

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-Q**

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

For the quarterly period ended June 30, 2003

*Commission File Number 1-12002*

**ACADIA REALTY TRUST**

(Exact name of registrant in its charter)

**MARYLAND**

**23-2715194**

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

**1311 MAMARONECK AVENUE, SUITE 260, WHITE PLAINS, NY**

**10605**

(Address of principal executive offices)

(Zip Code)

**(914) 288-8100**

(Registrant's telephone number, including area code)

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

Yes

No

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

Yes

No

As of August 12, 2003, there were 27,136,845 common shares of beneficial interest, par value \$.001 per share, outstanding.

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ACADIA REALTY TRUST AND SUBSIDIARIES  
FORM 10-Q  
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**Part I. Financial Information****Item 1. Financial Statements**

**ACADIA REALTY TRUST AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except per share amounts)

	June 30, 2003	December 31, 2002
	(unaudited)	
<b>ASSETS</b>		
Real estate:		
Land	\$ 54,890	\$ 54,890
Buildings and improvements	365,151	352,359
Construction in progress	3,356	6,629
	<u>423,397</u>	<u>413,878</u>
Less: accumulated depreciation	91,612	85,062
	<u>331,785</u>	<u>328,816</u>
Net real estate	331,785	328,816
Cash and cash equivalents	34,194	45,168
Cash in escrow	4,236	3,447
Investments in unconsolidated partnerships	12,533	6,164
Rents receivable, net	7,669	6,959
Notes receivable	3,563	6,795
Prepaid expenses	1,189	2,042
Deferred charges, net	9,946	10,360
Other assets	1,565	1,184
	<u>\$ 406,680</u>	<u>\$ 410,935</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Mortgage notes payable	\$ 199,691	\$ 202,361
Accounts payable and accrued expenses	10,045	8,528
Dividends and distributions payable	4,191	3,744
Due to related parties	49	174
Deferred gain on sale of properties	—	1,212
Derivative instruments	6,225	5,470
Other liabilities	2,606	2,998
	<u>222,807</u>	<u>224,487</u>
Total liabilities	222,807	224,487
Minority interest in Operating Partnership	9,989	22,745
Minority interests in majority-owned partnerships	1,827	2,380
	<u>11,816</u>	<u>25,125</u>
Total minority interests	11,816	25,125
Shareholders' equity:		
Common shares, \$.001 par value, authorized 100,000,000 shares, issued and outstanding 27,136,845 and 25,257,178 shares, respectively	27	25
Additional paid-in capital	182,870	170,851
Accumulated other comprehensive loss	(8,161)	(6,874)
Deficit	(2,679)	(2,679)
	<u>172,057</u>	<u>161,323</u>
Total shareholders' equity	172,057	161,323
	<u>\$ 406,680</u>	<u>\$ 410,935</u>

See accompanying notes

**ACADIA REALTY TRUST AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2003 AND 2002**

(unaudited)

(in thousands, except per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
<b>Revenues</b>				
Minimum rents	\$ 2,618	\$ 11,892	\$ 24,715	\$ 23,721
Percentage rents	95	122	389	441
Expense reimbursements	2,896	2,741	6,613	5,266
Lease termination income	—	145	—	3,945
Other property income	161	144	312	309
Other	695	979	2,561	1,867
<b>Total revenues</b>	<b>16,465</b>	<b>16,023</b>	<b>34,590</b>	<b>35,549</b>
<b>Operating Expenses</b>				
Property operating	3,389	2,668	7,743	5,383
Real estate taxes	1,812	2,170	4,009	4,090
General and administrative	2,449	2,802	5,145	5,127
Depreciation and amortization	3,888	3,673	7,489	7,258
<b>Total operating expenses</b>	<b>11,538</b>	<b>11,313</b>	<b>24,386</b>	<b>21,858</b>
Operating income	4,927	4,710	10,204	13,691
Equity in earnings of unconsolidated partnerships	595	106	1,148	224
Gain on sale of land	—	—	1,212	1,530
Interest expense	(2,805)	(2,665)	(5,531)	(5,426)
Minority interest	(274)	(381)	(1,127)	(2,099)
<b>Income from continuing operations</b>	<b>2,443</b>	<b>1,770</b>	<b>5,906</b>	<b>7,920</b>
<b>Discontinued operations:</b>				
Operating income from discontinued operations	—	367	—	891
Gain on sale of properties	—	1,987	—	1,832
Minority interest	—	(302)	—	(355)
<b>Income from discontinued operations</b>	<b>—</b>	<b>2,052</b>	<b>—</b>	<b>2,368</b>
<b>Net income</b>	<b>\$ 2,443</b>	<b>\$ 3,822</b>	<b>\$ 5,906</b>	<b>\$ 10,288</b>

**ACADIA REALTY TRUST AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2003 AND 2002**

(unaudited)

(in thousands, except per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
Basic earnings per share:				
Income from continuing operations	\$ 0.09	\$ 0.07	\$ 0.23	\$ 0.31
Income from discontinued operations	—	0.08	—	0.09
Basic earnings per share	\$ 0.09	\$ 0.15	\$ 0.23	\$ 0.40
Diluted earnings per share:				
Income from continuing operations	\$ 0.09	\$ 0.07	\$ 0.23	\$ 0.31
Income from discontinued operations	—	0.08	—	0.09
Diluted earnings per share	\$ 0.09	\$ 0.15	\$ 0.23	\$ 0.40

See accompanying notes

**ACADIA REALTY TRUST AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002**

(unaudited)  
(in thousands)

	Six months ended June 30,	
	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Income from continuing operations	\$ 5,906	\$ 7,920
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	7,489	7,258
Gain on sale of property	(1,212)	(1,530)
Minority interests	1,127	2,099
Equity in earnings of unconsolidated partnerships	(1,148)	(224)
Provision for bad debts	367	170
Changes in assets and liabilities:		
Funding of escrows, net	(789)	(875)
Rents receivable	(1,077)	(881)
Prepaid expenses	853	230
Other assets	(526)	(524)
Accounts payable and accrued expenses	(785)	(848)
Due to related parties	(125)	49
Other liabilities	(392)	(568)
Net cash provided by operating activities	9,688	12,276
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Expenditures for real estate and improvements	(4,304)	(7,088)
Payment of accrued expense related to redevelopment project	(2,488)	—
Contribution to unconsolidated partnership	(5,855)	(114)
Distributions from unconsolidated partnerships	574	720
Collections on purchase money notes	3,232	—
Net proceeds from sale of property	—	2,974
Payment of deferred leasing costs	(63)	(586)
Net cash used in investing activities	(8,904)	(4,094)

**ACADIA REALTY TRUST AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2003 AND 2002**

(unaudited)  
(in thousands)

	Six months ended June 30,	
	2003	2002
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on mortgages	\$ (23,671)	\$ (15,118)
Proceeds received on mortgage notes	21,000	7,758
Payment of deferred financing and other costs	(226)	(470)
Dividends paid	(6,971)	(6,650)
Distributions to minority interests in Operating Partnership	(850)	(1,114)
Distributions on preferred Operating Partnership Units	(100)	(100)
Distributions to minority interests in majority-owned partnerships	(940)	(38)
Repurchase of Common Shares	—	(33,420)
Net cash used in financing activities	(11,758)	(49,152)
Cash flows from discontinued operations:		
Net cash provided by discontinued operations	—	43,948
(Decrease) increase in cash and cash equivalents	(10,974)	2,978
Cash and cash equivalents, beginning of period	45,168	34,138
	34,194	37,116
Less: Cash related to discontinued operations	—	—
Cash and cash equivalents, end of period	\$ 34,194	\$ 37,116
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest, net of amounts capitalized of \$262 and \$456, respectively	\$ 5,466	\$ 6,684

See accompanying notes

**ACADIA REALTY TRUST AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2003**  
(in thousands, except per share amounts)

**1. THE COMPANY**

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

All of the Company’s assets are held by, and all of its operations are conducted through, Acadia Realty Limited Partnership (the “Operating Partnership”) and its majority-owned partnerships. As of June 30, 2003, the Company controlled 95% of the Operating Partnership as the sole general partner.

The Company currently operates 62 properties, which it owns or has an ownership interest in, consisting of 60 neighborhood and community shopping centers and two multi-family properties, located in the Northeast, Mid-Atlantic and Midwest regions of the United States.

**2. BASIS OF PRESENTATION**

The consolidated financial statements include the consolidated accounts of the Company and its majority-owned partnerships, including the Operating Partnership, and have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Non-controlling investments in partnerships are accounted for under the equity method of accounting as the Company exercises significant influence. The information furnished in the accompanying consolidated financial statements reflects all adjustments that, in the opinion of management, are necessary for a fair presentation of the aforementioned consolidated financial statements for the interim periods.

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates. Operating results for the six months ended June 30, 2003 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2003. For further information refer to the consolidated financial statements and accompanying footnotes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2002.

**3. EARNINGS PER COMMON SHARE**

Basic earnings per share was determined by dividing the net income applicable to common shareholders for the period by the weighted average number of Common Shares outstanding during each period consistent with Statement of Financial Accounting Standards (“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:



**ACADIA REALTY TRUST AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands, except per share amounts)

**3. EARNINGS PER COMMON SHARE, continued**

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
<b>Numerator:</b>				
Income from continuing operations – basic earnings per share	\$ 2,443	\$ 1,770	\$ 5,906	\$ 7,920
Effect of dilutive securities:				
Preferred OP Unit distributions	50	50	100	100
Numerator for diluted earnings per share	\$ 2,493	\$ 1,820	\$ 6,006	\$ 8,020
<b>Denominator:</b>				
Weighted average shares – basic earnings per share	26,387	24,775	25,885	25,571
Effect of dilutive securities:				
Employee stock options and restricted shares	494	183	378	149
Convertible Preferred OP Units	295	295	295	295
Dilutive potential Common Shares	789	478	673	444
Denominator for diluted earnings per share	27,176	25,253	26,558	26,015
Basic earnings per share from continuing operations	\$ 0.09	\$ 0.07	\$ 0.23	\$ 0.31
Diluted earnings per share from continuing operations	\$ 0.09	\$ 0.07	\$ 0.23	\$ 0.31

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.

**4. STOCK-BASED COMPENSATION**

Effective January 1, 2002, the Company adopted the fair value method of recording stock-based compensation contained in SFAS No. 123. As such, all vested stock options granted after December 31, 2001 will be reflected as compensation expense in the Company's consolidated financial statements over the vesting period based on the fair value at the date the stock-based compensation was granted. Under SFAS No. 123, companies may elect to choose from three alternative transition methods as it relates to the adoption of the fair value basis method of accounting for employee stock options. The Company has elected the prospective method whereby compensation expense will be recognized only for those options issued after December 31, 2001.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value based method of accounting for stock-based employee compensation for vested stock options granted prior to January 1, 2002.

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
<b>Net income:</b>				
As reported	\$ 2,443	\$ 3,822	\$ 5,906	\$ 10,288
Pro forma	\$ 2,428	\$ 3,793	\$ 5,891	\$ 10,259
<b>Basic earnings per share</b>				
As reported	\$ 0.09	\$ 0.15	\$ 0.23	\$ 0.40
Pro forma	\$ 0.09	\$ 0.15	\$ 0.23	\$ 0.40

Diluted earnings per share

As reported	\$	0.09	\$	0.15	\$	0.23	\$	0.40
Pro forma	\$	0.09	\$	0.15	\$	0.23	\$	0.40

**ACADIA REALTY TRUST AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands, except per share amounts)

**4. STOCK-BASED COMPENSATION, continued**

Pursuant to the 1999 Share Incentive Plan (the "1999 Plan"), non-employee trustees receive an automatic grant of 1,000 options following each Annual Meeting of Shareholders. During the three months ended June 2003 and 2002, an aggregate of 6,000 options and 5,000 options, respectively, were granted to trustees for which the Company recognized compensation expense in the accompanying consolidated financial statements of \$5 and \$2, respectively. The Company used the Black-Scholes option-pricing model for the purpose of estimating the fair value of these options.

During the three months ended June 30, 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. A "Committee", which is composed of at least two non-employee trustees of the Company, administers the 2003 Plan and determines to whom Awards will be granted and the type, size, term and conditions of the Awards.

During the three months ended June 30, 2003, the Committee granted a total of 105,167 restricted shares, pursuant to the 2003 Plan, to the Chief Executive Officer and five Senior Vice Presidents 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 nonforfeitable right to such shares. Vesting with respect to these restricted shares, which is subject to the Recipients' continued employment with the Company through the applicable vesting dates, is as follows:

- i. 39,168 restricted shares, which were granted in lieu of a portion of the recipients' 2002 cash bonus, vested 20% on January 2, 2003 and vest 20% thereafter on each of the next four anniversaries of such date,
- ii. 33,000 restricted shares vest 20% on January 2, 2004 and on each of the next four anniversaries of such date,
- iii. and 32,999 restricted shares vest 20% on January 2, 2004 and on each of the next four anniversaries of such date, provided that in addition to the Recipients' continued employment through the vesting date, the Company's total shareholder return, as determined by the Committee in its discretion, is 12% or more either for such fiscal year or, on average, for such fiscal year and each other fiscal year occurring after January 2, 2003 – in which case vesting shall occur for any restricted shares that did not vest in a prior fiscal year based on this 12% condition.

Compensation expense with respect to these restricted shares will be recognized ratably as they vest.

During the three months ended June 30, 2003, the Company also adopted the Acadia Realty Trust Employee Stock Purchase Plan (the "Purchase Plan"), which will allow 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.

**5. COMPREHENSIVE INCOME**

Comprehensive income for the three months ended June 30, 2003 and 2002 totaled \$1,193 and \$1,953, respectively, and was comprised of net income of \$2,443 and \$3,822, respectively, and other comprehensive loss related to the changes in the fair value of derivative instruments of \$1,250 and \$1,869, respectively. Comprehensive income for the six months ended June 30, 2003 and 2002 totaled \$4,619 and \$9,136, respectively, and was comprised of net income of \$5,906 and \$10,288, respectively, and other comprehensive loss related to the changes in the fair value of derivative instruments of \$1,287 and \$1,152, respectively. The following table sets forth the change in accumulated other comprehensive loss for the period since December 31, 2002:

Balance at December 31, 2002	\$	6,874
Unrealized loss on valuation of swap agreements		1,287
		<hr/>
Balance at June 30, 2003	\$	8,161
		<hr/>

**ACADIA REALTY TRUST AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands, except per share amounts)

**5. COMPREHENSIVE INCOME, continued**

As of June 30, 2003, the balance in accumulated other comprehensive loss was comprised of unrealized losses on the valuation of swap agreements.

**6. DISCONTINUED OPERATIONS**

A significant component of the Company's business plan in prior years was the disposition of non-core real estate assets. During 2002, the Company sold 20 shopping centers under this initiative which was completed in 2002.

Consistent with SFAS No. 144, the results of discontinued operations are reported separately as discontinued operations for the three and six months ended June 30, 2002. Revenues from discontinued operations for the three and six months ended June 30, 2002 totaled \$1,653 and \$5,462, respectively.

**7. SHAREHOLDERS' EQUITY AND MINORITY INTERESTS**

The following table summarizes the change in the shareholders' equity and minority interests since December 31, 2002:

	Shareholders' Equity	Minority interest in Operating Partnership (1)	Minority interest in majority- owned partnerships
Balance at December 31, 2002	\$ 161,323	\$ 22,745	\$ 2,380
Conversion of 1,871,583 Operating Partnership Units into Common Shares by minority interests	13,491	(13,491)	—
Issuance of 34,841 Operating Partnership Units	—	262	—
Dividends and distributions declared of \$0.29 per Common Share and Operating Partnership Unit	(7,635)	(631)	—
Cash flow distribution	—	—	(940)
Net income for the period January 1 through June 30, 2003	5,906	641	387
Other comprehensive income – Unrealized loss on valuation of swap agreements from unconsolidated partnerships	(1,287)	463	—
Employee restricted share awards	259	—	—
Balance at June 30, 2003	\$ 172,057	\$ 9,989	\$ 1,827

Notes:

(1) Net income attributable to minority interest in Operating Partnership and distributions do not include a distribution on Preferred OP Units of \$100.

Minority interest in Operating Partnership represent the limited partners' interest of 1,326,238 and 3,623,080 units in the Operating Partnership ("Common OP Units") at June 30, 2003 and 2002, respectively, and 2,212 units of preferred limited partnership interests ("Preferred OP Units"), with a nominal value of \$1,000 per unit, which are entitled to a preferred quarterly distribution of \$22.50 per unit (9% annually). Minority interests in majority-owned partnerships represent third-party interests in three partnerships in which the Company has a majority ownership position.

Certain limited partners converted 1,871,583 Common OP Units into Common Shares on a one-for-one basis during the six months ended June 30, 2003.

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. During the six months ended June 30, 2003, Ross Dworman, a trustee of the Company, received 34,841 of these Common OP Units through various affiliated entities in connection with this obligation.

**ACADIA REALTY TRUST AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands, except per share amounts)

**7. SHAREHOLDERS' EQUITY AND MINORITY INTERESTS, continued**

In May 2003, the Board approved a resolution permitting one of its institutional shareholders, which currently owns less than 5% 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 8% of the Company's Common Shares through September 30, 2003. Under the terms of the waiver, this institutional shareholder can buy in the aggregate up to 14% of the Company's Common Shares, but not more than 4% for any individual client. In addition, they will not have voting authority over more than 9.7% of the Company's Common Shares.

**8. INVESTMENTS IN PARTNERSHIPS**

**Crossroads**

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

	June 30, 2003	December 31, 2002
Balance Sheets		
Assets:		
Rental property, net	\$ 7,379	\$ 7,603
Other assets	3,517	3,536
Total assets	\$ 10,896	\$ 11,139
Liabilities and partners' equity:		
Mortgage note payable	\$ 33,275	\$ 33,575
Other liabilities	6,084	5,832
Partners' equity	(28,463)	(28,268)
Total liabilities and partners' equity	\$ 10,896	\$ 11,139
Company's investment in Crossroads	\$ 2,947	\$ 3,241

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
Statements of Income				
Total revenue	\$ 2,077	\$ 1,683	\$ 4,096	\$ 3,398
Operating and other expenses	578	473	1,201	970
Interest expense	685	700	1,278	1,325
Depreciation and amortization	145	138	284	273
Net income	\$ 669	\$ 372	\$ 1,333	\$ 830
Company's share of net income	\$ 359	\$ 208	\$ 676	\$ 424
Amortization of excess investment (see below)	98	98	196	196
Income from Crossroads	\$ 261	\$ 110	\$ 480	\$ 228

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

**ACADIA REALTY TRUST AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands, except per share amounts)

**8. INVESTMENTS IN PARTNERSHIPS, continued****Acadia Strategic Opportunity Fund, LP (“ASOF”)**

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

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

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

	June 30, 2003	December 31, 2002
	<u>          </u>	<u>          </u>
Balance Sheets		
Assets:		
Rental property, net	\$ 176,364	\$ 28,046
Other assets	652	5,977
	<u>          </u>	<u>          </u>
Total assets	\$ 177,016	\$ 34,023
	<u>          </u>	<u>          </u>
Liabilities and partners’ equity:		
Mortgage notes payable	\$ 121,286	\$ 18,450
Other liabilities	12,653	2,418
Partners’ equity	43,077	13,155
	<u>          </u>	<u>          </u>
Total liabilities and partners’ equity	\$ 177,016	\$ 34,023
	<u>          </u>	<u>          </u>
Company’s investment in ASOF	\$ 9,586	\$ 2,923
	<u>          </u>	<u>          </u>

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Statements of Operations				
Total revenue	\$ 6,502	\$ —	\$ 12,121	\$ —
Operating and other expenses	1,112	—	2,258	—
Management and other fees	602	354	1,045	693
Interest expense	1,674	—	2,981	—
Depreciation and amortization	2,135	—	3,796	—
Minority interest	13	—	82	—
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net income (loss)	\$ 966	\$ (354)	\$ 1,959	\$ (693)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Company’s share of net income (loss)	\$ 334	\$ (4)	\$ 668	\$ (4)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

**ACADIA REALTY TRUST AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands, except per share amounts)

## 9. DERIVATIVE FINANCIAL INSTRUMENTS

The following table summarizes the notional values and fair values of the Company's derivative financial instruments as of June 30, 2003. The notional value does not represent exposure to credit, interest rate or market risks.

Hedge Type	Notional Value	Interest Rate	Maturity	Fair Value
LIBOR Swap(1)	\$ 11,974	5.94%	6/16/07	\$ (1,692)
LIBOR Swap(1)	5,000	6.48%	6/16/07	(810)
				(2,502)
LIBOR Swap	30,000	4.80%	4/1/05	(1,819)
LIBOR Swap	20,000	4.53%	10/1/06	(1,637)
LIBOR Swap	9,051	4.47%	6/1/07	(755)
LIBOR Swap	15,708	4.32%	1/1/07	(1,184)
LIBOR Swap	12,151	4.11%	1/1/07	(830)
				(6,225)
				\$ (8,727)

Notes:

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

## 10. MORTGAGE LOANS

In April 2003, the Company extended an existing \$7,400 revolving facility with a bank through March 1, 2008. As of June 30, 2003, there were no outstanding amounts under this loan.

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

## 11. RELATED PARTY TRANSACTIONS

The Company currently manages one property in which a shareholder of the Company has an ownership interest for which the Company earns a management fee of 3% of tenant collections. Management fees earned by the Company under this contract aggregated \$61 and \$115 for the three and six months ended June 30, 2003 respectively and \$52 and \$113 for the three and six months ended June 20, 2002 respectively.

The Company also earns certain management and service fees from ASOF (note 8). Such fees earned by the Company aggregated \$470 and \$814 for the three and six months ended June 30, 2003, respectively, and \$263 and \$526 for the three and six months ended June 30, 2002, respectively.

## 12. DIVIDENDS AND DISTRIBUTIONS PAYABLE

On June 25, 2003, the Board of Trustees of the Company approved and declared a cash quarterly dividend for the quarter ended June 30, 2003 of \$0.145 per Common Share and Common OP Unit. The dividend was paid on July 15, 2003 to shareholders of record as of July 2, 2003. The Board of Trustees also approved a distribution of \$22.50 per Preferred OP Unit, which was paid on July 15, 2003.

**ACADIA REALTY TRUST AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands, except per share amounts)

**13. 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 as of and for the three and six months ended June 30, 2003 and 2002 (does not include unconsolidated partnerships):

**Six months ended June 30, 2003**

	<u>Retail properties</u>	<u>Multi-Family properties</u>	<u>All other</u>	<u>Total</u>
Revenues	\$ 28,421	\$ 3,588	\$ 2,581	\$ 34,590
Property operating expenses and real estate taxes	9,790	1,962	—	11,752
Net property income before depreciation and amortization	<u>\$ 18,631</u>	<u>\$ 1,626</u>	<u>\$ 2,581</u>	<u>\$ 22,838</u>
Depreciation and amortization	<u>\$ 6,693</u>	<u>\$ 649</u>	<u>\$ 147</u>	<u>\$ 7,489</u>
Interest expense	<u>\$ 4,764</u>	<u>\$ 767</u>	<u>\$ —</u>	<u>\$ 5,531</u>
Real estate at cost	<u>\$ 384,304</u>	<u>\$ 39,093</u>	<u>\$ —</u>	<u>\$ 423,397</u>
Total assets	<u>\$ 357,694</u>	<u>\$ 36,453</u>	<u>\$ 12,533</u>	<u>\$ 406,680</u>
Gross leasable area (multi-family – 1,474 units)	<u>5,147</u>	<u>1,207</u>	<u>—</u>	<u>6,354</u>
Expenditures for real estate and improvements	<u>\$ 3,607</u>	<u>\$ 697</u>	<u>\$ —</u>	<u>\$ 4,304</u>
Revenues				
Total revenues for reportable segments	\$ 35,401			
Elimination of intersegment management fee income	(661)			
Elimination of intersegment asset management fee income	(150)			
Total consolidated revenues	<u>\$ 34,590</u>			
Property operating expenses and real estate taxes				
Total property operating expenses and real estate taxes for reportable segments	\$ 12,330			
Elimination of intersegment management fee expense	(578)			
Total consolidated expenses	<u>\$ 11,752</u>			
Reconciliation to net income				
Net property income before depreciation and amortization	\$ 22,838			
Depreciation and amortization	(7,489)			
General and administrative	(5,145)			
Equity in earnings of unconsolidated partnerships	1,148			
Interest expense	(5,531)			
Minority interest	(1,127)			
Gain on sale of land	1,212			
Net income	<u>\$ 5,906</u>			





**ACADIA REALTY TRUST AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands, except per share amounts)

**13. SEGMENT REPORTING, continued****Three months ended June 30, 2003**

	<u>Retail properties</u>	<u>Multi-Family properties</u>	<u>All other</u>	<u>Total</u>
Revenues	\$ 13,983	\$ 1,787	\$ 695	\$ 16,465
Property operating expenses and real estate taxes	4,142	1,059	—	5,201
Net property income before depreciation and amortization	<u>\$ 9,841</u>	<u>\$ 728</u>	<u>\$ 695</u>	<u>\$ 11,264</u>
Depreciation and amortization	<u>\$ 3,484</u>	<u>\$ 328</u>	<u>\$ 76</u>	<u>\$ 3,888</u>
Interest expense	<u>\$ 2,422</u>	<u>\$ 383</u>	<u>\$ —</u>	<u>\$ 2,805</u>
Real estate at cost	<u>\$ 384,304</u>	<u>\$ 39,093</u>	<u>\$ —</u>	<u>\$ 423,397</u>
Total assets	<u>\$ 357,694</u>	<u>\$ 36,453</u>	<u>\$ 12,533</u>	<u>\$ 406,680</u>
Gross leasable area (multi-family – 1,474 units)	<u>5,147</u>	<u>1,207</u>	<u>—</u>	<u>6,354</u>
Expenditures for real estate and improvements	<u>\$ 1,780</u>	<u>\$ 356</u>	<u>\$ —</u>	<u>\$ 2,136</u>
Revenues				
Total revenues for reportable segments	\$ 16,872			
Elimination of intersegment management fee income	(332)			
Elimination of intersegment asset management fee income	(75)			
Total consolidated revenues	<u>\$ 16,465</u>			
Property operating expenses and real estate taxes				
Total property operating expenses and real estate taxes for reportable segments	\$ 5,474			
Elimination of intersegment management fee expense	(273)			
Total consolidated expenses	<u>\$ 5,201</u>			
Reconciliation to net income				
Net property income before depreciation and amortization	\$ 11,264			
Depreciation and amortization	(3,888)			
General and administrative	(2,449)			
Equity in earnings of unconsolidated partnerships	595			
Interest expense	(2,805)			
Minority interest	(274)			
Gain on sale of land	—			
Net income	<u>\$ 2,443</u>			

**ACADIA REALTY TRUST AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands, except per share amounts)

**13. SEGMENT REPORTING, continued**

Six months ended June 30, 2002

	Retail properties	Multi-Family properties	All other	Total
Revenues	\$ 26,242	\$ 3,474	\$ 5,833	\$ 35,549
Property operating expenses and real estate taxes	7,796	1,677	—	9,473
Net property income before depreciation and amortization	\$ 18,446	\$ 1,797	\$ 5,833	\$ 26,076
Depreciation and amortization	\$ 6,500	\$ 586	\$ 172	\$ 7,258
Interest expense	\$ 4,608	\$ 818	\$ —	\$ 5,426
Real estate at cost	\$ 366,018	\$ 37,836	\$ —	\$ 403,854
Total assets	\$ 378,134	\$ 35,759	\$ 4,386	\$ 418,279
Gross leasable area (multi-family – 1,474 units)	5,408	1,207	—	6,615
Expenditures for real estate and improvements	\$ 6,593	\$ 495	\$ —	\$ 7,088
Revenues				
Total revenues for reportable segments	\$ 36,215			
Elimination of intersegment management fee income	(516)			
Elimination of intersegment asset management fee income	(150)			
Total consolidated revenues	\$ 35,549			
Property operating expenses and real estate taxes				
Total property operating expenses and real estate taxes for reportable segments	\$ 9,989			
Elimination of intersegment management fee expense	(516)			
Total consolidated expenses	\$ 9,473			
Reconciliation to net income				
Net property income before depreciation and amortization	\$ 26,076			
Depreciation and amortization	(7,258)			
General and administrative	(5,127)			
Equity in earnings of unconsolidated partnerships	224			
Interest expense	(5,426)			
Minority interest	(2,099)			
Income from discontinued operations	2,368			
Gain on sale of land	1,530			
Net income	\$ 10,288			

**ACADIA REALTY TRUST AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(in thousands, except per share amounts)

**13. SEGMENT REPORTING, continued****Three months ended June 30, 2002**

	<u>Retail properties</u>	<u>Multi-Family properties</u>	<u>All other</u>	<u>Total</u>
Revenues	\$ 13,159	\$ 1,733	\$ 1,131	\$ 16,023
Property operating expenses and real estate taxes	3,935	903	—	4,838
Net property income before depreciation and amortization	<u>\$ 9,224</u>	<u>\$ 830</u>	<u>\$ 1,131</u>	<u>\$ 11,185</u>
Depreciation and amortization	<u>\$ 3,294</u>	<u>\$ 296</u>	<u>\$ 83</u>	<u>\$ 3,673</u>
Interest expense	<u>\$ 2,253</u>	<u>\$ 412</u>	<u>\$ —</u>	<u>\$ 2,665</u>
Real estate at cost	<u>\$ 366,018</u>	<u>\$ 37,836</u>	<u>\$ —</u>	<u>\$ 403,854</u>
Total assets	<u>\$ 378,134</u>	<u>\$ 35,759</u>	<u>\$ 4,386</u>	<u>\$ 418,279</u>
Gross leasable area (multi-family – 1,474 units)	<u>5,408</u>	<u>1,207</u>	<u>—</u>	<u>6,615</u>
Expenditures for real estate and improvements	<u>\$ 1,376</u>	<u>\$ 308</u>	<u>\$ —</u>	<u>\$ 1,684</u>
Revenues				
Total revenues for reportable segments	\$ 16,357			
Elimination of intersegment management fee income	(259)			
Elimination of intersegment asset management fee income	(75)			
Total consolidated revenues	<u>\$ 16,023</u>			
Property operating expenses and real estate taxes				
Total property operating expenses and real estate taxes for reportable segments	\$ 5,097			
Elimination of intersegment management fee expense	(259)			
Total consolidated expenses	<u>\$ 4,838</u>			
Reconciliation to net income				
Net property income before depreciation and amortization	\$ 11,185			
Depreciation and amortization	(3,673)			
General and administrative	(2,802)			
Equity in earnings of unconsolidated partnerships	106			
Interest expense	(2,665)			
Minority interest	(381)			
Income from discontinued operations	2,052			
Gain on sale of land	—			
Net income	<u>\$ 3,822</u>			

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

The following discussion is based on the consolidated financial statements of the Company as of June 30, 2003 and 2002 and for the three and six months then ended. This information should be read in conjunction with the accompanying consolidated financial statements and notes thereto. Certain amounts for the three and six months ended June 30, 2003 have been reclassified to conform to the current presentation.

### **FORWARD-LOOKING STATEMENTS**

Certain statements contained in this report constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions, which will, among other things, affect demand for rental space, the availability and creditworthiness of prospective tenants, lease rents and the availability of financing; adverse changes in the Company's real estate markets, including, among other things, competition with other companies; risks of real estate development and acquisition; governmental actions and initiatives; and environmental/safety requirements.

### **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 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 the 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 its significant judgments and estimates used in the preparation of its consolidated financial statements.

#### **Valuation of Property Held for Use and Sale**

On a quarterly basis, the Company reviews both the carrying value of 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. Management does not believe that the values of its properties within the portfolio are impaired as of June 30, 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 June 30, 2003, the Company had recorded an allowance for doubtful accounts of \$2.6 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.

### **RESULTS OF OPERATIONS**

#### **Comparison of the three months ended June 30, 2003 ("2003") to the three months ended June 30, 2002 ("2002")**

Total revenues increased \$442,000, or 3%, to \$16.4 million for 2003 compared to \$16.0 million for 2002.

Minimum rents increased \$726,000, or 6%, to \$12.6 million for 2003 compared to \$11.9 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 across the portfolio. These increases were partially offset by a decrease in rents following Ames Department Stores' bankruptcy.

In total, expense reimbursements increased \$155,000, or 6%, from \$2.7 million for 2002 to \$2.9 million for 2003. Common area maintenance ("CAM") expense reimbursements increased \$427,000, or 43%, from \$991,000 in 2002 to \$1.4 million in 2003. This resulted primarily from the tenant reimbursement of higher property and liability insurance costs. Real estate tax reimbursements decreased \$272,000, primarily as a result of the tenants' share of a real estate tax refund received in 2003 related to the appeal of taxes paid in prior years at the Greenridge Plaza.

Other income decreased \$284,000 to \$695,000 in 2003 compared to \$979,000 for 2002. This was primarily a result of a decrease in interest income during 2003 due to lower interest earning assets, including cash on hand and notes receivable. This decrease was partially offset by an increase of \$207,000 in management fee income received from ASOF in 2003.

Total operating expenses increased \$225,000, or 2%, to \$11.5 million for 2003, from \$11.3 million for 2002.

Property operating expenses increased \$721,000, or 27%, to \$3.4 million for 2003 compared to \$2.7 million for 2002. This was primarily a result of general increases in property and liability insurance costs throughout the portfolio for 2003 and an increase in bad debt expense in 2003.

Real estate taxes decreased \$358,000, or 16%, from \$2.2 million in 2002 to \$1.8 million in 2003 primarily due a real estate tax refund received in 2003 related to the appeal of taxes paid in prior years at the Greenridge Plaza. This decrease was offset by higher real estate taxes experienced throughout the portfolio.

General and administrative expense decreased \$353,000, or 13%, from \$2.8 million for 2002 to \$2.4 million for 2003. This decrease was primarily attributable to additional third party professional fees and other costs paid in 2002 related to the Company's tender offer and repurchase of its Common Shares.

Depreciation and amortization expense increased \$215,000, or 6%, from \$3.7 million in 2002 to \$3.9 million in 2003. Depreciation expense increased \$175,000. This was a result of increased depreciation expense following the Elmwood Park and Gateway redevelopment projects being placed in service. Amortization expense increased \$40,000, which was primarily attributable to the write off of deferred loan costs related to a loan refinancing.

Interest expense of \$2.8 million for 2003 increased \$140,000, or 5%, from \$2.7 million for 2002. Of the increase, \$102,000 was the result of a higher average interest rate on the portfolio debt for 2003 and \$169,000 was attributable to a decrease in capitalized interest in 2003. These increases were offset by a \$131,000 decrease resulting from lower average outstanding borrowings during 2003.

Operating income from discontinued operations decreased \$2.1 million due to the timing of property sales in 2002.

#### **Comparison of the six months ended June 30, 2003 ("2003") to the six months ended June 30, 2002 ("2002")**

Total revenues decreased \$959,000, or 3%, to \$34.6 million for 2003 compared to \$35.6 million for 2002.

Minimum rents increased \$994,000, or 4%, to \$24.7 million for 2003 compared to \$23.7 million for 2002. The increases were attributable to those factors previously discussed for the three months ended June 30, 2003.

In total, expense reimbursements increased \$1.3 million, or 26%, from \$5.3 million for 2002 to \$6.6 million for 2003. CAM expense reimbursements, which comprise the majority of the variance between the periods, increased \$1.4 million, or 70%, from \$2.0 million in 2002 to \$3.4 million in 2003. This resulted primarily from tenant reimbursements of greater snow removal costs following the harsh winter of 2003 as well as tenant reimbursements of increased property and liability insurance costs.

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

Other income increased \$694,000, or 37%, to \$2.6 million in 2003 compared to \$1.9 million for 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 offset by a decrease of \$410,000 in interest income during 2003 due to lower interest earning assets, including cash on hand and notes receivable.

Total operating expenses increased \$2.5 million, or 12%, to \$24.4 million for 2003, from \$21.9 million for 2002.

Property operating expenses increased \$2.3 million, or 44%, to \$7.7 million for 2003, compared to \$5.4 million for 2002. This was a result primarily of higher snow removal costs following the harsh winter of 2003, increases in property and liability insurance costs across the portfolio in 2003 and in increase in bad debt expense in 2003.

Real estate taxes decreased \$81,000, or 2%, from \$4.1 million in 2002 to \$4.0 million in 2003. This was primarily attributable to a real estate tax refund as previously discussed for the quarter offset by a 2002 adjustment of accrued real estate taxes for an acquired property. An indicated reassessment and resultant increase in taxes for this property as anticipated by the Company at the time of acquisition did not materialize.

General and administrative expense remained unchanged in 2003. This net variance was a combination of an increase in 2003 attributable to amounts paid to the former Chief Financial Officer upon his resignation offset by those 2002 costs as previously discussed for the quarter.

Depreciation and amortization expense increased \$231,000, or 3%, from \$7.3 million in 2002 to \$7.5 million in 2003. Depreciation expense increased \$389,000. This was a result of increased depreciation expense following the Elmwood Park and Gateway redevelopment projects being placed in service. Amortization expense decreased \$158,000, which was primarily attributable to the write-off of deferred leasing costs during 2002 related to certain tenant leases.

Interest expense of \$5.5 million for 2003 increased \$105,000, or 2%, from \$5.4 million for 2002. Of the increase, \$173,000 was the result of a higher average interest rate on the portfolio debt for 2003 and \$194,000 was attributable to a decrease in capitalized interest in 2003. These increases were offset by a \$262,000 decrease resulting from lower average outstanding borrowings during 2003.

Operating income from discontinued operations decreased \$2.4 million due to the timing of 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. 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 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.

NAREIT defines FFO as net income (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. The reconciliation of net income to FFO for the three and six months ended June 30, 2003 and 2002 is as follows (amounts in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
Net income	\$ 2,443	\$ 3,822	\$ 5,906	\$ 10,288
Depreciation of real estate and amortization of leasing costs:				
Wholly-owned and consolidated partnerships	3,571	3,801	6,970	8,140
Unconsolidated partnerships	551	159	1,010	316
Income attributable to Minority interest in Operating Partnership (1)	203	588	641	1,704
Gain on sale of properties (2)	—	(1,987)	—	(1,832)
Funds from operations	6,768	6,383	14,527	18,616
Less: Funds from operations – Discontinued operations (3)	—	(791)	—	(2,299)
Funds from operations – Continuing operations	\$ 6,768	\$ 5,592	\$ 14,527	\$ 16,317
Cash flows provided by (used in) (3):				
Operating activities	—	—	\$ 9,688	\$ 12,276
Investing activities	—	—	\$ (8,904)	\$ (4,094)
Financing activities	—	—	\$ (11,758)	\$ (49,152)

#### Notes:

- (1) Does not include distributions paid to Preferred OP Unitholders.
- (2) FFO for the six months ended June 30, 2003 and 2002 includes the gains from the sale of land of \$659 and \$957, net of minority interests of \$553 and \$573 respectively.
- (3) Discontinued operations represent the activity related to all properties sold since January 1, 2002.

## 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 funding of its joint venture commitments, acquisition, redevelopment, expansion and re-tenanting activities. 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. On June 25, 2003, the Board of Trustees of the Company approved and declared a cash quarterly dividend for the quarter ended June 30, 2003 of \$0.145 per Common Share and Common OP Unit. The dividend was paid on July 15, 2003 to shareholders of record as of July 2, 2003. The Board of Trustees also approved a distribution of \$22.50 per Preferred OP Unit, which was paid on July 15, 2003.

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

During 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 ASOF with a 22% interest. In addition to a pro-rata return on its invested equity, the Company is entitled to a profit participation in excess of its invested capital based upon certain investment return thresholds. Cash flow is to be distributed to the partners (including the Company) until they have received a 9% cumulative return and a full return of all 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. 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.

To date, ASOF has purchased a total of approximately \$160.8 million in assets in three separate transactions, with an additional potential payment of \$42.0 million to \$62.0 million related to the Earnout on the Brandywine Town Center acquisition. Details of the two transactions completed during the six months ended June 30, 2003 are as follows:

#### Kroger/Safeway Portfolio

In January 2003, ASOF formed a joint venture (the "Kroger/Safeway JV") with an affiliate of real estate developer and investor AmCap Incorporated ("AmCap") for the purpose of acquiring a portfolio of twenty-five supermarket leases. The portfolio, which aggregates approximately 1.0 million square feet, consists of 25 anchor-only leases with Kroger (12 leases) and Safeway supermarkets (13 leases). The majority of the properties are free-standing and all are triple-net leases. The Kroger/Safeway JV acquired the portfolio subject to long-term ground leases with terms, including option renewal periods, averaging in excess of 80 years, which are master leased to a non-affiliated entity. The base rental renewal 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.

Including closing and other related acquisition costs, the Kroger/Safeway JV acquired the portfolio for \$47.9 million, which included the assumption of an aggregate of \$34.5 million of existing fixed-rate mortgage debt, which is at a blended fixed interest rate of 6.6% and is fully amortizing over the Primary Term. The individual mortgages are secured by each individual property and are not cross-collateralized. ASOF invested 90%, or \$11.3 million, of the equity capitalization, of which the Company's share was \$2.5 million. AmCap contributed 10%, or \$1.2 million. Cash flow is to be distributed to the Kroger/Safeway JV partners until they have received an 11% cumulative return and a full return of all contributions. Thereafter, remaining cash flow is to be distributed 75% to ASOF and 25% to AmCap. The Kroger/ Safeway JV agreement also provides for additional allocations of cash based on ASOF achieving certain minimum investment returns to be determined on a "look-back" basis.

#### Brandywine Portfolio

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

Market Square Shopping Center is a 103,000 square foot community shopping center which is 92% 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 97% occupied, with tenants including Lowe's, Bed Bath & Beyond, Regal Cinema, Michaels, Petsmart, Old Navy, Annie Sez, Thomasville Furniture, KB Toys and Dick's Sporting Goods. The second phase ("Phase II") consists of approximately 420,000 square feet of existing space, of which Target occupies 138,000 square feet. The balance of Phase II, which is currently not occupied, is to be paid for on an earnout basis as it is leased and occupied.



The initial investment for the portfolio was approximately \$89.3 million; inclusive of closing and other related acquisition costs. ASOF assumed \$38.1 million of fixed rate debt on the two properties at a blended rate of 8.1%. A new \$30.0 million, 4.7% fixed-rate loan was also obtained in conjunction with the acquisition and is collateralized by a portion of the Brandywine Town Center. The balance of the purchase price was funded by ASOF, of which the Company's share was \$4.3 million. ASOF will also pay additional amounts in conjunction with the lease-up of the current vacant space in Phase II (the "Earnout"). The additional investment, depending on the Earnout, is projected to be between \$42.0 million and \$62.0 million, of which the Company's share would be between \$9.3 million and \$13.8 million. To the extent ASOF places additional mortgage debt upon the lease-up of Phase II, the required equity contribution for the Earnout would be less. The Earnout is structured such that ASOF has no time requirement or payment obligation for any portion of currently vacant space which it is unable to lease. Subsequent to the initial investment, ASOF has paid approximately \$1.0 million in connection with the Earnout component of this acquisition.

### **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 the three months ended June 2003, the Company substantially completed its redevelopment of the Gateway Shopping Center with the opening of the anchor for the center, a 72,000 square foot Shaw's supermarket. This redevelopment project, formerly a partially enclosed mall located in South Burlington, Vermont, included the demolition of 90% of the property and the construction of the new anchor supermarket. Total costs through June 30, 2003 for this project, including the original acquisition costs, were \$16.5 million. The Company expects remaining redevelopment costs of approximately \$1.4 million to complete this project, which it anticipates completing in the second half of 2003.

Additionally, for the year ending December 31, 2003, the Company currently estimates that capital outlays of approximately \$7.0 million to \$10.0 million will be required for tenant improvements, related renovations and other property improvements for the remaining portfolio.

### **Share Repurchase**

The Company's repurchase of its Common Shares is an additional use of liquidity. 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 August 12, 2003, the Company had repurchased 1,923,598 Common Shares (net of 131,007 shares reissued) at a total cost of \$11.6 million. The program may be discontinued or extended at any time and there is no assurance that the Company will purchase the full amount authorized.

### **Sources of Liquidity**

The Company intends on using ASOF as the primary vehicle for future acquisitions. Sources of capital for funding the Company's joint venture commitment, other property acquisitions, redevelopment, expansion and re-tenanting, as well as future repurchases of Common Shares are expected to be obtained primarily from cash on hand, additional debt financings and future sales of existing properties. As of June 30, 2003, the Company had a total of approximately \$48.1 million of additional capacity with six lenders, of which the Company is required to draw \$12.7 million by December 2003, or forego the ability to draw these funds at any time during the remaining term of the loans. Of the remaining capacity, approximately \$3.0 million is subject to additional leasing requirements at the collateral properties and certain lender requirements, which the Company has not yet satisfied. The Company also had cash and cash equivalents on hand of \$34.2 million at June 30, 2003 as well as seven properties that are currently unencumbered and therefore available as potential collateral for future borrowings. The Company anticipates that cash flow from operating activities will continue to provide adequate capital for all debt service payments, recurring capital expenditures and REIT distribution requirements.

### **Financing and Debt**

At June 30, 2003, mortgage notes payable aggregated \$199.7 million and were collateralized by 24 properties and related tenant leases. Interest rates on the Company's outstanding mortgage indebtedness ranged from 2.8% to 8.1% with maturities that ranged from August 2003 to June 2013. Taking into effect \$86.9 million of notional principal under variable to fixed-rate swap agreements, \$157.1 million of the portfolio, or 79%, was fixed at a 6.6% weighted average interest rate and \$42.6 million, or 21% was floating at a 3.1% weighted average interest rate. Of the total outstanding debt, \$73.9 million will become due by the end of 2005, with scheduled maturities of \$16.1 million with a weighted average interest rate of 3.2% in 2003, none in 2004, and \$57.8 million with a weighted average interest rate of 3.1% in 2005. 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 March 31, 2003:

In April 2003, the Company extended an existing \$7.4 million revolving facility with a bank through March 1, 2008. As of June 30, 2003, there were no outstanding amounts under this loan.

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

The following table summarizes the Company's mortgage indebtedness as of June 30, 2003 and December 31, 2002:

	June 30, 2003	December 31, 2002	Interest Rate at June 30, 2003	Maturity	Properties Encumbered	Payment Terms
Mortgage notes payable – variable-rate						
First Union National Bank	\$ —	\$ 13,388	—	—	—	—
Fleet National Bank	8,666	8,731	3.07 % (LIBOR + 1.75%)	08/01/03	(1)	(16)
Metropolitan Life Insurance Company	7,482	7,577	3.31 % (LIBOR + 2.00%)	11/01/03	(2)	(16)
Washington Mutual Bank, FA	51,320	56,950	3.13 % (LIBOR + 1.75%)	04/01/05	(3)	(16)
Sun America Life Insurance Company	9,322	9,446	3.02 % (LIBOR + 1.73%)	10/01/05	(4)	(16)
Fleet National Bank	12,098	12,187	3.07 % (LIBOR + 1.75%)	01/01/07	(5)	(16)
Washington Mutual	20,382	15,637	3.23 % (LIBOR + 1.85%)	01/01/07	(6)	(16)
Fleet National Bank	4,904	4,942	2.84 % (LIBOR + 1.75%)	03/15/07	(7)	(16)
Fleet National Bank	6,300	6,300	2.84 % (LIBOR + 1.75 %)	05/01/07	(8)	(16)
Fleet National Bank	9,052	9,108	3.02 % (LIBOR + 1.75%)	06/01/07	(9)	(16)
Washington Mutual Bank, FA	—	—	— (LIBOR + 1.70%)	11/22/07	(10)	(16)
Fleet National Bank	—	—	— (LIBOR + 1.50%)	03/01/08	(11)	(16)
<b>Total variable-rate debt</b>	<b>129,526</b>	<b>144,266</b>				
Mortgage notes payable – fixed-rate						
Anchor National Life Insurance Company	—	3,570	—	—	—	—
SunAmerica Life Insurance Company	13,554	13,648	6.46%	07/01/07	(12)	(16)
Metropolitan Life Insurance Company	24,308	24,495	8.13%	11/01/10	(13)	(16)
Bank of America, N.A.	16,303	16,382	7.55%	01/01/11	(14)	(16)
RBS Greenwich Capital	16,000	—	5.19%	06/01/13	(15)	(17)
<b>Total fixed-rate debt</b>	<b>70,165</b>	<b>58,095</b>				
<b>Total mortgage debt</b>	<b>\$ 199,691</b>	<b>\$ 202,361</b>				

Notes:

- |   |   |   |
|---|---|---|
| (1) Soundview Marketplace   | (7) Town Line Plaza   | (13) Crescent Plaza<br>East End Centre                                    |
| (2) Greenridge Plaza<br>Luzerne Plaza   | (8) Gateway Shopping Center   | (14) GHTApartments/ Colony Apartments                                     |
| (3) New Loudon Center<br>Ledgewood Mall<br>Route 6 Plaza<br>Bradford Towne Centre<br>Berlin Shopping Center | (9) Smithtown Shopping Center   | (15) 239 Greenwich Avenue   |
| (4) Village Apartments  | (10) Elmwood Park Shopping Center; no amounts outstanding under \$20,000 revolving facility | (16) Monthly principal and interest                                       |
| (5) Branch Shopping Center<br>Abington Towne Center<br>Methuen Shopping Center                              | (11) Marketplace of Absecon; no amounts outstanding under \$7,400 revolving facility        | (17) Interest only until 5/05; monthly principal and interest thereafter. |
| (6) Walnut Hill Plaza<br>Bloomfield Town Square   | (12) Merrillville Plaza   |   |



**HISTORICAL CASH FLOW**

The following discussion of historical cash flow compares the Company's cash flow for the six months ended June 30, 2003 ("2003") with the Company's cash flow for the six months ended June 30, 2002 ("2002").

Cash and cash equivalents were \$34.2 million and \$37.1 million at June 30, 2003 and 2002, respectively. The decrease of \$2.9 million was a result of the following increases and decreases in cash flows:

	Six months ended June 30,		
	2003	2002	Change
Net cash provided by operating activities	\$ 9.7	\$ 12.3	\$ (2.6)
Net cash used in investing activities	\$ (8.9)	\$ (4.1)	\$ (4.8)
Net cash used in financing activities	\$ (11.8)	\$ (49.2)	\$ 37.4
Net cash provided by discontinued operations	\$ —	\$ 43.9	\$ (43.9)

The variance in net cash provided by operating activities resulted from a decrease of \$3.2 million in operating income before non-cash expenses in 2003, which was primarily due to \$3.9 million of lease termination income received in 2002 offset by an increase in rents following the redevelopment of the Elmwood Park and Gateway shopping centers. This decrease was partially offset by a net increase in cash provided by changes in operating assets and liabilities of \$576,000, primarily prepaid expenses.

The variance in net cash used in investing activities was primarily the result of a \$2.5 million payment of an earnout in 2003 related to a redevelopment project, a \$5.9 million investment in ASOF in 2003 and a decrease of \$3.0 million in net proceeds from property sales in 2003. These increases were offset by a decrease of \$3.3 million in expenditures for real estate acquisitions, development and tenant installation costs in 2003 and \$3.2 million of notes collected in 2003 in connection with property sales.

The decrease in net cash used in financing activities resulted primarily from \$33.4 million of cash used in 2002 for the Company's repurchase of Common Shares and \$4.7 million of additional cash used in 2002 for the net repayment of debt.

The decrease in net cash provided by discontinued operations was primarily a result of \$34.8 million received in 2002 from the collection of a note receivable from the sale of a property and a decrease in net proceeds in 2003.

**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 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.

**Item 3. 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 discussion under Item 2 for certain quantitative details related to the Company's mortgage debt.

Currently, the Company manages its exposure to fluctuations in interest rates primarily through the use of fixed-rate debt, interest rate swap agreements and LIBOR caps. The Company is a party to interest rate swap transactions to hedge the Company's exposure to changes in interest rates with respect to \$86.9 million of LIBOR based variable-rate debt. The Company also has two interest rate swaps hedging the Company's exposure to changes in interest rates with respect to \$16.3 million of LIBOR based variable-rate debt related to its investment in Crossroads.

The following table sets forth information as of June 30, 2003 concerning the Company's long-term debt obligations, including principal cash flows by scheduled maturity and weighted average interest rates of maturing amounts (amounts in millions):

Consolidated mortgage debt:

Year	Scheduled amortization	Maturities	Total	Weighted average interest rate of maturing debt
2003	\$ 1.8	\$ 16.1	\$ 17.9	3.2%
2004	3.5	—	3.5	n/a
2005	2.7	57.8	60.5	3.1%
2006	2.4	—	2.4	n/a
2007	1.3	61.0	62.3	3.8%
Thereafter	4.0	49.1	53.1	7.1%
	<u>\$ 15.7</u>	<u>\$ 184.0</u>	<u>\$ 199.7</u>	

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

Year	Scheduled amortization	Maturities	Total	Weighted average interest rate of maturing debt
2003- 2006	\$ 4.4	\$ —	\$ 4.4	n/a
2007	1.3	16.0	17.3	6.9%
Thereafter	4.6	14.1	18.7	6.0%
	<u>\$ 10.3</u>	<u>\$ 30.1</u>	<u>\$ 40.4</u>	

Of the Company's total outstanding debt, \$16.1 million will become due at maturity through the end of 2003. 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 \$161,000 annually if the interest rate on the refinanced debt increased by 100 basis points. Furthermore, interest expense on the Company's variable debt as of June 30, 2003 would increase by \$426,000 annually for a 100 basis point increase in interest rates. The Company may seek additional variable-rate financing if and when pricing and other commercial and financial terms warrant. As such, the Company would consider hedging against the interest rate risk related to such additional variable-rate debt through interest rate swaps and protection agreements, or other means.

#### Item 4. Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures.* The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective.

(b) *Internal Control Over Financial Reporting.* There have not been any changes in the Company's internal control over financial reporting during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Part II. Other Information****Item 1. Legal Proceedings**

There have been no material legal proceedings beyond those previously disclosed in the Registrants' filed Annual Report on Form 10-K for the year ended December 31, 2002.

**Item 2. Changes in Securities**

Certain limited partners converted 1,871,583 Common OP Units into Common Shares on a one-for-one basis during the six months ended June 30, 2003.

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Submission of Matters to a Vote of Security Holders**

On June 25, 2003, the Company held its annual meeting of shareholders. The shareholders voted, in person or by proxy for the following proposals. The results of the voting are shown below:

**Proposal 1 —**

Election of Trustees:

	Votes Cast For	Votes Withheld
Kenneth F. Bernstein	21,257,958	100,900
Ross Dworman	21,248,215	110,643
Martin L. Edelman, Esq.	20,681,466	677,392
Alan S. Forman	21,262,866	95,992
Marvin J. Levine, Esq.	20,681,466	677,392
Lawrence J. Longua	20,689,566	669,292
Gregory A. White	20,687,492	671,366
Lee S. Wielansky	20,689,366	669,492

**Proposal 2 —**

The ratification of the appointment of Ernst & Young, LLP as independent auditors for the Company for the fiscal year ending December 31, 2003:

Votes Cast For	Votes Against	Abstain
20,662,779	691,183	4,895

**Proposal 3 —**

Approval of the Acadia Realty Trust 2003 Share Incentive Plan:

Votes Cast For	Votes Against	Abstain
16,151,826	2,032,642	11,091

**Proposal 4 —**

Approval of the Acadia Realty Trust Employee Stock Purchase Plan:

Votes Cast For	Votes Against	Abstain
18,023,477	159,570	12,513

**Item 5. Other Information**

None

**Item 6. Exhibits and Reports on Form 8-K**

(a) Exhibits

No.	Description
10.7	Acadia Realty Trust 2003 Share Incentive Plan (incorporated by reference to Appendix A to the Registrant's Definitive Proxy Statement on Schedule 14A dated April 24, 2003)
10.8	Acadia Realty Trust 2003 Employee Stock Purchase Plan (incorporated by reference to Appendix B to the Registrant's Definitive Proxy Statement on Schedule 14A dated April 24, 2003)
31.1	Certification of Chief Executive Officer pursuant to rule 13a – 14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Chief Financial Officer pursuant to rule 13a – 14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

(b) Reports on Form 8-K

The following Form 8-K's were filed, or furnished as noted in the applicable Form 8-K, for the quarter ended June 30, 2003:

- 1) Form 8-K filed April 24, 2003 (earliest event April 24, 2003), reporting in Item 5 a press release issued announcing that it had filed a Form S-3 shelf registration statement with the Securities and Exchange Commission.
- 1) Form 8-K filed April 30, 2003 (earliest event April 30, 2003), reporting in Item 9 a press release announcing the consolidated financial results for the quarter ended March 31, 2003.
- 2) Form 8-K filed May 2, 2003 (earliest event May 1, 2003), reporting in Item 9 certain supplemental information concerning the ownership, operations and portfolio of the Registrant as of March 31, 2003 as made available as an exhibit to the filing.

**SIGNATURES**

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has fully caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**ACADIA REALTY TRUST**

Dated: August 12, 2003

*/s/ Kenneth F. Bernstein*

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Kenneth F. Bernstein  
President and Chief Executive Officer  
(Principal Executive Officer)

*/s/ Michael Nelsen*

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Michael Nelsen  
Senior Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

## CERTIFICATION

I, Kenneth F. Bernstein, certify that:

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

Kenneth F. Bernstein  
President and Chief Executive Officer  
August 12, 2003



**CERTIFICATION**

I, Michael Nelsen, certify that:

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

/s/ Michael Nelsen

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Michael Nelsen  
Senior Vice President and Chief Financial Officer  
August 12, 2003

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Acadia Realty Trust (the "Company") on Form 10-Q for the quarter ended June 30, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kenneth F. Bernstein, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

*/s/ Kenneth F. Bernstein*

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Kenneth F. Bernstein  
President and Chief Executive Officer  
August 12, 2003

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Acadia Realty Trust (the "Company") on Form 10-Q for the quarter ended June 30, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael Nelsen, Sr. Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

*/s/ Michael Nelsen*

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Michael Nelsen  
Senior Vice President and Chief Financial Officer  
August 12, 2003