forth the computation of basic and diluted earnings per share from continuing operations for the periods indicated.

	Years Ended December 31,		
	2004	2003	2002
Numerator:			
Income from continuing operations — basic earnings per share	**$13,891**	$ 8,755	$ 11,742
Effect of dilutive securities:			
Preferred OP Unit distributions	**—**	—	199
Numerator for diluted earnings per share	**13,891**	8,755	11,941
Denominator:			
Weighted average shares — basic earnings per share	**29,341**	26,640	25,321
Effect of dilutive securities:			
Employee stock options	**571**	592	190
Convertible Preferred OP Units	**—**	—	295
Dilutive potential Common Shares	**571**	592	485
Denominator for diluted earnings per share	**29,912**	27,232	25,806
Basic earnings per share from continuing operations	**$ 0.47**	$ 0.33	$ 0.47
Diluted earnings per share from continuing operations	**$ 0.46**	$ 0.32	$ 0.46

The weighted average shares used in the computation of basic earnings per share include unvested restricted shares (Note 11) and Share Units that are entitled to receive dividend equivalent payments (Note 12). The effect of the conversion of Common OP Units is not reflected in the above table as they are exchangeable for Common Shares on a one-for-one basis. The income allocable to such units is allocated on this same basis and reflected as minority interest in the accompanying consolidated financial statements. As such, the assumed conversion of these units would have no net impact on the determination of diluted earnings per share.

Note 18

Summary of Quarterly Financial Information (unaudited)

The quarterly results of operations of the Company for the years ended December 31, 2004 and 2003 are as follows:

	2004				
	March 31	**June 30**	**September 30**	**December 31**	**Total For Year**
Revenue	$17,544	$ 17,757	$18,340	$19,215	**$72,856**
Income from continuing operations	3,209	4,004	3,223	3,455	**13,891**
Income (loss) from discontinued operations	(359)	(240)	(328)	6,621	**5,694**
Net income	2,850	3,764	2,895	10,076	**19,585**
Net income per Common Share — basic:					
Income from continuing operations	$ 0.11	$ 0.14	$ 0.11	$ 0.11	**$ 0.47**
Income (loss) from discontinued operations	(0.01)	(0.01)	(0.01)	0.22	**0.20**
Net income	$ 0.10	$ 0.13	$ 0.10	$ 0.33	**$ 0.67**
Net income per Common Share — diluted:					
Income from continuing operations	$ 0.11	$ 0.14	$ 0.11	$ 0.11	**$ 0.46**
Income (loss) from discontinued operations	(0.01)	(0.01)	(0.01)	0.21	**0.19**
Net income	$ 0.10	$ 0.13	$ 0.10	$ 0.32	**$ 0.65**
Cash dividends declared per Common Share	$ 0.16	$ 0.16	$ 0.16	$0.1725	**$0.6525**
Weighted average Common Shares outstanding:					
Basic	27,890,065	29,333,184	29,459,175	30,665,688	**29,340,992**
Diluted	28,560,779	29,793,310	29,953,528	31,645,852	**29,912,405**

	2003				
	March 31	**June 30**	**September 30**	**December 31**	**Total For Year**
Revenue	$17,685	$16,076	$16,374	$ 17,712	**$67,847**
Income(loss) from continuing operations	3,702	2,648	2,667	(262)	**8,755**
Income from discontinued operations	(239)	(205)	(243)	(215)	**(902)**
Net income	3,463	2,443	2,424	(477)	**7,853**
Net income per Common Share — basic:					
Income from continuing operations	$ 0.15	$ 0.10	$ 0.10	$ (0.01)	**$ 0.33**
Income from discontinued operations	(0.01)	(0.01)	(0.01)	(0.01)	**(0.03)**
Net income	$ 0.14	$ 0.09	$ 0.09	$ (0.02)	**$ 0.30**
Net income per Common Share — diluted:					
Income from continuing operations	$ 0.15	$ 0.10	$ 0.10	$ (0.01)	**$ 0.32**
Income from discontinued operations	(0.01)	(0.01)	(0.01)	(0.01)	**(0.03)**
Net income	$ 0.14	$ 0.09	$ 0.09	$ (0.02)	**$ 0.29**
Cash dividends declared per Common Share	$ 0.15	$ 0.15	$ 0.15	$ 0.16	**$ 0.61**
Weighted average Common Shares outstanding:					
Basic	25,377,095	26,387,010	27,333,040	27,431,982	**26,639,832**
Diluted	25,639,027	26,880,780	28,062,699	28,305,567	**27,232,816**

Note 19

Commitments and Contingencies

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

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

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

For the year ended December 31, 2004, the Company accrued estimated costs of $730 related to flood damage incurred at the Mark Plaza located in Wilkes-Barre, Pennsylvania. Under the terms of the Company's insurance policy, a maximum deductible of approximately $730 would apply in the event the flood damage was the direct result of a "named" storm. The insurance company currently contends that the flood damage resulted directly from Hurricane Ivan, a "named" storm.

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

Note 20

Subsequent Events

On March 8, 2005, the Company invested $20,000 in a 10% preferred equity position in a Klaff controlled entity which leases real estate to Levitz Furniture.

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