

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2019

or

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

For the transition period from _____ to _____

Commission File Number 1-12002

ACADIA REALTY TRUST

(Exact name of registrant in its charter)

MARYLAND
(State or other jurisdiction of
incorporation or organization)

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

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

10580
(Zip Code)

(914) 288-8100

(Registrant's telephone number, including area code)

Title of class of registered securities

Trading symbol

Name of exchange on which registered

Common shares of beneficial interest, par value
\$0.001 per share

AKR

The New York Stock Exchange

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

YES

NO

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

YES

NO

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

Large Accelerated Filer

Accelerated Filer

Emerging Growth Company

Non-accelerated Filer

Smaller Reporting Company

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

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

As of July 22, 2019 there were 84,452,945 common shares of beneficial interest, par value \$0.001 per share ("Common Shares"), outstanding.

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

Certain statements contained in this Quarterly Report on Form 10-Q (the “Report”) may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended (the “Exchange Act”), and as such may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations are generally identifiable by use of the words “may,” “will,” “should,” “expect,” “anticipate,” “estimate,” “believe,” “intend” or “project” or the negative thereof or other variations thereon or comparable terminology. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to those set forth under the headings “[Item 1A. Risk Factors](#)” and “[Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations](#)” in this Report. These risks and uncertainties should be considered in evaluating any forward-looking statements contained or incorporated by reference herein.

SPECIAL NOTE REGARDING CERTAIN REFERENCES

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

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share amounts)	June 30, 2019 (Unaudited)	December 31, 2018
ASSETS		
Investments in real estate, at cost		
Operating real estate, net	\$ 3,269,564	\$ 3,160,851
Real estate under development	211,199	120,297
Net investments in real estate	3,480,763	3,281,148
Notes receivable, net	94,662	109,613
Investments in and advances to unconsolidated affiliates	320,477	262,410
Other assets, net	200,124	208,570
Assets of properties held for sale	6,291	—
Cash and cash equivalents	33,749	21,268
Rents receivable	61,438	62,191
Restricted cash	12,418	13,580
Total assets	<u>\$ 4,209,922</u>	<u>\$ 3,958,780</u>
LIABILITIES		
Mortgage and other notes payable, net	\$ 1,025,869	\$ 1,017,288
Unsecured notes payable, net	620,207	533,257
Unsecured line of credit	39,000	—
Accounts payable and other liabilities	384,290	286,072
Dividends and distributions payable	25,418	24,593
Distributions in excess of income from, and investments in, unconsolidated affiliates	15,032	15,623
Total liabilities	<u>2,109,816</u>	<u>1,876,833</u>
Commitments and contingencies		
EQUITY		
Acadia Shareholders' Equity		
Common shares, \$0.001 par value, authorized 200,000,000 shares, issued and outstanding 84,452,945 and 81,557,472 shares, respectively	84	82
Additional paid-in capital	1,625,906	1,548,603
Accumulated other comprehensive (loss) income	(29,570)	516
Distributions in excess of accumulated earnings	(115,224)	(89,696)
Total Acadia shareholders' equity	1,481,196	1,459,505
Noncontrolling interests	618,910	622,442
Total equity	<u>2,100,106</u>	<u>2,081,947</u>
Total liabilities and equity	<u>\$ 4,209,922</u>	<u>\$ 3,958,780</u>

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

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(in thousands except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenues				
Rental income	\$ 69,942	\$ 51,322	\$ 143,945	\$ 102,101
Expense reimbursements	—	10,598	—	21,806
Other	1,120	1,649	1,917	2,786
Total revenues	71,062	63,569	145,862	126,693
Operating expenses				
Depreciation and amortization	30,304	29,503	60,637	58,079
General and administrative	9,034	7,907	17,357	16,377
Real estate taxes	9,852	7,031	19,455	15,990
Property operating	13,386	12,524	25,733	22,862
Impairment charge	1,400	—	1,400	—
Other operating	—	305	—	385
Total operating expenses	63,976	57,270	124,582	113,693
Gain on disposition of properties	—	33	2,014	33
Operating income	7,086	6,332	23,294	13,033
Equity in earnings of unconsolidated affiliates	3,559	5,019	5,830	6,703
Interest and other income	4,142	3,289	6,412	7,026
Interest expense	(19,759)	(16,915)	(37,618)	(32,805)
Loss from continuing operations before income taxes	(4,972)	(2,275)	(2,082)	(6,043)
Income tax (provision) benefit	(265)	5	(219)	(387)
Net loss	(5,237)	(2,270)	(2,301)	(6,430)
Net loss attributable to noncontrolling interests	14,317	9,935	23,578	21,514
Net income attributable to Acadia	\$ 9,080	\$ 7,665	\$ 21,277	\$ 15,084
Basic and diluted earnings per share	\$ 0.11	\$ 0.09	\$ 0.26	\$ 0.18

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

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net loss	\$ (5,237)	\$ (2,270)	\$ (2,301)	\$ (6,430)
Other comprehensive (loss) income:				
Unrealized (loss) income on valuation of swap agreements	(22,652)	2,950	(35,958)	8,603
Reclassification of realized interest on swap agreements	(535)	109	(1,086)	472
Other comprehensive (loss) income	(23,187)	3,059	(37,044)	9,075
Comprehensive (loss) income	(28,424)	789	(39,345)	2,645
Comprehensive loss attributable to noncontrolling interests	18,955	9,638	30,536	19,963
Comprehensive (loss) income attributable to Acadia	\$ (9,469)	\$ 10,427	\$ (8,809)	\$ 22,608

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

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Three Months Ended June 30, 2019 and 2018

(in thousands, except per share amounts)	Acadia Shareholders							
	Common Shares	Share Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Accumulated Earnings	Total Common Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance at April 1, 2019	82,708	\$ 83	\$ 1,577,503	\$ (11,021)	\$ (100,634)	\$ 1,465,931	\$ 640,421	\$ 2,106,352
Conversion of OP Units to Common Shares by limited partners of the Operating Partnership	33	—	557	—	—	557	(557)	—
Issuance of Common Shares	1,697	1	47,280	—	—	47,281	—	47,281
Dividends/distributions declared (\$0.28 per Common Share/OP Unit)	—	—	—	—	(23,670)	(23,670)	(1,776)	(25,446)
Employee and trustee stock compensation, net	15	—	153	—	—	153	1,835	1,988
Noncontrolling interest distributions	—	—	—	—	—	—	(1,645)	(1,645)
Comprehensive (loss) income	—	—	—	(18,549)	9,080	(9,469)	(18,955)	(28,424)
Reallocation of noncontrolling interests	—	—	413	—	—	413	(413)	—
Balance at June 30, 2019	84,453	\$ 84	\$ 1,625,906	\$ (29,570)	\$ (115,224)	\$ 1,481,196	\$ 618,910	\$ 2,100,106
Balance at April 1, 2018	82,451	\$ 82	\$ 1,564,067	\$ 7,376	\$ (46,856)	\$ 1,524,669	\$ 639,998	\$ 2,164,667
Conversion of OP Units to Common Shares by limited partners of the Operating Partnership	28	—	481	—	—	481	(481)	—
Repurchase of Common Shares	(990)	—	(23,095)	—	—	(23,095)	—	(23,095)
Dividends/distributions declared (\$0.27 per Common Share/OP Unit)	—	—	—	—	(22,005)	(22,005)	(1,713)	(23,718)
Employee and trustee stock compensation, net	14	—	175	—	—	175	2,126	2,301
Noncontrolling interest distributions	—	—	—	—	—	—	(14,945)	(14,945)
Noncontrolling interest contributions	—	—	—	—	—	—	6,550	6,550
Comprehensive income (loss)	—	—	—	2,762	7,665	10,427	(9,638)	789
Reallocation of noncontrolling interests	—	—	2,023	—	—	2,023	(2,023)	—
Balance at June 30, 2018	81,503	\$ 82	\$ 1,543,651	\$ 10,138	\$ (61,196)	\$ 1,492,675	\$ 619,874	\$ 2,112,549

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Continued)
Six Months Ended June 30, 2019 and 2018

(in thousands, except per share amounts)	Acadia Shareholders							
	Common Shares	Share Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Accumulated Earnings	Total Common Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance at January 1, 2019	81,557	\$ 82	\$ 1,548,603	\$ 516	\$ (89,696)	\$ 1,459,505	\$ 622,442	\$ 2,081,947
Conversion of OP Units to Common Shares by limited partners of the Operating Partnership	208	—	3,510	—	—	3,510	(3,510)	—
Issuance of Common Shares	2,667	2	75,113	—	—	75,115	—	75,115
Dividends/distributions declared (\$0.56 per Common Share/OP Unit)	—	—	—	—	(46,805)	(46,805)	(3,557)	(50,362)
Employee and trustee stock compensation, net	21	—	247	—	—	247	5,195	5,442
Noncontrolling interest distributions	—	—	—	—	—	—	(4,882)	(4,882)
Noncontrolling interest contributions	—	—	—	—	—	—	32,191	32,191
Comprehensive (loss) income	—	—	—	(30,086)	21,277	(8,809)	(30,536)	(39,345)
Reallocation of noncontrolling interests	—	—	(1,567)	—	—	(1,567)	1,567	—
Balance at June 30, 2019	84,453	\$ 84	\$ 1,625,906	\$ (29,570)	\$ (115,224)	\$ 1,481,196	\$ 618,910	\$ 2,100,106
Balance at January 1, 2018	83,708	\$ 84	\$ 1,596,514	\$ 2,614	\$ (32,013)	\$ 1,567,199	\$ 648,440	\$ 2,215,639
Conversion of OP Units to Common Shares by limited partners of the Operating Partnership	64	—	1,123	—	—	1,123	(1,123)	—
Repurchase of Common Shares	(2,294)	(2)	(55,055)	—	—	(55,057)	—	(55,057)
Dividends/distributions declared (\$0.54 per Common Share/OP Unit)	—	—	—	—	(44,267)	(44,267)	(3,434)	(47,701)
Employee and trustee stock compensation, net	25	—	271	—	—	271	5,842	6,113
Noncontrolling interest distributions	—	—	—	—	—	—	(15,640)	(15,640)
Noncontrolling interest contributions	—	—	—	—	—	—	6,550	6,550
Comprehensive income (loss)	—	—	—	7,524	15,084	22,608	(19,963)	2,645
Reallocation of noncontrolling interests	—	—	798	—	—	798	(798)	—
Balance at June 30, 2018	81,503	\$ 82	\$ 1,543,651	\$ 10,138	\$ (61,196)	\$ 1,492,675	\$ 619,874	\$ 2,112,549

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

ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Six Months Ended June 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (2,301)	\$ (6,430)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	60,637	58,079
Distributions of operating income from unconsolidated affiliates	5,378	10,210
Equity in earnings and gains of unconsolidated affiliates	(5,830)	(6,703)
Stock compensation expense	5,442	6,113
Amortization of financing costs	3,903	2,743
Impairment charge	1,400	—
Gain on disposition of properties	(2,014)	(33)
Other, net	(6,979)	(4,450)
Changes in assets and liabilities:		
Other liabilities	(8,499)	680
Prepaid expenses and other assets	8,583	(1,883)
Rents receivable	742	(4,252)
Accounts payable and accrued expenses	1,767	(5,038)
Net cash provided by operating activities	62,229	49,036
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of real estate	(138,716)	(46,171)
Development, construction and property improvement costs	(55,872)	(41,937)
Issuance of or advances on notes receivable	—	(3,002)
Proceeds from the disposition of properties, net	12,252	25,218
Investments in and advances to unconsolidated affiliates and other	(99,592)	(2,265)
Return of capital from unconsolidated affiliates and other	36,423	19,512
Proceeds from notes receivable	15,250	26,000
Return of deposits for properties under contract	568	1,750
Payment of deferred leasing costs	(3,831)	(1,645)
Net cash used in investing activities	(233,518)	(22,540)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on mortgage and other notes	(122,492)	(48,272)
Principal payments on unsecured debt	(200,900)	(519,300)
Proceeds received on mortgage and other notes	131,459	119,752
Proceeds from unsecured debt	327,300	482,300
Payments for repurchase of Common Shares	—	(55,057)
Payments of finance lease obligations	(1,500)	—
Proceeds from the sale of Common Stock, net	75,115	—
Capital contributions from noncontrolling interests	32,191	6,550
Distributions to noncontrolling interests	(8,424)	(19,004)
Dividends paid to Common Shareholders	(45,994)	(44,863)
Deferred financing and other costs	(4,147)	(3,185)
Net cash provided by (used in) financing activities	182,608	(81,079)
Increase (decrease) in cash and restricted cash	11,319	(54,583)
Cash of \$21,268 and \$74,823 and restricted cash of \$13,580 and \$10,846, respectively, beginning of period	34,848	85,669
Cash of \$33,749 and \$17,330 and restricted cash of \$12,418 and \$13,756, respectively, end of period	\$ 46,167	\$ 31,086

ACADIA REALTY TRUST AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(in thousands)	Six Months Ended June 30,	
	2019	2018
Supplemental disclosure of cash flow information		
Cash paid during the period for interest, net of capitalized interest of \$5,326 and \$2,836 respectively	\$ 35,385	\$ 29,219
Cash paid for income taxes, net of refunds	\$ 258	\$ —
Supplemental disclosure of non-cash investing and financing activities		
Assumption of accounts payable and accrued expenses through acquisition of real estate	\$ 1,796	\$ 425
Right-of-use assets, finance leases obtained in exchange for finance lease liabilities	\$ 16,349	\$ —
Right-of-use assets, finance leases obtained in exchange for assets under capital lease	\$ 76,965	\$ —
Right-of-use assets, operating leases obtained in exchange for operating lease liabilities	\$ 57,165	\$ —
Capital lease obligation exchanged for finance lease liability	\$ 71,111	\$ —
Other liabilities exchanged for operating lease liabilities	\$ 946	\$ —
Assumption of debt through investments in unconsolidated affiliates	\$ 4,688	\$ —
Acquisition of undivided interest in a property through conversion of notes receivable	\$ —	\$ 22,201

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

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

Organization

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

All of the Company’s assets are held by, and all of its operations are conducted through, Acadia Realty Limited Partnership (the “Operating Partnership”) and entities in which the Operating Partnership owns an interest. As of June 30, 2019 and December 31, 2018, the Company controlled approximately 94% of the Operating Partnership as the sole general partner and is entitled to share, in proportion to its percentage interest, in the cash distributions and profits and losses of the Operating Partnership. The limited partners primarily represent entities or individuals that contributed their interests in certain properties or entities to the Operating Partnership in exchange for common or preferred units of limited partnership interest (“Common OP Units” or “Preferred OP Units”) and employees who have been awarded restricted Common OP Units (“LTIP Units”) as long-term incentive compensation (Note 13). Limited partners holding Common OP and LTIP Units are generally entitled to exchange their units on a one-for-one basis for common shares of beneficial interest of the Company (“Common Shares”). This structure is referred to as an umbrella partnership REIT or “UPREIT.”

As of June 30, 2019, the Company has ownership interests in 123 properties within its core portfolio, which consist of those properties either 100% owned, or partially owned through joint venture interests, by the Operating Partnership, or subsidiaries thereof, not including those properties owned through its funds (“Core Portfolio”). The Company also has ownership interests in 57 properties within its opportunity funds (the “Funds”), Acadia Strategic Opportunity Fund II, LLC (“Fund II”), Acadia Strategic Opportunity Fund III LLC (“Fund III”), Acadia Strategic Opportunity Fund IV LLC (“Fund IV”), and Acadia Strategic Opportunity Fund V LLC (“Fund V”). The 180 Core Portfolio and Fund properties primarily consist of street and urban retail, and suburban shopping centers. In addition, the Company, together with the investors in the Funds, invested in operating companies through Acadia Mervyn Investors I, LLC (“Mervyns I,” which was liquidated in 2018) and Acadia Mervyn Investors II, LLC (“Mervyns II”), all on a non-recourse basis. The Company consolidates the Funds as it has (i) the power to direct the activities that most significantly impact the Funds’ economic performance, (ii) is obligated to absorb the Funds’ losses and (iii) has the right to receive benefits from the Funds that could potentially be significant.

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

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

Entity	Formation Date	Operating Partnership Share of Capital	Capital Called as of June 30, 2019	Unfunded Commitment	Equity Interest Held By Operating Partnership (a)	Preferred Return	Total Distributions as of June 30, 2019 (b)
Fund II and Mervyns II (c)	6/2004	28.33%	\$ 347.1	\$ 15.0	28.33%	8%	\$ 146.6
Fund III	5/2007	24.54%	426.3	23.7	24.54%	6%	554.8
Fund IV	5/2012	23.12%	425.4	104.6	23.12%	6%	147.4
Fund V	8/2016	20.10%	118.3	401.7	20.10%	6%	2.0

(a) Amount represents the current economic ownership at June 30, 2019, which could differ from the stated legal ownership based upon the cumulative preferred returns of the respective Fund.

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

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

Basis of Presentation

Segments

At June 30, 2019, the Company had three reportable operating segments: Core Portfolio, Funds and Structured Financing. The Company's chief operating decision maker may review operational and financial data on a property-level basis and does not differentiate properties on a geographical basis for purposes of allocating resources or capital.

Principles of Consolidation

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

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

These interim consolidated financial statements should be read in conjunction with the Company's 2018 Annual Report on Form 10-K, as filed with the SEC on February 19, 2019.

Use of Estimates

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

Reclassifications

Certain prior period amounts with regard to gains on dispositions of properties have been reclassified to conform to the current period presentation.

Recently Adopted Accounting Pronouncements

Lease Accounting

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU 2016-02 outlines a new model for accounting by lessees, whereby their rights and obligations under substantially all leases, existing and new, will be capitalized and recorded on the balance sheet. For lessors, however, the accounting remains largely unchanged from the former model, with the distinction between operating, sales-type and direct-financing leases retained, but updated to align with certain changes to the lessee model and the new revenue recognition standard, ASC Topic 606, *Revenue from Contracts with Customers* ("Topic 606"). To ease the transition, the new lease accounting guidance permits companies to utilize certain practical expedients in their implementation of the new standard:

- A package of three practical expedients that must be elected together for all leases and includes: (i) not reassessing expired or existing contracts as to whether they are or contain leases; (ii) not reassessing lease classification of existing leases and (iii) not reassessing the amount of capitalized initial direct costs for existing leases;
- A practical expedient to use hindsight in determining the lease term or assessing purchase options for existing leases and in assessing impairment of right of use assets;

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

- Lessees may make an accounting policy election by class of underlying asset not to separate lease components from non-lease components; and
- Lessees may make an accounting policy election not to apply the recognition and measurement requirements to short-term leases.

ASU 2016-02 was modified by the following subsequently issued ASU's (together with ASU 2016-02, "Topic 842"), many of which provided additional transition practical expedients:

- ASU 2018-01, *Land Easements Practical Expedient for Transition to Topic 842* added a transition practical expedient to not reassess existing or expired land easement agreements not previously accounted for as leases
- ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*. These amendments provide minor clarifications and corrections to ASU 2016-02.
- ASU 2018-11, *Leases (Topic 842): Targeted Improvements*.
 - The amendments in this Update provide entities with an additional optional transition method to adopt ASU 2016-02. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting under this additional transition method for the comparative periods presented in the financial statements in which it adopts the new leases standard would continue to be in accordance with former GAAP (Topic 840, Leases).
 - The amendments in this Update also provide lessors with a practical expedient, by class of underlying asset, to make a policy election to not separate non-lease components from the associated lease component and, instead, to account for those components as a single component if the non-lease components otherwise would be accounted for under the new revenue guidance (Topic 606). Conditions are required to elect the practical expedient, and if met, the single component will be accounted for under either under Topic 842 or Topic 606 depending on which component(s) are predominant. The lessor practical expedient to not separate non-lease components from the associated component must be elected for all existing and new leases.
- ASU 2018-20, *Leases (Topic 842), Narrow-Scope Improvements for Lessors*. This ASU modifies ASU No. 2016-02 to permit lessors, as an accounting policy election, not to evaluate whether certain sales taxes and other similar taxes are lessor costs or lessee costs. Instead, those lessors will account for those costs as if they are lessee costs. Consequently, a lessor making this election will exclude from the consideration in the contract and from variable payments not included in the consideration in the contract all collections from lessees of taxes within the scope of the election and will provide certain disclosures (includes sales, use, value added, and some excise taxes and excludes real estate taxes).
- ASU 2019-01, *Leases (Topic 842), Codification Improvements*. There are three codification updates to Topic 842 covered by this ASU: Issue 1 provides guidance on how to compute fair value of leased items for lessors who are non-dealers or manufacturers; Issue 2 relates to cash flow presentation for lessors of sales-type and direct financing leases; and Issue 3 clarifies that certain transition disclosures will only be required in annual disclosures.

Under the new leasing guidance, contract consideration shall be allocated to its lease components (such as the lease of retail properties) and non-lease components (such as maintenance). For lessors, any non-lease components will be accounted for under Topic 606 unless the entity elects the lessor practical expedient to not separate the non-lease components from the associated lease component as described above. The new guidance also includes a definition of initial direct costs that is narrower than the prior definition in former GAAP (Topic 840, *Leases*). Topic 842 was effective for the Company beginning January 1, 2019.

The Company adopted Topic 842 effective January 1, 2019 utilizing the new transition method described in ASU 2018-11 and has availed itself of all the available practical expedients described above except it did not use hindsight in determining the lease term or assessing purchase options for existing leases and in assessing impairment of right of use assets.

As lessor, the Company has more than 1,000 leases primarily with retail tenants and to a lesser extent with office and residential tenants. A significant majority of its leases are on a triple-net basis. The impact of adoption of ASU 2016-02 for the Company as lessor was as follows:

- The Company has elected the lessor practical expedient to not separate common area maintenance from the associated lease for all existing and new leases and to account for the combined component as a single lease component. Common area maintenance is considered a non-lease component within the scope of Topic 606 and reimbursements of taxes and insurance are considered contractual payments that do not transfer a good or service to the tenant; however, such revenues related to leases, which were formerly reported as reimbursed expenses, will be reported within lease revenues in the presentation of the statement of income subsequent to the implementation of ASC 842. Prior year classifications under ASC 840 will not be adjusted.
- Due to its election of available practical expedients, the Company expects that post-adoption substantially all existing leases, and new leases compared to similar existing leases, will have no change in the timing of revenue recognition.
- The Company's internal leasing costs will be expensed as incurred, as opposed to being capitalized and deferred. Commissions subsequent to successful lease execution will continue to be capitalized. After adoption, the Company will no longer capitalize internal

ACADIA REALTY TRUST AND SUBSIDIARIES
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leasing costs that were previously capitalized (the Company capitalized \$1.8 million of internal leasing costs during the year ended December 31, 2018).

- The Company has existing easement arrangements that have not been previously identified as leases. The Company expects that its existing and similar future easement arrangements will not be classified as rental revenue but as other revenues as these arrangements do not transfer control to the counterparty.
- The Company makes a policy election to continue to account for only those taxes described under ASU 2018-20 that it pays on behalf of the tenant as reimbursable costs and will not account for those taxes paid directly by the lessee which are considered lessee costs.

As lessee, the Company was party to 13 ground, office and equipment leases with future payment obligations aggregating \$203.1 million at December 31, 2018. The impact of adoption of ASU 2016-02 for the Company as lessee was as follows (Note 11):

- As lessee, the Company has applied the following practical expedients in the implementation ASU 2016-02: (i) to not separate non-lease components from the associated lease component as described above and (ii) to not apply the right-of-use recognition requirements to short-term leases. As such, there were no changes in the timing of recognition of expenses related to its operating leases.
- The Company recognized right-of-use assets and lease liabilities of \$11.9 million and \$12.8 million, respectively, related to its operating leases.
- The Company reclassified its existing capital lease asset of \$77.0 million and capital lease liability of \$71.1 million to a right-of-use asset and a lease liability, respectively, pertaining to finance leases.
- Subsequent to the adoption of and in accordance with Topic 842, the Company reassessed the circumstances surrounding three of its operating ground leases and determined that it had made significant leasehold improvements and was now reasonably certain to exercise their purchase options. Accordingly, the Company reclassified the existing right-of-use assets and lease liabilities from operating leases to finance leases and adjusted the leases' right-of-use assets and corresponding lease liabilities to \$5.7 million and \$5.7 million, respectively, to incorporate the present value of the purchase options, which totaled \$4.7 million at January 1, 2019.
- With the adoption of ASC Topic 842, the Company will first apply the guidance under ASC 842 in assessing its rents receivable: if collection of rents under specific operating leases is not probable, then the Company recognizes the lesser of that lease's rental income on a straight-line basis or cash received, plus variable rents as earned. Once this initial assessment is completed, the Company may apply a general reserve, as provided under ASC 450-20, if applicable.

The Company did not record any cumulative effect of change in accounting principle upon the adoption of ASC Topic 842 as lessor or lessee. Consistent with the transition guidance under ASU 2018-11, all prior period disclosures remain in accordance with ASC Topic 840.

Other Accounting Topics

In February 2018, the FASB issued ASU No. 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. These amendments provide financial statement preparers with an option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recorded. This guidance is effective for fiscal years beginning after December 15, 2018, and interim periods therein. The Company adopted this guidance effective January 1, 2019, which had no effect on the Company's financial statements.

In July 2018, the FASB issued ASU No. 2018-09, *Codification Improvements*. These amendments provide clarifications and corrections to certain ASC subtopics including the following: 220-10 (Income Statement - Reporting Comprehensive Income - Overall), 470-50 (Debt - Modifications and Extinguishments), 480-10 (Distinguishing Liabilities from Equity - Overall), 718-740 (Compensation - Stock Compensation - Income Taxes), 805-740 (Business Combinations - Income Taxes), 815-10 (Derivatives and Hedging - Overall), and 820-10 (Fair Value Measurement - Overall). Some of the amendments in ASU 2018-09 do not require transition guidance and were effective upon issuance; however, many of the amendments do have transition guidance with effective dates for annual periods beginning after December 15, 2018. For those amendments that were effective January 1, 2019 or earlier, there was no material effect on the Company's financial statements.

Recently Issued Accounting Pronouncements

In April 2019, the FASB issued ASU No. 2019-04 *Codification Improvements to Topic 326, Financial Instruments — Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments*, which provides updates and clarifications to three previously-issued ASUs: 2016-01 *Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*; 2016-13 *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, described further below and which the Company has not yet adopted; and 2017-12 *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, which the Company early adopted effective January 1, 2018. The updates related to ASU 2016-13 have the same transition as ASU 2016-13 and are effective for periods beginning after December 15, 2019, with adoption permitted after the issuance of ASU 2019-04. The

updates related to ASU 2017-12 are effective for the Company on January 1, 2020. The updates related to ASU 2016-01 are effective for fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

In May 2019, the FASB issued ASU No. 2019-05 *Financial Instruments — Credit Losses (Topic 326)* which provides relief to certain entities adopting ASU 2016-13 (discussed below). The amendments accomplish those objectives by providing entities with an option to irrevocably elect the fair value option in Subtopic 825-10, applied on an instrument-by-instrument basis for eligible instruments, that are within the scope of Subtopic 326-20, upon adoption of Topic 326. The fair value option election does not apply to held-to-maturity debt securities. ASU 2019-05 has the same transition as ASU 2016-13 and is effective for periods beginning after December 15, 2019, with adoption permitted after this update. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

In November 2018, the FASB issued ASU No. 2018-19 *Codification Improvements to Topic 326, Financial Instruments — Credit Losses*. This ASU modifies ASU 2016-13 (discussed below). The amendment clarifies that receivables arising from operating leases are not within the scope of Subtopic 326-20, *Financial Instruments – Credit Losses – Measure at Amortized Cost*. Instead, impairment of receivables arising from operating leases should be accounted for in accordance with Topic 842, *Leases*. ASU 2018-19 is effective for periods beginning after December 15, 2019, with adoption permitted for fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments — Credit Losses*. ASU 2016-13 introduces a new model for estimating credit losses for certain types of financial instruments, including loans receivable, held-to-maturity debt securities, and net investments in direct financing leases, amongst other financial instruments. ASU 2016-13 also modifies the impairment model for available-for-sale debt securities and expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for losses. ASU 2016-13 is effective for periods beginning after December 15, 2019, with adoption permitted for fiscal years beginning after December 15, 2018. Retrospective adjustments shall be applied through a cumulative-effect adjustment to retained earnings. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

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

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

In August 2018, the FASB issued ASU No. 2018-15 *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* to provide guidance on implementation costs incurred in a cloud computing arrangement that is a service contract. The ASU aligns the accounting for such costs with the guidance on capitalizing costs associated with developing or obtaining internal-use software. Specifically, the ASU amends ASC 350 to include in its scope implementation costs of such arrangements that are service contracts and clarifies that a customer should apply ASC 350-40 to determine which implementation costs should be capitalized. This ASU, which is effective for fiscal years beginning after December 15, 2019, is not expected to have a material impact on the Company's financial statements as the Company has not incurred any significant costs associated with cloud computing arrangements.

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2. Real Estate

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

	June 30, 2019	December 31, 2018
Land	\$ 732,422	\$ 710,469
Buildings and improvements	2,638,585	2,594,828
Tenant improvements	170,523	151,154
Construction in progress	36,721	44,092
Properties under capital lease (Note 11)	—	76,965
Right-of-use assets - finance leases (Note 11)	93,796	—
Right-of-use assets - operating leases (Note 11)	56,279	—
Total	3,728,326	3,577,508
Less: Accumulated depreciation	(458,762)	(416,657)
Operating real estate, net	3,269,564	3,160,851
Real estate under development, at cost	211,199	120,297
Net investments in real estate	<u>\$ 3,480,763</u>	<u>\$ 3,281,148</u>

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Acquisitions and Conversions

During the six months ended June 30, 2019 and the year ended December 31, 2018, the Company acquired the following consolidated retail properties (dollars in thousands):

Property and Location	Percent Acquired	Date of Acquisition	Purchase Price
2019 Acquisitions			
<u>Core</u>			
Soho Portfolio - 41, 51 and 53 Greene Street - New York, NY (a)	100%	Mar 15, 2019 Mar 27, 2019 May 29, 2019	\$ 49,569
Subtotal Core			<u>49,569</u>
<u>Fund V</u>			
Palm Coast Landing - Palm Coast, FL	100%	May 6, 2019	36,644
Lincoln Commons - Lincoln, RI	100%	June 21, 2019	54,299
Subtotal Fund V			<u>90,943</u>
Total 2019 Acquisitions			<u>\$ 140,512</u>
2018 Acquisitions and Conversions			
<u>Core</u>			
Bedford Green Land Parcel - Bedford Hills, NY	100%	Mar 23, 2018	\$ 1,337
Subtotal Core			<u>1,337</u>
<u>Fund IV</u>			
Broughton Street Partners I - Savannah, GA (Conversion) (Note 4)	100%	Oct 11, 2018	36,104
Subtotal Fund IV			<u>36,104</u>
<u>Fund V</u>			
Trussville Promenade - Trussville, AL	100%	Feb 21, 2018	45,259
Elk Grove Commons - Elk Grove, CA	100%	Jul 18, 2018	59,320
Hiram Pavilion - Hiram, GA	100%	Oct 23, 2018	44,443
Subtotal Fund V			<u>149,022</u>
Total 2018 Acquisitions and Conversions			<u>\$ 186,463</u>

(a) The Soho Portfolio is a collection of six properties located in New York, NY with an aggregate purchase price of approximately \$96.0 million. The acquisitions of the remaining three properties are expected to be finalized through early 2020.

The 2019 Acquisitions and 2018 Acquisitions and Conversions were considered asset acquisitions based on accounting guidance effective as of January 1, 2018. For the six months ended June 30, 2019 and 2018, the Company capitalized \$0.6 million and \$0.1 million, of acquisition costs. No debt was assumed in any of the 2019 Acquisitions or 2018 Acquisitions or Conversions.

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

Purchase Price Allocations

The purchase prices for the 2019 Acquisitions and the 2018 Acquisitions and Conversions were allocated to the acquired assets and assumed liabilities based on their estimated fair values at the dates of acquisition. The following table summarizes the allocation of the purchase price of properties acquired during the six months ended June 30, 2019 and the year ended December 31, 2018 (in thousands):

	Six Months Ended June 30, 2019	Year Ended December 31, 2018
Net Assets Acquired		
Land	\$ 35,865	\$ 38,086
Buildings and improvements	92,468	129,586
Acquisition-related intangible assets (Note 6)	17,355	26,693
Acquisition-related intangible liabilities (Note 6)	(5,176)	(7,902)
Net assets acquired	<u>\$ 140,512</u>	<u>\$ 186,463</u>
Consideration		
Cash	\$ 138,716	\$ 147,985
Liabilities assumed	1,796	2,597
Existing interest in previously unconsolidated investment	—	35,881
Total consideration	<u>\$ 140,512</u>	<u>\$ 186,463</u>

Dispositions

During the six months ended June 30, 2019 and the year ended December 31, 2018, the Company disposed of the following consolidated properties (in thousands):

Property and Location	Owner	Date Sold	Sale Price	Gain on Sale
2019 Dispositions				
3104 M Street - Washington, DC (Note 4)	Fund III	Jan 24, 2019	\$ 10,500	\$ 2,014
210 Bowery - 1 Residential Condo - New York, NY	Fund IV	May 17, 2019	2,700	—
Total 2019 Dispositions			<u>\$ 13,200</u>	<u>\$ 2,014</u>
2018 Dispositions				
Sherman Avenue - New York, NY	Fund II	Apr 17, 2018	\$ 26,000	\$ 33
Lake Montclair - Dumfries, VA	Fund IV	Aug 27, 2018	22,450	2,923
1861 Union Street - San Francisco, CA	Fund IV	Aug 29, 2018	6,000	2,184
210 Bowery - 4 Residential Condos - New York, NY	Fund IV	Nov 30, 2018, Dec 10, 2018, Dec 17, 2018, Dec 21, 2018	12,050	—
Total 2018 Dispositions			<u>\$ 66,500</u>	<u>\$ 5,140</u>

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The aggregate rental revenue, expenses and pre-tax income reported within continuing operations for the aforementioned consolidated properties that were sold during the three months ended June 30, 2019 and year ended December 31, 2018 were as follows (in thousands):

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenues	\$ 10	\$ 772	\$ 53	\$ 1,564
Expenses	(180)	(947)	(257)	(1,691)
Gain on disposition of properties	—	33	2,014	33
Net (income) loss attributable to noncontrolling interests	9	496	154	395
Net income attributable to Acadia	<u>\$ (161)</u>	<u>\$ 354</u>	<u>\$ 1,964</u>	<u>\$ 301</u>

Properties Held for Sale

At June 30, 2019, the Company had one property in Fund IV classified as held-for-sale, JFK Plaza, with total assets of \$6.3 million. The property had insignificant net income for the six months ended June 30, 2019 and 2018.

Real Estate Under Development and Construction in Progress

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

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

	<u>December 31, 2018</u>		<u>Six Months Ended 2019</u>			<u>June 30, 2019</u>	
	<u>Number of Properties</u>	<u>Carrying Value</u>	<u>Transfers In</u>	<u>Capitalized Costs</u>	<u>Transfers Out</u>	<u>Number of Properties</u>	<u>Carrying Value</u>
Core	1	\$ 7,759	\$ 57,342	\$ 5,382	\$ —	2	\$ 70,483
Fund II	—	7,462	—	1,254	—	—	8,716
Fund III	1	21,242	12,313	1,446	—	1	35,001
Fund IV	1	83,834	9,166	3,999	—	2	96,999
Total	<u>3</u>	<u>\$ 120,297</u>	<u>\$ 78,821</u>	<u>\$ 12,081</u>	<u>\$ —</u>	<u>5</u>	<u>\$ 211,199</u>

The number of properties in the table above refers to projects comprising the entire property; however, certain projects represent a portion of a property. During the six months ended June 30, 2019, the Company placed the following projects into development:

- a portion of City Center (Core)
- a portion of Cortlandt Crossing (Fund III)
- its 1238 Wisconsin Avenue property (Core, [Note 11](#))
- a portion of 110 University Place (Fund IV, [Note 11](#))

No projects were placed into service during the six months ended, June 30, 2019. Fund II amounts relate to the City Point Phase III project.

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

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

3. Notes Receivable, Net

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

Description	June 30,	December 31,	June 30, 2019		
	2019	2018	Number	Maturity Date	Interest Rate
Core Portfolio	\$ 56,475	\$ 56,475	2	Oct 2019 - Apr 2020	6.0% - 8.1%
Fund II	32,881	32,582	1	Dec 2020	1.75%
Fund III	5,306	5,306	1	Jul 2020	18.0%
Fund IV	—	15,250	—	Feb 2021	15.3%
	<u>\$ 94,662</u>	<u>\$ 109,613</u>	<u>4</u>		

During the six months ended June 30, 2019, the Company:

- increased the balance of a Fund II note receivable by the interest accrued of \$0.3 million;
- redeemed its \$15.25 million Fund IV investment plus accrued interest of \$10.0 million;
- stopped accruing interest on one loan, due to the estimated market value of the collateral. The note had \$4.7 million of accrued interest at each of December 31, 2018 and June 30, 2019; and
- extended the maturity for Brandywine's note receivable to October 31, 2019.

During the year ended December 31, 2018, the Company:

- exchanged \$22.0 million of a Core note receivable plus accrued interest thereon of \$0.3 million for an additional undivided interest in the Town Center property ([Note 4](#));
- received full payment on \$26.0 million of Core notes receivable plus accrued interest of \$0.2 million;
- funded an additional \$2.8 million to its existing \$15.0 million Core note receivable and entered into an agreement to extend the maturity to April 1, 2020;
- advanced an additional \$0.2 million on a Fund III note receivable; and
- increased the balance of a Fund II note receivable by the interest accrued of \$0.8 million.

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

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

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4. Investments in and Advances to Unconsolidated Affiliates

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

Portfolio	Property	Nominal Ownership Interest June 30, 2019	June 30, 2019	December 31, 2018
Core:				
	840 N. Michigan (a)	88.43%	\$ 64,622	\$ 65,013
	Renaissance Portfolio	20%	32,675	32,458
	Gotham Plaza	49%	29,546	29,550
	Town Center (a, b)	75.22%	98,805	99,758
	Georgetown Portfolio	50%	4,808	4,653
			<u>230,456</u>	<u>231,432</u>
Mervyns I & II:	KLA/Mervyn's, LLC (c)	10.5%	—	—
Fund III:				
	Fund III Other Portfolio	90%	17	21
	Self Storage Management (d)	95%	206	206
			<u>223</u>	<u>227</u>
Fund IV:				
	Broughton Street Portfolio (e)	50%	12,579	3,236
	Fund IV Other Portfolio	90%	14,433	14,540
	650 Bald Hill Road	90%	12,557	12,880
			<u>39,569</u>	<u>30,656</u>
Fund V:				
	Family Center at Riverdale (a)	90%	14,514	—
	Tri-City Plaza	90%	36,636	—
			<u>51,150</u>	<u>—</u>
Various Funds:				
	Due (to) from Related Parties		(1,477)	(461)
	Other (f)		556	556
	Investments in and advances to unconsolidated affiliates		<u>\$ 320,477</u>	<u>\$ 262,410</u>
Core:				
	Crossroads (g)	49%	\$ 15,032	\$ 15,623
	Distributions in excess of income from, and investments in, unconsolidated affiliates		<u>\$ 15,032</u>	<u>\$ 15,623</u>

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

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

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

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

(e) The Company is entitled to a 15% return on its cumulative capital contribution which was \$5.9 million and \$3.0 million at June 30, 2019 and December 31, 2018, respectively. In addition, the Company is entitled to a 9% preferred return on a portion of its equity, which was \$9.4 million and \$2.8 million at June 30, 2019 and December 31, 2018, respectively.

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

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

Core Portfolio

2019 Acquisition of Unconsolidated Investments

On January 24, 2019, the Renaissance Portfolio, in which the Company owns a 20% noncontrolling interest, acquired a 7,300 square foot property in Fund III's 3104 M Street property located in Washington, D.C. for \$10.7 million ([Note 2](#)) less the assumption of the outstanding mortgage of \$4.7 million.

Brandywine Portfolio, Market Square and Town Center

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

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

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

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

At June 30, 2019, \$38.7 million of the Brandywine Note Receivable remains outstanding ([Note 3](#)), which is collateralized by the remaining 24.78% undivided interest in Town Center.

Fund Investments

2019 Acquisitions of Unconsolidated Investments

On March 19, 2019, Fund V acquired an interest in a venture which invested in a 428,000 square-foot property located in Riverdale, Utah referred to as “Family Center at Riverdale” for \$48.5 million. The Company accounts for its interest in the Family Center at Riverdale under the equity method of accounting as it does not control but exercises significant influence over the investment.

On April 30, 2019, Fund V acquired an interest in a venture which invested in a 300,000 square-foot property located in Vernon, Connecticut referred to as “Tri-City Plaza” for \$36.7 million. The Company accounts for its interest in Tri-City Plaza under the equity method of accounting as it does not control but exercises significant influence over the investment.

Broughton Street Portfolio

During 2014, Fund IV acquired 50% interests in two joint ventures referred to as “BSP I” and “BSP II” with the same venture partner to acquire and operate a total of 23 properties in Savannah, Georgia referred to as the “Broughton Street Portfolio.” Since that time, as described below, the ventures have sold eight of the properties and terminated the master leases on two of the properties. In October 2018, the venture partner relinquished its interest in BSP I resulting in Fund IV becoming the 100% owner of the BSP I venture, which holds 11 consolidated properties (Note 2). Fund IV accounted for this transaction as an asset purchase at fair value whereby its existing preferred and common interests were deemed consideration for the properties and no gain or loss was recognized. At June 30, 2019, the Broughton Street portfolio had 13 remaining properties, two of which are unconsolidated and are held within the BSP II venture.

Storage Post

On June 29, 2019, Fund III’s Storage Post venture, which is a cost-method investment with no carrying value, distributed \$1.6 million of which the Operating Partnership’s share was \$0.4 million. On May 15, 2018, the Storage Post venture, distributed \$3.2 million of which the Operating Partnership’s share was \$0.8 million.

2018 Dispositions of Unconsolidated Investments

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

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

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

Fees from Unconsolidated Affiliates

The Company earned property management, construction, development, legal and leasing fees from its investments in unconsolidated partnerships totaling \$0.3 million for each of the three months ended June 30, 2019 and 2018 and \$0.5 million for each of the six months ended June 30, 2019 and June 30, 2018, which is included in other revenues in the consolidated financial statements.

In addition, the Company paid to certain unaffiliated partners of its joint ventures, \$0.3 million and \$0.4 million for the three months ended June 30, 2019 and 2018, and \$0.7 million and \$0.9 million for the six months ended June 30, 2019 and 2018, respectively, for leasing commissions, development, management, construction and overhead fees.

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Summarized Financial Information of Unconsolidated Affiliates

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

	<u>June 30, 2019</u>	<u>December 31, 2018</u>
Combined and Condensed Balance Sheets		
Assets:		
Rental property, net	\$ 599,595	\$ 488,000
Investment in unconsolidated affiliates	6,853	6,853
Other assets	73,773	91,497
Total assets	\$ 680,221	\$ 586,350
Liabilities and partners' equity:		
Mortgage notes payable	\$ 459,484	\$ 408,967
Other liabilities	57,919	54,675
Partners' equity	162,818	122,708
Total liabilities and partners' equity	\$ 680,221	\$ 586,350
Company's share of accumulated equity	\$ 202,320	\$ 141,384
Basis differential	102,637	104,084
Deferred fees, net of portion related to the Company's interest	1,965	1,780
Amounts payable by the Company	(1,477)	(461)
Investments in and advances to unconsolidated affiliates, net of Company's share of distributions in excess of income from and investments in unconsolidated affiliates	305,445	246,787
Company's share of distributions in excess of income from and investments in unconsolidated affiliates	15,032	15,623
Investments in and advances to unconsolidated affiliates	\$ 320,477	\$ 262,410

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Combined and Condensed Statements of Income				
Total revenues	\$ 22,740	\$ 19,603	\$ 42,713	\$ 39,759
Operating and other expenses	(5,236)	(5,531)	(10,342)	(11,453)
Interest expense	(5,639)	(5,250)	(10,415)	(10,125)
Depreciation and amortization	(5,795)	(5,801)	(10,587)	(11,856)
Loss on disposition of properties	—	(992)	—	(1,410)
Net income attributable to unconsolidated affiliates	\$ 6,070	\$ 2,029	\$ 11,369	\$ 4,915
Company's share of equity in net income of unconsolidated affiliates	\$ 4,282	\$ 5,895	\$ 7,277	\$ 8,260
Basis differential amortization	(723)	(876)	(1,447)	(1,557)
Company's equity in earnings of unconsolidated affiliates	\$ 3,559	\$ 5,019	\$ 5,830	\$ 6,703

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

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

(in thousands)	June 30, 2019	December 31, 2018
Other Assets, Net:		
Lease intangibles, net (Note 6)	\$ 117,074	\$ 115,939
Deferred charges, net (a)	29,804	28,619
Prepaid expenses	16,529	18,422
Other receivables	12,046	5,058
Accrued interest receivable	9,308	17,046
Deposits	4,091	4,611
Due from seller	4,000	4,000
Deferred tax assets	2,050	2,032
Derivative financial instruments (Note 8)	1,057	7,018
Due from related parties	612	1,802
Corporate assets	1,776	1,953
Income taxes receivable	1,777	2,070
	\$ 200,124	\$ 208,570
(a) Deferred Charges, Net:		
Deferred leasing and other costs	\$ 48,729	\$ 45,011
Deferred financing costs related to line of credit	8,970	8,960
	57,699	53,971
Accumulated amortization	(27,895)	(25,352)
Deferred charges, net	\$ 29,804	\$ 28,619
Accounts Payable and Other Liabilities:		
Lease intangibles, net (Note 6)	\$ 89,388	\$ 95,045
Capital lease obligations (Note 11)	—	71,111
Lease liability - finance leases, net (Note 11)	87,784	—
Lease liability - operating leases, net (Note 11)	57,397	—
Accounts payable and accrued expenses	72,892	65,215
Deferred income	27,582	34,052
Tenant security deposits, escrow and other	11,759	10,588
Derivative financial instruments (Note 8)	37,354	7,304
Income taxes payable	—	19
Other	134	2,738
	\$ 384,290	\$ 286,072

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6. Lease Intangibles

Upon acquisitions of real estate (Note 2), the Company assesses the fair value of acquired assets (including land, buildings and improvements, and identified intangibles such as above- and below-market leases, including below-market options and acquired in-place leases) and assumed liabilities. The lease intangibles are amortized over the remaining terms of the respective leases, including option periods where applicable.

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

	June 30, 2019			December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable Intangible Assets						
In-place lease intangible assets	\$ 234,479	\$ (122,067)	\$ 112,412	\$ 216,021	\$ (105,972)	\$ 110,049
Above-market rent	17,991	(13,329)	4,662	18,169	(12,279)	5,890
	<u>\$ 252,470</u>	<u>\$ (135,396)</u>	<u>\$ 117,074</u>	<u>\$ 234,190</u>	<u>\$ (118,251)</u>	<u>\$ 115,939</u>
Amortizable Intangible Liabilities						
Below-market rent	\$ (157,657)	\$ 68,818	\$ (88,839)	\$ (152,188)	\$ 57,721	\$ (94,467)
Above-market ground lease	(671)	122	(549)	(671)	93	(578)
	<u>\$ (158,328)</u>	<u>\$ 68,940</u>	<u>\$ (89,388)</u>	<u>\$ (152,859)</u>	<u>\$ 57,814</u>	<u>\$ (95,045)</u>

During the six months ended June 30, 2019, the Company acquired in-place lease intangible assets of \$17.1 million, above-market rents of \$0.2 million, and below-market rents of \$5.2 million with weighted-average useful lives of 6.3, 10.3, and 21.4 years, respectively.

During the year ended December 31, 2018, the Company acquired in-place lease intangible assets of \$24.2 million, above-market rents of \$2.5 million, and below-market rents of \$7.9 million with weighted-average useful lives of 5.2, 5.1, and 20.5 years, respectively.

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

The scheduled amortization of acquired lease intangible assets and assumed liabilities as of June 30, 2019 is as follows (in thousands):

Years Ending December 31,	Net Increase in Lease Revenues	Increase to Amortization	Reduction of Rent Expense	Net (Expense) Income
2019 (Remainder)	\$ 2,805	\$ (15,140)	\$ 29	\$ (12,306)
2020	8,011	(24,067)	58	(15,998)
2021	7,512	(17,514)	58	(9,944)
2022	7,141	(12,551)	58	(5,352)
2023	7,134	(9,919)	58	(2,727)
Thereafter	51,574	(33,221)	288	18,641
Total	<u>\$ 84,177</u>	<u>\$ (112,412)</u>	<u>\$ 549</u>	<u>\$ (27,686)</u>

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7. Debt

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

	Interest Rate at		Maturity Date at June 30, 2019	Carrying Value at	
	June 30, 2019	December 31, 2018		June 30, 2019	December 31, 2018
Mortgages Payable					
Core Fixed Rate	3.88%-6.00%	3.88%-6.00%	Feb 2024 - Apr 2035	\$ 177,250	\$ 178,271
Core Variable Rate - Swapped (a)	3.41%-5.67%	3.41%-5.67%	Jan 2023 - Nov 2028	33,074	82,583
Total Core Mortgages Payable				210,324	260,854
Fund II Fixed Rate	1.00%-4.75%	1.00%-4.75%	May 2020 - Aug 2042	205,263	205,262
Fund II Variable Rate	LIBOR+1.39%-LIBOR+3.00%	—	March 2022	23,598	—
Fund II Variable Rate - Swapped (a)	4.27%	4.27%	Nov 2021	19,201	19,325
Total Fund II Mortgages Payable				248,062	224,587
Fund III Variable Rate	LIBOR+2.65%-LIBOR+4.65%	Prime+0.50%-LIBOR+4.65%	Jun 2020 - Jul 2020	91,211	90,096
Fund IV Fixed Rate	3.40%-4.50%	3.40%-4.50%	Oct 2025 - Jun 2026	8,190	8,189
Fund IV Variable Rate	LIBOR+1.60%-LIBOR+3.40%	LIBOR+1.60%-LIBOR+3.95%	July 2019 - Apr 2022	176,270	233,065
Fund IV Variable Rate - Swapped (a)	3.67%-4.81%	3.67%-4.23%	Mar 2020 - Dec 2022	93,214	71,841
Total Fund IV Mortgages Payable				277,674	313,095
Fund V Variable Rate	LIBOR+2.15%-LIBOR+2.25%	LIBOR+2.25%	Oct 2020 - Jan 2021	51,506	51,506
Fund V Variable Rate - Swapped (a)	4.01%-4.78%	4.61%-4.78%	Feb 2021 - Mar 2024	156,900	86,570
Total Fund V Mortgage Payable				208,406	138,076
Net unamortized debt issuance costs				(10,510)	(10,173)
Unamortized premium				702	753
Total Mortgages Payable				\$ 1,025,869	\$ 1,017,288
Unsecured Notes Payable					
Core Term Loans	—	LIBOR+1.25%	Mar 2023	\$ —	\$ 383
Core Variable Rate Unsecured Term Loans - Swapped (a)	2.49%-5.02%	2.54%-3.59%	Mar 2023	350,000	349,617
Total Core Unsecured Notes Payable				350,000	350,000
Fund II Unsecured Notes Payable	LIBOR+1.65%	LIBOR+1.40%	Sep 2020	40,000	40,000
Fund IV Term Loan/Subscription Facility	LIBOR+1.65%-LIBOR+2.00%	LIBOR+1.65%-LIBOR+2.75%	Dec 2019 - June 2021	87,625	40,825
Fund V Subscription Facility	LIBOR+1.60%	LIBOR+1.60%	May 2020	143,400	102,800
Net unamortized debt issuance costs				(818)	(368)
Total Unsecured Notes Payable				\$ 620,207	\$ 533,257
Unsecured Line of Credit					
Core Unsecured Line of Credit	—	—	—	\$ —	\$ —
Core Unsecured Line of Credit - Swapped (a)	2.49%-5.02%	—	Mar 2022	39,000	—
Total Unsecured Line of Credit				\$ 39,000	\$ —
Total Debt - Fixed Rate (b)(c)				\$ 1,198,592	\$ 1,001,658
Total Debt - Variable Rate (d)				497,110	558,675
Total Debt				1,695,702	1,560,333
Net unamortized debt issuance costs				(11,328)	(10,541)
Unamortized premium				702	753
Total Indebtedness				\$ 1,685,076	\$ 1,550,545

- (a) At June 30, 2019, the stated rates ranged from LIBOR + 1.50% to LIBOR + 1.90% for Core variable-rate debt; LIBOR + 1.39% for Fund II variable-rate debt; LIBOR + 2.65% to LIBOR + 4.65% for Fund III variable-rate debt; LIBOR + 1.60% to LIBOR + 3.40% for Fund IV variable-rate debt; LIBOR + 2.15% to LIBOR + 2.25% for Fund V variable-rate debt; LIBOR + 1.25% for Core variable-rate unsecured term loans; and LIBOR + 1.35% for Core variable-rate unsecured lines of credit.
- (b) Includes \$691.4 million and \$609.9 million, respectively, of variable-rate debt that has been fixed with interest rate swap agreements as of the periods presented.
- (c) Fixed-rate debt at June 30, 2019 includes \$165.5 million of swaps that are not designated to specific debt instruments.
- (d) Includes \$157.5 million and \$143.8 million, respectively, of variable-rate debt that is subject to interest cap agreements.

Credit Facility

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

Mortgages Payable

During the six months ended June 30, 2019:

- The Company obtained four new Fund mortgages totaling \$118.3 million with a weighted-average interest rate of LIBOR + 1.64% collateralized by four properties and maturing in 2022 through 2024. The Company also refinanced a Fund IV loan in the amount of \$23.8 million, of which \$18.9 million had been drawn at June 30, 2019, and which bears interest at a rate of LIBOR + 1.75% and matures in 2022.
- The Company drew down \$5.9 million on a Fund III construction loan.
- Fund III mortgage, which had a balance of \$4.7 million and an interest rate of Prime + 0.5%, was assumed by the purchasing venture in a property sale (Note 2). The Company also repaid a Fund IV loan in full, which had a balance of \$38.2 million and an interest rate of LIBOR + 2.35%.
- The Company modified one Core loan to provide for a temporary prepayment of \$49.0 million which is required to be re-borrowed within six months in order to avoid a pre-payment fee. The Company also modified two Fund IV loans to increase the commitment of BSP Venture I’s mortgage by \$9.4 million; and to decrease the 717 North Michigan Avenue mortgage balance by \$9.9 million, decrease future availability by \$3.9 million and reduce the interest rate to LIBOR + 3.10%.
- The Company entered into interest rate swap contracts to effectively fix the variable portion of the interest rates of four of the new obligations with a notional value of \$91.5 million at a weighted average interest rate of 2.74%.
- The Company made scheduled principal payments of \$3.2 million.

At June 30, 2019 and December 31, 2018, the Company’s mortgages were collateralized by 44 and 43 properties, respectively, and the related tenant leases. Certain loans are cross-collateralized and contain cross-default provisions. The loan agreements contain customary representations, covenants and events of default. Certain loan agreements require the Company to comply with affirmative and negative covenants, including the maintenance of debt service coverage and leverage ratios. A portion of the Company’s variable-rate mortgage debt has been effectively fixed through certain cash flow hedge transactions (Note 8).

The mortgage loan related to Brandywine Holdings in the Company’s Core Portfolio, which was originated in June 2006 and had an original principal amount of \$26.3 million, was in default and subject to litigation at June 30, 2019 and December 31, 2018. This loan bears interest at 6.00%, excluding default interest of 5%, and is collateralized by a property, in which the Company holds a 22% controlling interest. In April 2017, the lender on this mortgage initiated a lawsuit against the Company for the full balance of the principal, accrued interest as well as penalties and fees. The Company believes it has valid defenses and intends to vigorously defend itself.

Unsecured Notes Payable

Unsecured notes payable for which total availability was \$15.2 million and \$62.3 million at June 30, 2019 and December 31, 2018, respectively, are comprised of the following:

- As discussed above, the Core unsecured term loans totaling \$300.0 million were refinanced in February 2018, into one \$350.0 million term loan with an interest rate of LIBOR+ 1.25% and maturing in March 2023. The outstanding balance of the Core term loans was \$350.0 million at June 30, 2019 and December 31, 2018. During the six months ended June 30, 2019, the Company entered into an interest rate swap contract to effectively fix the variable portion of the interest rate with a notional value of \$156.0 million at a weighted-average interest rate of 2.43%, which may be used to swap the Company’s unhedged, unsecured, LIBOR-based variable-rate debt. The Company previously entered into swap agreements fixing the rates of the remaining Core term loans.
- Fund II has a \$40.0 million term loan secured by the real estate assets of City Point Phase II and guaranteed by the Company and the Operating Partnership. The outstanding balance of the Fund II term loan was \$40.0 million at June 30, 2019 and December 31, 2018. Total availability was \$0.0 million at June 30, 2019 and December 31, 2018.
- At Fund IV there is a \$80.2 million bridge facility and a \$27.0 million subscription line, which were modified from their previous limits of \$41.8 million and \$15.0 million, respectively, during the second quarter of 2019. The outstanding balance of the Fund IV bridge

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facility was \$79.2 million at June 30, 2019 and \$40.8 million at December 31, 2018. Total availability was \$1.0 million at each of June 30, 2019 and December 31, 2018. The outstanding balance of the Fund IV subscription line was \$8.4 million at June 30, 2019 and \$0 at December 31, 2018. Total available credit was \$7.6 million at both June 30, 2019 and December 31, 2018, reflecting letters of credit of \$11.0 million and \$7.4 million, respectively.

- Fund V has a \$150.0 million subscription line collateralized by Fund V's unfunded capital commitments and guaranteed by the Operating Partnership. The outstanding balance and total available credit of the Fund V subscription line was \$143.4 million and \$6.6 million, respectively at June 30, 2019. The outstanding balance and total available credit of the Fund V subscription line was \$102.8 million and \$47.2 million, respectively at December 31, 2018.

Unsecured Revolving Line of Credit

As discussed above, the Core unsecured revolving line of credit was refinanced in February 2018. The Company had a total of \$90.7 million and \$137.7 million, respectively, available under its \$150.0 million Core unsecured revolving lines of credit reflecting borrowings of \$39.0 million and \$0 million, respectively, and letters of credit of \$20.3 million and \$12.3 million at June 30, 2019 and December 31, 2018, respectively. At June 30, 2019 and December 31, 2018, all of the Core unsecured revolving line of credit was swapped to a fixed rate.

Scheduled Debt Principal Payments

The scheduled principal repayments of the Company's consolidated indebtedness, as of June 30, 2019 are as follows (in thousands):

Year Ending December 31,		
2019 (Remainder)	\$	165,255
2020		573,416
2021		217,873
2022		134,070
2023		412,305
Thereafter		192,783
		<u>1,695,702</u>
Unamortized premium		702
Net unamortized debt issuance costs		(11,328)
Total indebtedness	\$	<u>1,685,076</u>

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

8. Financial Instruments and Fair Value Measurements

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

Items Measured at Fair Value on a Recurring Basis

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

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

Derivative Assets — The Company has derivative assets, which are included in Other assets, net in the consolidated financial statements, are comprised of interest rate swaps and caps. The derivative instruments were measured at fair value using readily observable market inputs, such as

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quotations on interest rates, and were classified as Level 2 as these instruments are custom, over-the-counter contracts with various bank counterparties that are not traded in an active market. See “Derivative Financial Instruments,” below.

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

The Company did not have any transfers into or out of Level 1, Level 2, and Level 3 measurements during the six months ended June 30, 2019 or 2018.

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

	June 30, 2019			December 31, 2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Money Market Funds	\$ —	\$ —	\$ —	\$ 4,504	\$ —	\$ —
Derivative financial instruments	—	1,057	—	—	7,018	—
Liabilities						
Derivative financial instruments	—	37,354	—	—	7,304	—

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

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

During 2018, the Company began selling the residential units of its 210 Bowery property in Fund IV. As the projected aggregate selling prices net of selling costs were in line with the carrying amount of the property through the first quarter 2019, no gain or loss has been recognized on the units sold to date and no impairment was previously deemed necessary. During the second quarter 2019, an amendment to the offering memorandum at this property was executed which reduced the selling price of the remaining three units. Accordingly, the Company recognized a \$1.4 million impairment charge, inclusive of an amount attributable to a noncontrolling interest of \$1.1 million, to adjust the carrying value to the estimated selling price less estimated costs to sell.

The Company did not record any impairment charges during the six months ended June 30, 2018.

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Derivative Financial Instruments

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

Derivative Instrument	Aggregate Notional Amount	Effective Date	Maturity Date	Strike Rate		Balance Sheet Location	Fair Value		
				Low	High		June 30, 2019	December 31, 2018	
Core									
Interest Rate Swaps	\$ 424,074	Dec 2012- July 2020	Mar 2022- July 2030	1.71%	—	3.77%	Other Liabilities (a)	\$ (31,570)	\$ (6,332)
Interest Rate Swaps	163,500	Oct 2014 - July 2016	Nov 2019- June 2021	1.24%	—	1.70%	Other Assets	1,025	6,022
	<u>\$ 587,574</u>							<u>\$ (30,545)</u>	<u>\$ (310)</u>
Fund II									
Interest Rate Swap	\$ 19,201	Oct 2014	Nov 2021	2.88%	—	2.88%	Other Liabilities	\$ (150)	\$ —
Interest Rate Swap	—	—	—	—	—	—	Other Assets	—	108
Interest Rate Cap	23,300	Mar 2019	Mar 2022	3.50%	—	3.50%	Other Assets	9	—
	<u>\$ 42,501</u>							<u>\$ (141)</u>	<u>\$ 108</u>
Fund III									
Interest Rate Cap	\$ 58,000	Dec 2016	Jan 2020	3.00%	—	3.00%	Other Assets	\$ —	\$ 8
Fund IV									
Interest Rate Swaps	\$ 23,100	Mar 2017	Mar 2020	1.82%	—	1.82%	Other Assets	\$ 23	\$ 851
Interest Rate Swap	70,114	Mar 2017 - May 2019	Apr 2022 - Dec 2022	1.97%	—	4.00%	Other Liabilities	(878)	—
Interest Rate Caps	108,900	July 2016 - Nov 2016	Aug 2019 - Dec 2019	3.00%	—	3.00%	Other Assets	—	8
	<u>\$ 202,114</u>							<u>\$ (855)</u>	<u>\$ 859</u>
Fund V									
Interest Rate Swap	\$ —	—	—	—	—	—	Other Assets	\$ —	\$ 21
Interest Rate Swaps	156,900	Jan 2018-Mar 2019	Feb 2021- Mar 2024	2.27%	—	2.88%	Other Liabilities	(4,756)	(972)
	<u>\$ 156,900</u>							<u>\$ (4,756)</u>	<u>\$ (951)</u>
Total asset derivatives								<u>\$ 1,057</u>	<u>\$ 7,018</u>
Total liability derivatives								<u>\$ (37,354)</u>	<u>\$ (7,304)</u>

(a) Includes two swaps with an aggregate fair value of (\$10.6) million and (\$2.9) million at June 30, 2019 and December 31, 2018, respectively, which were acquired during July 2018 and are not effective until July 2020.

All of the Company's derivative instruments have been designated as cash flow hedges and hedge the future cash outflows on variable-rate debt (Note 7). It is estimated that approximately \$3.4 million included in accumulated other comprehensive (loss) income related to derivatives will be reclassified to interest expense within the next twelve months. As of June 30, 2019 and December 31, 2018, no derivatives were designated as fair value hedges or hedges of net investments in foreign operations. Additionally, the Company does not use derivatives for trading or speculative purposes and currently does not have any derivatives that are not designated hedges.

Risk Management Objective of Using Derivatives

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

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The Company is exposed to credit risk in the event of non-performance by the counterparties to the swaps if the derivative position has a positive balance. The Company believes it mitigates its credit risk by entering into swaps with major financial institutions. The Company continually monitors and actively manages interest costs on its variable-rate debt portfolio and may enter into additional interest rate swap positions or other derivative interest rate instruments based on market conditions.

Credit Risk-Related Contingent Features

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

Other Financial Instruments

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

	Level	June 30, 2019		December 31, 2018	
		Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Notes Receivable (a)	3	\$ 94,662	\$ 93,532	\$ 109,613	\$ 107,370
Mortgage and Other Notes Payable (a)	3	1,035,677	1,040,198	1,026,708	1,021,075
Investment in non-traded equity securities (b)	3	—	23,208	—	23,208
Unsecured notes payable and Unsecured line of credit (c)	2	660,025	660,734	533,625	533,954

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

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

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

The Company's cash and cash equivalents, restricted cash, accounts receivable, accounts payable and certain financial instruments included in other assets and other liabilities had fair values that approximated their carrying values at June 30, 2019.

9. Commitments and Contingencies

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

Commitments and Guaranties

In conjunction with the development and expansion of various properties, the Company has entered into agreements with general contractors for the construction or development of properties aggregating approximately \$52.1 million and \$55.5 million as of June 30, 2019 and December 31, 2018, respectively.

At June 30, 2019 and December 31, 2018, the Company had letters of credit outstanding of \$31.3 million and \$19.7 million, respectively. The Company has not recorded any obligation associated with these letters of credit. The majority of the letters of credit are collateral for existing indebtedness and other obligations of the Company.

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

Common Shares and Units

In addition to the ATM Program activity discussed below, the Company completed the following transactions in its common shares during the six months ended June 30, 2019:

- The Company withheld 2,468 Restricted Shares to pay the employees' statutory minimum income taxes due on the value of the portion of their Restricted Shares that vested.
- The Company recognized Common Share and Common OP Unit-based compensation totaling \$3.7 million in connection with Restricted Shares and Units ([Note 13](#)) for the six months ended June 30, 2019 compared to \$4.3 million for the six months ended June 30, 2018.

In addition to the share repurchase activity discussed below, the Company completed the following transactions in its common shares during the year ended December 31, 2018:

- The Company withheld 3,288 Restricted Shares to pay the employees' statutory minimum income taxes due on the value of the portion of their Restricted Shares that vested.
- The Company recognized Common Share and Common OP Unit-based compensation totaling \$8.4 million in connection with Restricted Shares and Units ([Note 13](#)).

ATM Program

The Company has an at-the-market ("ATM") equity issuance program which provides the Company an efficient and low-cost vehicle for raising public equity to fund its capital needs. During the three months ended June 30, 2019, the Company sold 1,696,516 shares under its ATM program for gross proceeds of \$48.0 million, or \$47.3 million net of issuance costs, at a weighted-average gross price per share of \$28.29. During the six months ended June 30, 2019, the Company sold 2,667,351 shares under its ATM program for gross proceeds of \$76.2 million, or \$75.1 million net of issuance costs, at a weighted-average gross price per share of \$28.58. In the second quarter, the Company entered into a new \$250.0 million ATM program that replaced its existing program and also included an optional "forward purchase" component.

Share Repurchase Program

During 2018, the Company's board of trustees approved a new share repurchase program, which authorizes management, at its discretion, to repurchase up to \$200.0 million of its outstanding Common Shares. The program does not obligate the Company to repurchase any specific number of Common Shares, and may be discontinued or extended at any time. The Company repurchased 2,294,235 shares for \$55.1 million, inclusive of \$0.1 million of fees, during the year ended December 31, 2018. During the six months ended June 30, 2019 the Company made no repurchases under the share repurchase program, under which \$144.9 million currently remains available.

Dividends and Distributions

The following table sets forth the dividends declared and/or paid during the six months ended June 30, 2019:

Date Declared	Amount Per Share	Record Date	Payment Date
November 15, 2018	\$ 0.28	December 31, 2018	January 15, 2019
February 28, 2019	\$ 0.28	March 29, 2019	April 15, 2019
May 9, 2019	\$ 0.28	June 28, 2019	July 15, 2019

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Accumulated Other Comprehensive Income

The following tables set forth the activity in accumulated other comprehensive income for the three and six months ended June 30, 2019 and 2018 (in thousands):

	Gains or Losses on Derivative Instruments
Balance at April 1, 2019	\$ (11,021)
Other comprehensive loss before reclassifications	(22,652)
Reclassification of realized interest on swap agreements	(535)
Net current period other comprehensive loss	(23,187)
Net current period other comprehensive loss attributable to noncontrolling interests	4,638
Balance at June 30, 2019	\$ (29,570)
Balance at April 1, 2018	\$ 7,376
Other comprehensive income before reclassifications	2,950
Reclassification of realized interest on swap agreements	109
Net current period other comprehensive income	3,059
Net current period other comprehensive income attributable to noncontrolling interests	(297)
Balance at June 30, 2018	\$ 10,138
	Gains or Losses on Derivative Instruments
Balance at January 1, 2019	\$ 516
Other comprehensive loss before reclassifications	(35,958)
Reclassification of realized interest on swap agreements	(1,086)
Net current period other comprehensive loss	(37,044)
Net current period other comprehensive loss attributable to noncontrolling interests	6,958
Balance at June 30, 2019	\$ (29,570)
Balance at January 1, 2018	\$ 2,614
Other comprehensive income before reclassifications	8,603
Reclassification of realized interest on swap agreements	472
Net current period other comprehensive income	9,075
Net current period other comprehensive income attributable to noncontrolling interests	(1,551)
Balance at June 30, 2018	\$ 10,138

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Noncontrolling Interests

The following tables summarize the change in the noncontrolling interests for the three and six months ended June 30, 2019 and 2018 (dollars in thousands):

	Noncontrolling Interests in Operating Partnership (a)	Noncontrolling Interests in Partially-Owned Affiliates (b)	Total
Balance at April 1, 2019	\$ 105,044	\$ 535,377	\$ 640,421
Distributions declared of \$0.28 per Common OP Unit	(1,776)	—	(1,776)
Net income (loss) for the three months ended June 30, 2019	722	(15,039)	(14,317)
Conversion of 33,289 Common OP Units to Common Shares by limited partners of the Operating Partnership	(557)	—	(557)
Other comprehensive loss - unrealized loss on valuation of swap agreements	(1,127)	(3,464)	(4,591)
Reclassification of realized interest expense on swap agreements	(23)	(24)	(47)
Noncontrolling interest distributions	—	(1,645)	(1,645)
Employee Long-term Incentive Plan Unit Awards	1,835	—	1,835
Reallocation of noncontrolling interests (c)	(413)	—	(413)
Balance at June 30, 2019	\$ 103,705	\$ 515,205	\$ 618,910
Balance at April 1, 2018	\$ 106,395	\$ 533,603	\$ 639,998
Distributions declared of \$0.27 per Common OP Unit	(1,713)	—	(1,713)
Net income (loss) for the three months ended June 30, 2018	633	(10,568)	(9,935)
Conversion of 28,512 Common OP Units to Common Shares by limited partners of the Operating Partnership	(481)	—	(481)
Other comprehensive income - unrealized gain on valuation of swap agreements	154	44	198
Reclassification of realized interest expense on swap agreements	9	90	99
Noncontrolling interest contributions	—	6,550	6,550
Noncontrolling interest distributions	—	(14,945)	(14,945)
Employee Long-term Incentive Plan Unit Awards	2,126	—	2,126
Reallocation of noncontrolling interests (c)	(2,023)	—	(2,023)
Balance at June 30, 2018	\$ 105,100	\$ 514,774	\$ 619,874

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	Noncontrolling Interests in Operating Partnership (a)	Noncontrolling Interests in Partially-Owned Affiliates (b)	Total
Balance at January 1, 2019	\$ 104,223	\$ 518,219	\$ 622,442
Distributions declared of \$0.56 per Common OP Unit	(3,557)	—	(3,557)
Net income (loss) for the six months ended June 30, 2019	1,653	(25,231)	(23,578)
Conversion of 207,818 Common OP Units to Common Shares by limited partners of the Operating Partnership	(3,510)	—	(3,510)
Other comprehensive loss - unrealized loss on valuation of swap agreements	(1,822)	(5,068)	(6,890)
Reclassification of realized interest expense on swap agreements	(44)	(24)	(68)
Noncontrolling interest contributions	—	32,191	32,191
Noncontrolling interest distributions	—	(4,882)	(4,882)
Employee Long-term Incentive Plan Unit Awards	5,195	—	5,195
Reallocation of noncontrolling interests (c)	1,567	—	1,567
Balance at June 30, 2019	\$ 103,705	\$ 515,205	\$ 618,910
Balance at January 1, 2018	\$ 102,921	\$ 545,519	\$ 648,440
Distributions declared of \$0.54 per Common OP Unit	(3,434)	—	(3,434)
Net income (loss) for the six months ended June 30, 2018	1,245	(22,759)	(21,514)
Conversion of 64,638 Common OP Units to Common Shares by limited partners of the Operating Partnership	(1,123)	—	(1,123)
Other comprehensive income - unrealized gain on valuation of swap agreements	428	930	1,358
Reclassification of realized interest expense on swap agreements	19	174	193
Noncontrolling interest contributions	—	6,550	6,550
Noncontrolling interest distributions	—	(15,640)	(15,640)
Employee Long-term Incentive Plan Unit Awards	5,842	—	5,842
Reallocation of noncontrolling interests (c)	(798)	—	(798)
Balance at June 30, 2018	\$ 105,100	\$ 514,774	\$ 619,874

(a) Noncontrolling interests in the Operating Partnership are comprised of (i) the limited partners' 3,320,325 and 3,331,440 Common OP Units at June 30, 2019 and June 30, 2018; (ii) 188 Series A Preferred OP Units at June 30, 2019 and June 30, 2018; (iii) 136,593 Series C Preferred OP Units at June 30, 2019 and June 30, 2018; and (iv) 2,715,679 and 2,606,221 LTIP units at June 30, 2019 and June 30, 2018, respectively, as discussed in Share Incentive Plan (Note 13). Distributions declared for Preferred OP Units are reflected in net income (loss) in the table above.

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

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

Preferred OP Units

There were no issuances of Preferred OP Units during the six months ended June 30, 2019.

In 1999 the Operating Partnership issued 1,580 Series A Preferred OP Units in connection with the acquisition of a property, which have a stated value of \$1,000 per unit, and are entitled to a preferred quarterly distribution of the greater of (i) \$22.50 (9% annually) per Series A Preferred OP Unit or (ii) the quarterly distribution attributable to a Series A Preferred OP Unit if such unit was converted into a Common OP Unit. Through June 30, 2019, 1,392 Series A Preferred OP Units were converted into 185,600 Common OP Units and then into Common Shares. The 188 remaining Series A Preferred OP Units are currently convertible into Common OP Units based on the stated value divided by \$7.50. Either the Company or the holders can currently call for the conversion of the Series A Preferred OP Units at the lesser of \$7.50 or the market price of the Common Shares as of the conversion date.

During 2016, the Operating Partnership issued 442,478 Common OP Units and 141,593 Series C Preferred OP Units to a third party to acquire Gotham Plaza (Note 4). The Series C Preferred OP Units have a value of \$100.00 per unit and are entitled to a preferred quarterly distribution of \$0.9375 per unit and are convertible into Common OP Units at a rate based on the share price at the time of conversion. If the share price is below \$28.80 on the conversion date, each Series C Preferred OP Unit will be convertible into 3.4722 Common OP Units. If the share price is between \$28.80 and \$35.20 on the conversion date, each Series C Preferred OP Unit will be convertible into a number of Common OP Units equal to \$100.00 divided by the closing share price. If the share price is above \$35.20 on the conversion date, each Series C Preferred OP Unit will be convertible into 2.8409 Common OP Units. The Series C Preferred OP Units have a mandatory conversion date of December 31, 2025, at which time all units that have not been converted will automatically be converted into Common OP Units based on the same calculations. Through June 30, 2019, 5,000 Series C Preferred OP Units were converted into 17,165 Common OP Units and then into Common Shares.

11. Leases

As Lessor

The Company implemented ASC Topic 842, *Leases*, effective January 1, 2019 (Note 1). As lessor, there were no accounting adjustments required, however, the presentation of the Company's lease revenues in 2019 includes amounts previously reported as reimbursed expenses. There was no cumulative effect adjustment to retained earnings required upon adoption of the new standard. In addition, the Company began expensing internal leasing costs, which have historically been capitalized.

The Company is engaged in the operation of shopping centers and other retail properties that are either owned or, with respect to certain shopping centers, operated under long-term ground leases (see below) that expire at various dates through June 20, 2066, with renewal options. Space in the shopping centers is leased to tenants pursuant to agreements that provide for terms ranging generally from one month to sixty years and generally provide for additional rents based on certain operating expenses as well as tenants' sales volumes. During the three and six months ended June 30, 2019, the Company earned \$13.2 million and \$26.6 million, respectively, in variable lease revenues, primarily for real estate taxes and common area maintenance charges, which are included in lease revenues in the consolidated statements of income.

As Lessee

As lessee, upon implementation of ASC Topic 842, the Company recorded right-of-use assets and corresponding lease liabilities of \$11.9 million and \$12.8 million, respectively, for nine existing operating leases (for ground, office and equipment leases) and \$82.6 million and \$76.6 million, respectively, for four finance leases related to ground rentals including an existing capital lease which represented \$77.0 million and \$71.1 million, respectively, of the total. Three finance leases were recorded post-implementation upon assessment of triggering events whereby the Company's cumulative leasehold investment made it reasonably certain that the Company would exercise its purchase options.

During the three months ended June 30, 2019, the Company entered into two new master leases, one of which is a finance lease, (1238 Wisconsin Avenue, acquired on May 2, 2019) and one of which was an operating lease (110 University Place, acquired on May 1, 2019 by Fund IV for \$10.5 million) and recorded a right-of-use asset – finance lease of \$11.2 million and a right of use asset - operating lease of \$45.3 million and a corresponding lease liability – finance lease of \$10.7 million and a lease liability - operating lease of \$45.3 million.

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Lease Cost		(Not applicable)		(Not applicable)
Finance lease cost:				
Amortization of right-of-use assets	\$ 542		\$ 1,038	
Interest on lease liabilities	934		1,777	
Subtotal	1,476		2,815	
Operating lease cost	1,107		1,643	
Variable lease cost	25		57	
Total lease cost	\$ 2,608		\$ 4,515	

Other Information

Weighted-average remaining lease term - finance leases (years)	45.4
Weighted-average remaining lease term - operating leases (years)	33.8
Weighted-average discount rate - finance leases	4.5%
Weighted-average discount rate - operating leases	5.8%

Right-of-use assets are included in Operating real estate ([Note 2](#)) in the consolidated balance sheet. Lease liabilities are included in Accounts payable and other liabilities in the consolidated balance sheet ([Note 5](#)). Operating lease cost comprises amortization of right-of-use assets for operating properties (related to ground rents) or amortization of right-of-use assets for office and corporate assets and is included in Property operating expense or General and administrative expense, respectively, in the consolidated statements of income. Finance lease cost comprises amortization of right-of-use assets for certain ground leases, which is included in Property operating expense, as well as interest on lease liabilities, which is included in Interest expense in the consolidated statements of income.

Lease Disclosures Related to Prior Periods

The Company leased land at six of its shopping centers, which were accounted for as operating leases through December 31, 2018 which generally provided the Company with renewal options. Ground rent expense was \$0.8 million (including capitalized ground rent at a property under development of \$0.3 million) for the six months ended June 30, 2018. The leases terminate at various dates between 2020 and 2066. These leases provide the Company with options to renew for additional terms aggregating up to 25 to 71 years. The Company also leases space for its corporate office. Office rent expense under this lease was \$0.5 million for the six months ended June 30, 2018.

During 2016, the Company entered into a 49-year master lease, which was accounted for as a capital lease through December 31, 2018 and was later reclassified as a finance lease upon implementation of ASC 842 as described above. During the six months ended June 30, 2018, payments for this lease totaled \$1.3 million. The property under the capital lease is included in [Note 2](#).

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Lease Obligations

The scheduled future minimum (i) rental revenues from rental properties under the terms of non-cancelable tenant leases greater than one year (assuming no new or renegotiated leases or option extensions for such premises) and (ii) rental payments under the terms of all non-cancelable operating and finance leases in which the Company is the lessee, principally for office space, land and equipment, as of June 30, 2019, are summarized as follows (in thousands):

Year Ending December 31,	Minimum Rental Revenues	Minimum Rental Payments (a, b)
2019 (Remainder)	\$ 94,448	\$ 3,606
2020	193,637	7,139
2021	176,109	7,073
2022	156,178	7,082
2023	137,655	7,075
Thereafter	598,691	334,761
Total	\$ 1,356,718	\$ 366,736

- (a) A ground lease expiring during 2078 provides the Company with an option to purchase the underlying land during 2031. If the Company does not exercise the option, the rents that will be due are based on future values and as such are not determinable at this time. Accordingly, the above table does not include rents for this lease beyond 2031.
- (b) Minimum rental payments include \$222.6 million of interest related to finance leases.

During the three and six months ended June 30, 2019 and 2018, no single tenant or property collectively comprised more than 10% of the Company's consolidated total revenues.

12. Segment Reporting

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

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

	For the Three Months Ended June 30, 2019				
	Core Portfolio	Funds	Structured Financing	Unallocated	Total
Revenues	\$ 43,212	\$ 27,850	\$ —	\$ —	\$ 71,062
Depreciation and amortization	(15,092)	(15,212)	—	—	(30,304)
Property operating expenses, other operating and real estate taxes	(12,217)	(11,021)	—	—	(23,238)
General and administrative expenses	—	—	—	(9,034)	(9,034)
Impairment charge	—	(1,400)	—	—	(1,400)
Operating income (loss)	15,903	217	—	(9,034)	7,086
Interest and other income	327	1,586	2,229	—	4,142
Equity in earnings of unconsolidated affiliates	3,254	305	—	—	3,559
Interest expense	(6,839)	(12,920)	—	—	(19,759)
Income tax provision	—	—	—	(265)	(265)
Net income (loss)	12,645	(10,812)	2,229	(9,299)	(5,237)
Net loss attributable to noncontrolling interests	425	13,892	—	—	14,317
Net income attributable to Acadia	<u>\$ 13,070</u>	<u>\$ 3,080</u>	<u>\$ 2,229</u>	<u>\$ (9,299)</u>	<u>\$ 9,080</u>

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For the Three Months Ended June 30, 2018

	Core Portfolio	Funds	Structured Financing	Unallocated	Total
Revenues	\$ 40,539	\$ 23,030	\$ —	\$ —	\$ 63,569
Depreciation and amortization	(14,927)	(14,576)	—	—	(29,503)
Property operating expenses, other operating and real estate taxes	(10,510)	(9,350)	—	—	(19,860)
General and administrative expenses	—	—	—	(7,907)	(7,907)
Gain on disposition of properties	—	33	—	—	33
Operating income (loss)	15,102	(863)	—	(7,907)	6,332
Interest and other income	—	—	3,289	—	3,289
Equity in earnings of unconsolidated affiliates	1,726	3,293	—	—	5,019
Interest expense	(7,001)	(9,914)	—	—	(16,915)
Income tax benefit	—	—	—	5	5
Net income (loss)	9,827	(7,484)	3,289	(7,902)	(2,270)
Net loss attributable to noncontrolling interests	200	9,735	—	—	9,935
Net income attributable to Acadia	<u>\$ 10,027</u>	<u>\$ 2,251</u>	<u>\$ 3,289</u>	<u>\$ (7,902)</u>	<u>\$ 7,665</u>

As of or for the Six Months Ended June 30, 2019

	Core Portfolio	Funds	Structured Financing	Unallocated	Total
Revenues	\$ 89,899	\$ 55,963	\$ —	\$ —	\$ 145,862
Depreciation and amortization	(30,770)	(29,867)	—	—	(60,637)
Property operating expenses, other operating and real estate taxes	(24,211)	(20,977)	—	—	(45,188)
General and administrative expenses	—	—	—	(17,357)	(17,357)
Impairment charge	—	(1,400)	—	—	(1,400)
Gain on disposition of properties	—	2,014	—	—	2,014
Operating income	34,918	5,733	—	(17,357)	23,294
Interest and other income	327	1,586	4,499	—	6,412
Equity in earnings of unconsolidated affiliates	5,524	306	—	—	5,830
Interest expense	(13,532)	(24,086)	—	—	(37,618)
Income tax provision	—	—	—	(219)	(219)
Net income (loss)	27,237	(16,461)	4,499	(17,576)	(2,301)
Net loss attributable to noncontrolling interests	385	23,193	—	—	23,578
Net income attributable to Acadia	<u>\$ 27,622</u>	<u>\$ 6,732</u>	<u>\$ 4,499</u>	<u>\$ (17,576)</u>	<u>\$ 21,277</u>
Real estate at cost	<u>\$ 2,154,630</u>	<u>\$ 1,784,895</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,939,525</u>
Total assets	<u>\$ 2,267,022</u>	<u>\$ 1,848,238</u>	<u>\$ 94,662</u>	<u>\$ —</u>	<u>\$ 4,209,922</u>
Cash paid for acquisition of real estate	<u>\$ 49,402</u>	<u>\$ 89,314</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 138,716</u>
Cash paid for development and property improvement costs	<u>\$ 26,876</u>	<u>\$ 28,996</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 55,872</u>

ACADIA REALTY TRUST AND SUBSIDIARIES
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As of or for the Six Months Ended June 30, 2018

	Core Portfolio	Funds	Structured Financing	Unallocated	Total
Revenues	\$ 82,166	\$ 44,527	\$ —	\$ —	\$ 126,693
Depreciation and amortization	(30,425)	(27,654)	—	—	(58,079)
Property operating expenses, other operating and real estate taxes	(21,405)	(17,832)	—	—	(39,237)
General and administrative expenses	—	—	—	(16,377)	(16,377)
Gain on disposition of properties	—	33	—	—	33
Operating income (loss)	30,336	(926)	—	(16,377)	13,033
Interest and other income	—	—	7,026	—	7,026
Equity in earnings of unconsolidated affiliates	3,152	3,551	—	—	6,703
Interest expense	(13,502)	(19,303)	—	—	(32,805)
Income tax provision	—	—	—	(387)	(387)
Net income (loss)	19,986	(16,678)	7,026	(16,764)	(6,430)
Net loss attributable to noncontrolling interests	128	21,386	—	—	21,514
Net income attributable to Acadia	<u>\$ 20,114</u>	<u>\$ 4,708</u>	<u>\$ 7,026</u>	<u>\$ (16,764)</u>	<u>\$ 15,084</u>
Real estate at cost	\$ 2,047,672	\$ 1,500,371	\$ —	\$ —	\$ 3,548,043
Total assets	<u>\$ 2,236,405</u>	<u>\$ 1,535,154</u>	<u>\$ 109,209</u>	<u>\$ —</u>	<u>\$ 3,880,768</u>
Cash paid for acquisition of real estate	\$ 1,343	\$ 44,828	\$ —	\$ —	\$ 46,171
Cash paid for development and property improvement costs	<u>\$ 15,293</u>	<u>\$ 26,644</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 41,937</u>

13. Share Incentive and Other Compensation

Share Incentive Plan

The Second Amended and Restated 2006 Incentive Plan (the “Share Incentive Plan”) authorizes the Company to issue options, Restricted Shares, LTIP Units and other securities (collectively “Awards”) to, among others, the Company’s officers, trustees and employees. At June 30, 2019 a total of 692,409 shares remained available to be issued under the Share Incentive Plan.

Restricted Shares and LTIP Units

During the six months ended June 30, 2019, the Company issued 330,718 LTIP Units and 8,041 Restricted Share Units to employees of the Company pursuant to the Share Incentive Plan. These awards were measured at their fair value on the grant date, based on a valuation provided by an independent third-party appraiser incorporating the following factors:

- A portion of these annual equity awards is granted in performance-based Restricted Share Units or LTIP Units that may be earned based on the Company’s attainment of specified relative total shareholder returns (“Relative TSR”) hurdles.
- In the event the Relative TSR percentile falls between the 25th percentile and the 50th percentile, Relative TSR vesting percentage is determined using a straight-line linear interpolation between 50% and 100% and in the event that the Relative TSR percentile falls between the 50th percentile and 75th percentile, the Relative TSR vesting percentage is determined using a straight-line linear interpolation between 100% and 200%.
- Two-thirds (2/3) of the performance-based LTIP Units will vest based on the Company’s total shareholder return (“TSR”) for the three-year forward-looking performance period ending December 31, 2021 relative to the constituents of the SNL U.S. REIT Retail Shopping Center Index and one-third (1/3) on the Company’s TSR for the three-year forward-looking performance period as compared to the constituents of the SNL U.S. REIT Retail Index (both on a non-weighted basis).
- If the Company’s performance fails to achieve the aforementioned hurdles at the culmination of the three -year performance period, all performance-based shares will be forfeited. Any earned performance-based shares vest 60% at the end of the performance period, with the remaining 40% of shares vesting ratably over the next two years.

ACADIA REALTY TRUST AND SUBSIDIARIES
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For valuation of the 2019 Performance Shares, a Monte Carlo simulation was used to estimate the fair values based on probability of satisfying the market conditions and the projected share prices at the time of payments, discounted to the valuation dates over the three-year performance periods. The assumptions include volatility (19.60%) and risk-free interest rates (2.5%).

The total value of the above Restricted Share Units and LTIP Units as of the grant date was \$ 11.1 million. Total long-term incentive compensation expense, including the expense related to the Share Incentive Plan, was \$1.8 million, \$3.7 million, \$2.2 million and \$4.3 million for the three and six months ended June 30, 2019 and 2018, respectively and is recorded in General and Administrative on the Consolidated Statements of Income.

In addition, members of the Board of Trustees (the “Board”) have been issued shares and units under the Share Incentive Plan. During 2019, the Company issued 18,009 LTIP Units and 17,318 Restricted Shares to Trustees of the Company in connection with Trustee fees. Vesting with respect to 6,463 of the LTIP Units and 3,996 of the Restricted Shares will be on the first anniversary of the date of issuance and 11,546 of the LTIP Units and 13,322 of the Restricted Shares vest over three years with 33% vesting on each of the next three anniversaries of the issuance date. The Restricted Shares do not carry voting rights or other rights of Common Shares until vesting and may not be transferred, assigned or pledged until the recipients have a vested non-forfeitable right to such shares. Dividends are not paid currently on unvested Restricted Shares, but are paid cumulatively from the issuance date through the applicable vesting date of such Restricted Shares. Total trustee fee expense, including the expense related to the Share Incentive Plan, was \$0.7 million and \$0.6 million for the six months ended June 30, 2019 and 2018.

In 2009, the Company adopted the Long-Term Investment Alignment Program (the “Program”) pursuant to which the Company may grant awards to employees, entitling them to receive up to 25% of any potential future payments of Promote to the Operating Partnership from Funds III, IV and V. The Company has granted such awards to employees representing 25% of the potential Promote payments from Fund III to the Operating Partnership, 22.8% of the potential Promote payments from Fund IV to the Operating Partnership and 2.2% of the potential Promote payments from Fund V to the Operating Partnership. Payments to senior executives under the Program require further Board approval at the time any potential payments are due pursuant to these grants. Compensation relating to these awards will be recognized in each reporting period in which Board approval is granted.

As payments to other employees are not subject to further Board approval, compensation relating to these awards will be recorded based on the estimated fair value at each reporting period in accordance with ASC Topic 718, *Compensation—Stock Compensation*. The awards in connection with Fund IV and Fund V were determined to have no intrinsic value as of June 30, 2019.

No compensation expense was recognized for the six months ended June 30, 2019 and 2018, respectively, related to the Program in connection with Fund III, Fund IV or Fund V.

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

Unvested Restricted Shares and LTIP Units	Common Restricted Shares	Weighted Grant-Date Fair Value	LTIP Units	Weighted Grant-Date Fair Value
Unvested at January 1, 2018	41,327	\$ 26.92	910,099	\$ 28.28
Granted	22,817	23.65	425,880	26.80
Vested	(25,261)	30.79	(431,827)	29.72
Forfeited	(428)	27.25	(12,266)	28.57
Unvested at December 31, 2018	38,455	22.44	891,886	26.87
Granted	25,359	28.56	348,726	32.78
Vested	(21,424)	27.12	(290,753)	29.30
Forfeited	—	—	(3,609)	27.57
Unvested at June 30, 2019	42,390	\$ 23.73	946,250	\$ 28.30

The weighted-average grant date fair value for Restricted Shares and LTIP Units granted for the six months ended June 30, 2019 and the year ended December 31, 2018 were \$32.50 and \$26.64, respectively. As of June 30, 2019, there was \$20.5 million of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the Share Incentive Plan. That cost is expected to be recognized over a weighted-average period of 1.9 years. The total fair value of Restricted Shares that vested for the six months ended June 30, 2019 and the year ended December 31, 2018, was \$0.6 million and \$0.8 million, respectively. The total fair value of LTIP Units that vested (LTIP units vest primarily during the first quarter) during the six months ended June 30, 2019 and the year ended December 31, 2018, was \$8.5 million and \$12.8 million, respectively.

Other Plans

On a combined basis, the Company incurred a total of \$0.2 million related to the following employee benefit plans for each of the six months ended June 30, 2019 and 2018:

Employee Share Purchase Plan

The Acadia Realty Trust Employee Share Purchase Plan (the “Purchase Plan”), allows eligible employees of the Company to purchase Common Shares through payroll deductions. The Purchase Plan provides for employees to purchase Common Shares on a quarterly basis at a 15% discount to the closing price of the Company’s Common Shares on either the first day or the last day of the quarter, whichever is lower. A participant may not purchase more the \$25,000 in Common Shares per year. Compensation expense will be recognized by the Company to the extent of the above discount to the closing price of the Common Shares with respect to the applicable quarter. A total of 1,352 and 2,174 Common Shares were purchased by employees under the Purchase Plan for the six months ended June 30, 2019 and 2018, respectively.

Deferred Share Plan

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

Employee 401(k) Plan

The Company maintains a 401(k) plan for employees under which the Company currently matches 50% of a plan participant’s contribution up to 6% of the employee’s annual salary. A plan participant may contribute up to a maximum of 15% of their compensation, up to \$19,000, for the year ending December 31, 2019.

14. Earnings Per Common Share

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

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

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

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

(dollars in thousands)	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Numerator:				
Net income attributable to Acadia	\$ 9,080	\$ 7,665	\$ 21,277	\$ 15,084
Less: net income attributable to participating securities	(27)	(47)	(99)	(91)
Income from continuing operations net of income attributable to participating securities	<u>\$ 9,053</u>	<u>\$ 7,618</u>	<u>\$ 21,178</u>	<u>\$ 14,993</u>
Denominator:				
Weighted average shares for basic earnings per share	83,703,886	81,755,702	82,872,977	82,590,256
Effect of dilutive securities:				
Employee unvested restricted shares	—	—	—	1,968
Denominator for diluted earnings per share	<u>83,703,886</u>	<u>81,755,702</u>	<u>82,872,977</u>	<u>82,592,224</u>
Basic and diluted earnings per Common Share from continuing operations attributable to Acadia	<u>\$ 0.11</u>	<u>\$ 0.09</u>	<u>\$ 0.26</u>	<u>\$ 0.18</u>
Anti-Dilutive Shares Excluded from Denominator:				
Series A Preferred OP Units	<u>188</u>	<u>188</u>	<u>188</u>	<u>188</u>
Series A Preferred OP Units - Common share equivalent	<u>25,067</u>	<u>25,067</u>	<u>25,067</u>	<u>25,067</u>
Series C Preferred OP Units	<u>136,593</u>	<u>136,593</u>	<u>136,593</u>	<u>136,593</u>
Series C Preferred OP Units - Common share equivalent	<u>474,278</u>	<u>474,278</u>	<u>474,278</u>	<u>474,278</u>
Restricted shares	<u>40,821</u>	<u>38,831</u>	<u>40,821</u>	<u>—</u>

15. Subsequent Events

Fund Equity

Effective in July 2019, Funds III, IV and V called \$10.1 million, \$12.7 million and \$57.8 million, respectively, of capital for which the Company's total share was \$17.0 million.

Disposition

On July 24, 2019, the Company sold its Fund IV JFK Plaza property for \$7.8 million ([Note 2](#)) and repaid the associated debt obligation of \$4.3 million.

Financing

On July 15, 2019, the Company modified the terms of one of its Fund IV mortgages and paid down the balance by \$4.8 million.

OVERVIEW

As of June 30, 2019, we own or have an ownership interest in 180 properties held through our Core Portfolio and Funds. Our Core Portfolio consists of those properties either 100% owned, or partially owned through joint venture interests, by the Operating Partnership or its subsidiaries, not including those properties owned through our Funds. These properties primarily consist of street and urban retail, and dense suburban shopping centers. Our Funds are investment vehicles through which our Operating Partnership and outside institutional investors invest in primarily opportunistic and value-add retail real estate. Currently, we have active investments in four Funds. A summary of our wholly-owned and partially-owned retail properties and their physical occupancies at June 30, 2019 is as follows:

	Number of Properties		Operating Properties	
	Development or Redevelopment	Operating	GLA	Occupancy
Core Portfolio:				
Chicago Metro	2	33	695,898	87.8%
New York Metro	—	23	330,907	92.2%
San Francisco Metro	1	1	148,832	100.0%
Washington DC Metro	1	28	323,189	93.6%
Boston Metro	—	3	55,276	100.0%
Suburban	2	29	4,258,176	93.8%
Total Core Portfolio	6	117	5,812,278	93.2%
Acadia Share of Total Core Portfolio	6	117	5,191,538	93.6%
Fund Portfolio:				
Fund II	—	1	469,518	64.7%
Fund III	1	4	173,638	78.4%
Fund IV	2	38	2,664,552	85.5%
Fund V	—	11	3,453,924	95.2%
Total Fund Portfolio	3	54	6,761,632	88.9%
Acadia Share of Total Fund Portfolio	3	54	1,447,390	88.3%
Total Core and Funds	9	171	12,573,910	90.9%
Acadia Share of Total Core and Funds	9	171	6,638,928	92.4%

The majority of our operating income is derived from rental revenues from operating properties, including expense recoveries from tenants, offset by operating and overhead expenses.

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

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

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

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

SIGNIFICANT DEVELOPMENTS DURING THE SIX MONTHS ENDED JUNE 30, 2019

Investments

During the six months ended June 30, 2019, within our Core portfolio we invested in five properties as follows:

- On January 24, 2019, our unconsolidated Renaissance Portfolio venture acquired Fund III's 3104 M Street property located in Washington, D.C. for \$10.7 million ([Note 4](#)) as discussed further below.
- On March 15, March 27, and May 29, 2019, we acquired three retail condominiums located in the Soho section of New York City for a total of \$49.6 million as part of a collection of six properties referred to as the "Soho Portfolio" with an aggregate purchase price of approximately \$96.0 million ([Note 2](#)). The acquisitions of the remaining three properties are expected to be finalized through early 2020. No assurance can be given that we will successfully close on the remaining acquisitions under contract, which are subject to customary closing conditions.
- On May 2, 2019, we entered into a ground lease ([Note 11](#)) on a development property in Washington, D.C. referred to as "1238 Wisconsin Avenue."

During the six months ended June 30, 2019, within our Fund portfolio we invested in five properties as follows ([Note 2](#)):

- On March 19, 2019, Fund V acquired an interest in an unconsolidated ([Note 4](#)) suburban shopping center in Riverdale, Utah for \$48.5 million referred to as "Family Center at Riverdale."
- On April 30, 2019, Fund V acquired an interest in an unconsolidated ([Note 4](#)) suburban shopping center in Vernon, Connecticut for \$36.7 million referred to as "Tri-City Plaza."
- On May 1, 2019, Fund IV acquired a leasehold interest ([Note 11](#)) in a retail and parking condominium in a building in New York, New York for \$10.5 million referred to as "110 University Place."
- On May 6, 2019, Fund V acquired a suburban shopping center ([Note 2](#)) in Palm Coast, Florida for \$36.6 million referred to as "Palm Coast Landing."
- On June 21, 2019, Fund V acquired a suburban shopping center ([Note 2](#)) in Lincoln, Rhode Island for \$54.3 million referred to as "Lincoln Commons."

Dispositions of Real Estate

During the six months ended June 30, 2019, we sold one property from our Fund Portfolio for \$10.5 million as follows:

On January 24, 2019, a venture in which Fund III holds an 80% interest ([Note 2](#)) sold its consolidated 3104 M Street property located in Washington, D.C. to an unconsolidated venture ([Note 4](#)) in which the Core Portfolio holds a 20% interest for \$10.5 million. Fund III's share of the gain was \$2.0 million and our share was \$0.4 million, net of noncontrolling interests. The acquiring venture assumed the property's mortgage in the amount of \$4.7 million.

In addition, during the second quarter of 2019, Fund IV entered into an agreement to sell its JFK Plaza property ([Note 2](#)).

Financings

During the six months ended June 30, 2019, we obtained aggregate new financing of \$137.2 million including ([Note 7](#)):

- An aggregate of \$70.3 million in financings with two new mortgages for Fund V.
- An aggregate of \$21.9 million in financings, with one new mortgage of \$3.0 million and a refinancing of an \$18.9 million mortgage for Fund IV.
- A \$45.0 million loan for Fund II, of which \$23.6 million was drawn at June 30, 2019.

Structured Financing

During the six months ended June 30, 2019, the Company redeemed its \$15.3 million Fund IV Structured Financing investment ([Note 3](#)).

Equity Issuance

During the three months ended June 30, 2019, the Company sold 1,696,516 shares under its ATM program ([Note 10](#)) for gross proceeds of \$48.0 million, or \$47.3 million net of issuance costs, at a weighted-average gross price per share of \$28.29. During the six months ended June 30, 2019, the Company sold 2,667,351 shares under its ATM program for gross proceeds of \$76.2 million, or \$75.1 million net of issuance costs, at a weighted-average gross price per share of \$28.58.

RESULTS OF OPERATIONS

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

Comparison of Results for the Three Months Ended June 30, 2019 to the Three Months Ended June 30, 2018

The results of operations by reportable segment for the three months ended June 30, 2019 compared to the three months ended June 30, 2018 are summarized in the table below (in millions, totals may not add due to rounding):

	Three Months Ended June 30, 2019				Three Months Ended June 30, 2018				Increase (Decrease)			
	Core	Funds	SF	Total	Core	Funds	SF	Total	Core	Funds	SF	Total
Revenues	\$ 43.2	\$ 27.9	\$ —	\$ 71.1	\$ 40.5	\$ 23.0	\$ —	\$ 63.6	\$ 2.7	\$ 4.9	\$ —	\$ 7.5
Depreciation and amortization	(15.1)	(15.2)	—	(30.3)	(14.9)	(14.6)	—	(29.5)	0.2	0.6	—	0.8
Property operating expenses, other operating and real estate taxes	(12.2)	(11.0)	—	(23.2)	(10.5)	(9.4)	—	(19.9)	1.7	1.6	—	3.3
General and administrative expenses	—	—	—	(9.0)	—	—	—	(7.9)	—	—	—	1.1
Impairment charge	—	(1.4)	—	(1.4)	—	—	—	—	—	1.4	—	1.4
Operating income (loss)	15.9	0.2	—	7.1	15.1	(0.9)	—	6.3	0.8	1.1	—	0.8
Interest and other income	0.3	1.6	2.2	4.1	—	—	3.3	3.3	0.3	1.6	(1.1)	0.8
Equity in earnings of unconsolidated affiliates	3.3	0.3	—	3.6	1.7	3.3	—	5.0	1.6	(3.0)	—	(1.4)
Interest expense	(6.8)	(12.9)	—	(19.8)	(7.0)	(9.9)	—	(16.9)	(0.2)	3.0	—	2.9
Income tax provision	—	—	—	(0.3)	—	—	—	—	—	—	—	(0.3)
Net income (loss)	12.6	(10.8)	2.2	(5.2)	9.8	(7.5)	3.3	(2.3)	2.8	(3.3)	(1.1)	(2.9)
Net loss attributable to noncontrolling interests	0	13.9	—	14.3	0.2	9.7	—	9.9	(0.2)	(4.2)	—	(4.4)
Net income attributable to Acadia	\$ 13.1	\$ 3.1	\$ 2.2	\$ 9.1	\$ 10.0	\$ 2.3	\$ 3.3	\$ 7.7	\$ 3.1	\$ 0.8	\$ (1.1)	\$ 1.4

Core Portfolio

The results of operations for our Core Portfolio segment are depicted in the table above under the headings labeled “Core.” Segment net income attributable to Acadia for our Core Portfolio increased \$3.1 million for the three months ended June 30, 2019 compared to the prior year period as a result of the changes further described below.

Revenues for our Core Portfolio increased \$2.7 million for the three months ended June 30, 2019 compared to the prior year period due primarily to \$1.7 million from increased real estate tax recovery related to a reduced real estate tax reassessment in 2018 at City Center along with \$1.0 million of settlement income from bankrupt tenants in 2019.

Property operating expenses, other operating and real estate taxes for our Core Portfolio increased \$1.7 million for the three months ended June 30, 2019 compared to the prior year period primarily due to a reduced real estate tax assessment at City Center in 2018.

Equity in earnings of unconsolidated affiliates for our Core Portfolio increased \$1.6 million for the three months ended June 30, 2019 compared to the prior year period primarily due to the write-off of a below-market lease related to a tenant that vacated in 2019.

Funds

The results of operations for our Funds segment are depicted in the table above under the headings labeled “Funds.” Segment net income attributable to Acadia for the Funds increased \$0.8 million for the three months ended June 30, 2019 compared to the prior year period as a result of the changes described below.

Revenues for the Funds increased \$4.9 million for the three months ended June 30, 2019 compared to the prior year period primarily due to Fund property acquisitions in 2019 and 2018.

Property operating expenses, other operating and real estate taxes for the Funds increased \$1.6 million for the three months ended June 30, 2019 compared to the prior year period primarily due to a \$1.7 million increase from Fund property acquisitions in 2019 and 2018.

The \$1.4 million impairment charge in 2019 relates to residential condos at 210 Bowery ([Note 8](#)).

Interest and other income for the Funds increased \$1.6 million for the three months ended June 30, 2019 compared to the prior year period primarily due to an incentive fee earned by Fund III's Storage Post investment.

Equity in earnings of unconsolidated affiliates for our Funds decreased \$3.0 million primarily due to a distribution from Fund III's Storage Post venture in 2018 ([Note 4](#)).

Interest expense for the Funds increased \$3.0 million for the three months ended June 30, 2019 compared to the prior year period due to a \$2.1 million increase related to higher average outstanding borrowings in 2019, a \$1.2 million increase related to higher average interest rates during 2019 and \$1.0 million from higher loan cost amortization in 2019. These increases were partially offset by \$1.3 million of additional interest capitalized in 2019.

Net loss attributable to noncontrolling interests for the Funds increased \$4.2 million for the three months ended June 30, 2019 compared to the prior year period based on the noncontrolling interests' share of the variances discussed above. Income attributable to noncontrolling interests in the Funds includes asset management fees earned by the Company of \$4.4 million and \$4.6 million for the three months ended June 30, 2019 and 2018, respectively.

Structured Financing

The results of operations for our Structured Financing segment are depicted in the table above under the headings labeled "SF." Interest income for the Structured Financing portfolio decreased \$1.1 million for the three months ended June 30, 2019 compared to the prior year period primarily due to a conversion of a portion of two notes receivable into increased ownership in the real estate in 2019 ([Note 4](#)).

Unallocated

The Company does not allocate general and administrative expense and income taxes to its reportable segments. These unallocated amounts are depicted in the table above under the headings labeled "Total." Unallocated general and administrative expense increased \$1.1 million for the six months ended June 30, 2019 compared to the prior year period due to internal leasing salaries no longer being capitalized in 2019.

Comparison of Results for the Six Months Ended June 30, 2019 to the Six Months Ended June 30, 2018

The results of operations by reportable segment for the six months ended June 30, 2019 compared to the six months ended June 30, 2018 are summarized in the table below (in millions, totals may not add due to rounding):

	Six Months Ended June 30, 2019				Six Months Ended June 30, 2018				Increase (Decrease)			
	Core	Funds	SF	Total	Core	Funds	SF	Total	Core	Funds	SF	Total
Revenues	\$ 89.9	\$ 56.0	\$ —	\$ 145.9	\$ 82.2	\$ 44.5	\$ —	\$ 126.7	\$ 7.7	\$ 11.5	\$ —	\$ 19.2
Depreciation and amortization	(30.8)	(29.9)	—	(60.6)	(30.4)	(27.7)	—	(58.1)	0.4	2.2	—	2.5
Property operating expenses, other operating and real estate taxes	(24.2)	(21.0)	—	(45.2)	(21.4)	(17.8)	—	(39.2)	2.8	3.2	—	6.0
General and administrative expenses	—	—	—	(17.4)	—	—	—	(16.4)	—	—	—	1.0
Impairment charge	—	(1.4)	—	(1.4)	—	—	—	—	—	1.4	—	1.4
Gain on disposition of properties	—	2.0	—	2.0	—	—	—	—	—	2.0	—	2.0
Operating income (loss)	34.9	5.7	—	23.3	30.3	(0.9)	—	13.0	4.6	6.6	—	10.3
Interest and other income	0.3	1.6	4.5	6.4	—	—	7.0	7.0	0.3	1.6	(2.5)	(0.6)
Equity in earnings of unconsolidated affiliates	5.5	0.3	—	5.8	3.2	3.6	—	6.7	2.3	(3.3)	—	(0.9)
Interest expense	(13.5)	(24.1)	—	(37.6)	(13.5)	(19.3)	—	(32.8)	—	4.8	—	4.8
Income tax provision	—	—	—	(0.2)	—	—	—	(0.4)	—	—	—	0.2
Net income (loss)	27.2	(16.5)	4.5	(2.3)	20.0	(16.7)	7.0	(6.4)	7.2	0.2	(2.5)	4.1
Net loss attributable to noncontrolling interests	0.4	23.2	—	23.6	0.1	21.4	—	21.5	(0.3)	(1.8)	—	(2.1)
Net income attributable to Acadia	\$ 27.6	\$ 6.7	\$ 4.5	\$ 21.3	\$ 20.1	\$ 4.7	\$ 7.0	\$ 15.1	\$ 7.5	\$ 2.0	\$ (2.5)	\$ 6.2

Core Portfolio

Segment net income attributable to Acadia for our Core Portfolio increased \$7.5 million for the six months ended June 30, 2019 compared to the prior year period as a result of the changes further described below.

Revenues for our Core Portfolio increased \$7.7 million for the six months ended June 30, 2019 compared to the prior year period primarily due to \$5.8 million from the write-off of a below market lease related to a tenant that vacated in 2019, a \$1.7 million from increased real estate tax recovery related to a reduced tax reassessment in 2018 at City Center, and \$1.0 million of settlement income from bankrupt tenants.

Property operating expenses, other operating and real estate taxes for our Core Portfolio increased \$2.8 million for the six months ended June 30, 2019 compared to the prior year period primarily due to \$1.7 million from a reduced real estate tax assessment at City Center in 2018 and \$1.1 million from increased real estate taxes in the portfolio.

Equity in earnings of unconsolidated affiliates for our Core Portfolio increased \$2.3 million for the six months ended June 30, 2019 compared to the prior year period due to \$1.3 million from lease up at various joint ventures along with \$1.0 million from the conversion of a portion of a note receivable into increased ownership in real estate.

Funds

Segment net income attributable to Acadia for the Funds increased \$2.0 million for the six months ended June 30, 2019 compared to the prior year period as a result of the changes described below.

Revenues for the Funds increased \$11.5 million for the six months ended June 30, 2019 compared to the prior year period due to \$6.0 million from Fund property acquisitions in 2019 and 2018, \$3.6 million from lease up at City Point and 938 W North, \$1.5 million from the consolidation of the Broughton Street Portfolio and \$1.3 million from Cortlandt Crossing being placed in service.

Depreciation and amortization for the Funds increased \$2.2 million for the six months ended June 30, 2019 compared to the prior year period due to Fund property acquisitions in 2019 and 2018.

Property operating expenses, other operating and real estate taxes for the Funds increased \$3.2 million for the six months ended June 30, 2019 compared to the prior year period due to Fund property acquisitions in 2019 and 2018.

The \$1.4 million impairment charge in 2019 relates to residential condos at 210 Bowery ([Note 8](#)).

Gain on disposition of properties for the Funds increased \$2.0 million for the six months ended June 30, 2019 compared to the prior year period due to the sale of 3104 M Street in Fund III during 2019 ([Note 2](#), [Note 4](#)).

Interest and other income for the Funds increased \$1.6 million for the six months ended June 30, 2019 compared to the prior year period primarily due to an incentive fee earned by Fund III's Storage Post investment.

Equity in earnings of unconsolidated affiliates for the Funds decreased \$3.3 million for the six months ended June 30, 2019 compared to the prior year period due to a distribution from Fund III's Storage Post venture in 2018 ([Note 4](#)).

Interest expense for the Funds increased \$4.8 million for the six months ended June 30, 2019 compared to the prior year period due to a \$3.6 million increase related to higher average outstanding borrowings in 2019, a \$1.4 million increase related to higher average interest rates during 2019 and \$1.1 million from higher loan cost amortization in 2019. These increases were partially offset by \$1.3 million more interest capitalized in 2019.

Net loss attributable to noncontrolling interests for the Funds decreased \$1.8 million for the six months ended June 30, 2019 compared to the prior year period based on the noncontrolling interests' share of the variances discussed above. Income attributable to noncontrolling interests in the Funds includes asset management fees earned by the Company of \$8.9 million and \$9.0 million for the six months ended June 30, 2019 and 2018, respectively.

Structured Financing

Interest income for the Structured Financing portfolio decreased \$2.5 million for the six months ended June 30, 2019 compared to the prior year period due to the conversion of a portion of two notes receivable into increased ownership in the real estate (Note 4).

Unallocated

Unallocated general and administrative expense increased \$1.0 million for the six months ended June 30, 2019 compared to the prior year period due to internal leasing salaries no longer being capitalized in 2019.

SUPPLEMENTAL FINANCIAL MEASURES

Net Property Operating Income

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Consolidated operating income	\$ 7,086	\$ 6,332	\$ 23,294	\$ 13,033
Add back:				
General and administrative	9,034	7,907	17,357	16,377
Depreciation and amortization	30,304	29,503	60,637	58,079
Impairment charge	1,400	—	1,400	—
Less:				
Above/below market rent, straight-line rent and other adjustments	(3,331)	(5,577)	(12,629)	(11,104)
Gain on disposition of properties	—	(33)	(2,014)	(33)
Consolidated NOI	44,493	38,132	88,045	76,352
Noncontrolling interest in consolidated NOI	(12,084)	(8,804)	(25,062)	(17,431)
Less: Operating Partnership's interest in Fund NOI included above	(3,309)	(2,304)	(6,813)	(4,461)
Add: Operating Partnership's share of unconsolidated joint ventures NOI (a)	6,670	6,428	13,265	12,076
NOI - Core Portfolio	<u>\$ 35,770</u>	<u>\$ 33,452</u>	<u>\$ 69,435</u>	<u>\$ 66,536</u>

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Core Portfolio NOI	\$ 35,770	\$ 33,452	\$ 69,435	\$ 66,536
Less properties excluded from Same-Property NOI	(4,713)	(3,824)	(7,691)	(7,559)
Same-Property NOI	<u>\$ 31,057</u>	<u>\$ 29,628</u>	<u>\$ 61,744</u>	<u>\$ 58,977</u>
Percent change from prior year period	<u>4.8%</u>		<u>4.7%</u>	

Components of Same-Property NOI:

Same-Property Revenues	\$ 42,441	\$ 40,403	\$ 84,527	\$ 80,106
Same-Property Operating Expenses	(11,384)	(10,775)	(22,783)	(21,129)
Same-Property NOI	<u>\$ 31,057</u>	<u>\$ 29,628</u>	<u>\$ 61,744</u>	<u>\$ 58,977</u>

Rent Spreads on Core Portfolio New and Renewal Leases

The following table summarizes rent spreads on both a cash basis and straight-line basis for new and renewal leases based on leases executed within our Core Portfolio for the three months ended June 30, 2019. Cash basis represents a comparison of rent most recently paid on the previous lease as compared to the initial rent paid on the new lease. Straight-line basis represents a comparison of rents as adjusted for contractual escalations, abated rent and lease incentives for the same comparable leases.

Core Portfolio New and Renewal Leases	Three Months Ended June 30, 2019		Six Months Ended June 30, 2019	
	Cash Basis	Straight-Line Basis	Cash Basis	Straight-Line Basis
Number of new and renewal leases executed	8	8	16	16
GLA commencing	115,442	115,442	237,913	237,913
New base rent	\$ 15.56	\$ 15.83	\$ 10.78	\$ 10.97
Expiring base rent	\$ 14.72	\$ 14.68	\$ 10.28	\$ 10.14
Percent growth in base rent	5.7%	7.8%	4.9%	8.2%
Average cost per square foot (a)	\$ 2.19	\$ 2.19	\$ 2.30	\$ 2.30
Weighted average lease term (years)	5.9	5.9	5.4	5.4

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

Funds from Operations

We consider funds from operations (“FFO”) as defined by the National Association of Real Estate Investment Trusts (“NAREIT”) to be an appropriate supplemental disclosure of operating performance for an equity REIT due to its widespread acceptance and use within the REIT and analyst communities. FFO is presented to assist investors in analyzing our performance. It is helpful as it excludes various items included in net income that are not indicative of the operating performance, such as gains (losses) from sales of depreciated property, depreciation and amortization, and impairment of depreciable real estate. Our method of calculating FFO may be different from methods used by other REITs and, accordingly, may not be comparable to such other REITs. FFO does not represent cash generated from operations as defined by generally accepted accounting principles (“GAAP”) and is not indicative of cash available to fund all cash needs, including distributions. It should not be considered as an alternative to net income for the purpose of evaluating our performance or to cash flows as a measure of liquidity. Consistent with the NAREIT definition, we define FFO as net income (computed in accordance with GAAP), excluding gains (losses) from sales of depreciated property and impairment of depreciable real estate, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. A reconciliation of net income attributable to Acadia to FFO follows (dollars in thousands, except per share amounts):

(dollars in thousands except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net income attributable to Acadia	\$ 9,080	\$ 7,665	\$ 21,277	\$ 15,084
Depreciation of real estate and amortization of leasing costs (net of noncontrolling interests' share)	21,722	21,586	43,721	42,671
Impairment charge (net of noncontrolling interests' share)	321	—	321	—
Gain on disposition of properties (net of noncontrolling interests' share)	—	—	(384)	—
Income attributable to Common OP Unit holders	587	498	1,382	975
Distributions - Preferred OP Units	135	135	270	270
Funds from operations attributable to Common Shareholders and Common OP Unit holders	<u>\$ 31,845</u>	<u>\$ 29,884</u>	<u>\$ 66,587</u>	<u>\$ 59,000</u>
Funds From Operations per Share - Diluted				
Basic weighted-average shares outstanding, GAAP earnings	83,703,886	81,755,702	82,872,977	82,590,256
Weighted-average OP Units outstanding	5,123,765	4,966,272	5,168,698	4,966,213
Basic weighted-average shares outstanding, FFO	88,827,651	86,721,974	88,041,675	87,556,469
Assumed conversion of Preferred OP Units to common shares	499,345	499,345	499,345	499,345
Assumed conversion of LTIP units and restricted share units to common shares	202,714	263,954	202,714	215,937
Diluted weighted-average number of Common Shares and Common OP Units outstanding, FFO	<u>89,529,710</u>	<u>87,485,273</u>	<u>88,743,734</u>	<u>88,271,751</u>
Diluted Funds from operations, per Common Share and Common OP Unit	<u>\$ 0.36</u>	<u>\$ 0.34</u>	<u>\$ 0.75</u>	<u>\$ 0.67</u>

LIQUIDITY AND CAPITAL RESOURCES

Uses of Liquidity and Cash Requirements

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

Distributions

In order to qualify as a REIT for federal income tax purposes, we must distribute at least 90% of our taxable income to our shareholders. During the six months ended June 30, 2019, we paid dividends and distributions on our Common Shares, Common OP Units and Preferred OP Units totaling \$49.5 million.

Investments in Real Estate

During the six months ended June 30, 2019, within our Core portfolio we invested in four new properties and one existing property and within our Fund portfolio we invested in five new properties as follows:

- On January 24, 2019, our unconsolidated Renaissance portfolio venture acquired Fund III's 3104 M Street property located in Washington, D.C. for \$10.7 million (Note 4).
- On March 15, March 27, and May 29, 2019, we acquired three retail condominiums located in the Soho section of New York City for a total of \$49.6 million as part of a collection of six properties referred to as the "Soho Portfolio" with an aggregate purchase price of approximately \$96.0 million (Note 2). The acquisitions of the remaining three properties are expected to be finalized through early 2020. No assurance can be given that we will successfully close on the remaining acquisitions under contract, which are subject to customary closing conditions.
- On March 19, 2019, Fund V acquired an interest in an unconsolidated suburban shopping center (Note 4) in Riverdale, Utah for \$48.5 million.
- On May 2, 2019, we entered into a ground lease (Note 11) on a development property in Washington, D.C.
- On April 30, 2019, Fund V acquired an interest in an unconsolidated (Note 4) suburban shopping center in Vernon, Connecticut for \$36.7 million.
- On May 1, 2019, Fund IV acquired a leasehold interest (Note 11) in a retail and parking condominium in a building in New York, New York for \$10.5 million.
- On May 6, 2019, Fund V acquired a suburban shopping center (Note 2) in Palm Coast, Florida for \$36.6 million.
- On June 21, 2019, Fund V acquired a suburban shopping center (Note 2) in Lincoln, Rhode Island for \$54.3 million.

Capital Commitments

During the six months ended June 30, 2019, we made capital contributions aggregating \$8.3 million to our Funds. At June 30, 2019, our share of the remaining capital commitments to our Funds aggregated \$110.7 million as follows:

- \$5.8 million to Fund III. Fund III was launched in May 2007 with total committed capital of \$450.0 million, of which our original share was \$89.6 million. During 2015, we acquired an additional interest, which had an original capital commitment of \$20.9 million.
- \$24.2 million to Fund IV. Fund IV was launched in May 2012 with total committed capital of \$530.0 million, of which our original share was \$122.5 million.
- \$80.7 million to Fund V. Fund V was launched in August 2016 with total committed capital of \$520.0 million, of which our initial share is \$104.5 million.

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

Development Activities

During the six months ended June 30, 2019, capitalized costs associated with development activities totaled \$12.1 million. At June 30, 2019, we had a total of nine consolidated properties under development and redevelopment and the estimated total cost to complete these projects through 2020 was \$146.5 million to \$183.8 million and our estimated share was approximately \$65.8 million to \$83.2 million.

Debt

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

	June 30, 2019	December 31, 2018
Total Debt - Fixed and Effectively Fixed Rate	\$ 1,198,592	\$ 1,001,658
Total Debt - Variable Rate	497,110	558,675
	1,695,702	1,560,333
Net unamortized debt issuance costs	(11,328)	(10,541)
Unamortized premium	702	753
Total Indebtedness	\$ 1,685,076	\$ 1,550,545

As of June 30, 2019, our consolidated outstanding mortgage and notes payable aggregated \$1,695.7 million, excluding unamortized premium of \$0.7 million and unamortized loan costs of \$11.3 million, and were collateralized by 44 properties and related tenant leases. Interest rates on our outstanding indebtedness ranged from 1.00% to 6.00% with maturities that ranged from July 14, 2019, to August 23, 2042. Taking into consideration \$691.4 million of notional principal under variable to fixed-rate swap agreements currently in effect, \$1,198.6 million of the portfolio debt, or 70.7%, was fixed at a 3.53% weighted-average interest rate and \$497.1 million, or 29.3% was floating at a 4.78% weighted average interest rate as of June 30, 2019. Our variable-rate debt includes \$157.5 million of debt subject to interest rate caps.

There is \$162.3 million of debt maturing in 2019 at a weighted-average interest rate of 5.60%; there is \$3.0 million of scheduled principal amortization due in 2019; and our share of scheduled remaining 2019 principal payments and maturities on our unconsolidated debt was \$0.5 million at June 30, 2019. In addition, \$573.4 million of our total consolidated debt and \$10.2 million of our pro-rata share of unconsolidated debt will come due in 2020. As it relates to the maturing debt in 2019 and 2020, we may not have sufficient cash on hand to repay such indebtedness, and, therefore, we expect to refinance at least a portion of this indebtedness or select other alternatives based on market conditions as these loans mature; however, there can be no assurance that we will be able to obtain financing at acceptable terms.

A mortgage loan in the Company's Core Portfolio for \$26.3 million was in default and subject to litigation at June 30, 2019 and December 31, 2018 ([Note 7](#)).

Share Repurchase Program

During the six months ended June 30, 2019, we made no repurchases under the share repurchase program ([Note 10](#)), under which \$144.9 million currently remains available.

Sources of Liquidity

Our primary sources of capital for funding our liquidity needs include (i) the issuance of both public equity and OP Units, (ii) the issuance of both secured and unsecured debt, (iii) unfunded capital commitments from noncontrolling interests within our Funds, (iv) future sales of existing properties, (v) repayments of structured financing investments, and (vi) cash on hand and future cash flow from operating activities. Our cash on hand in our consolidated subsidiaries at June 30, 2019 totaled \$33.7 million. Our remaining sources of liquidity are described further below.

ATM Program

We have an ATM equity issuance program ([Note 10](#)) which provides us an efficient and low-cost vehicle for raising public equity to fund our capital needs. Through this program, we have been able to effectively "match-fund" the required equity for our Core Portfolio and Fund acquisitions through the issuance of Common Shares over extended periods employing a price averaging strategy. In addition, from time to time, we have issued and intend to continue to issue, equity in follow-on offerings separate from our ATM program. Net proceeds raised through our ATM program and follow-on offerings are primarily used for acquisitions, both for our Core Portfolio and our pro-rata share of Fund acquisitions, and for general corporate purposes. During the three months ended June 30, 2019, the Company sold 1,696,516 shares under its ATM program for

gross proceeds of \$48.0 million, or \$47.3 million net of issuance costs, at a weighted-average gross price per share of \$28.29. During the six months ended June 30, 2019, the Company sold 2,667,351 shares under its ATM program for gross proceeds of \$76.2 million, or \$75.1 million net of issuance costs, at a weighted-average gross price per share of \$28.58.

Fund Capital

During the six months ended June 30, 2019, Funds III, IV and V called capital contributions of \$2.4 million, \$4.7 million and \$33.2 million, respectively, of which our aggregate share was \$8.3 million. At June 30, 2019, unfunded capital commitments from noncontrolling interests within our Funds III, IV and V were \$17.9 million, \$80.4 million and \$321.0 million, respectively.

Asset Sales

As previously discussed, during the six months ended June 30, 2019, within our Fund portfolio, Fund III sold one consolidated property for \$10.5 million to an unconsolidated Core portfolio venture and Fund IV sold one condominium unit at a consolidated property ([Note 2](#), [Note 4](#)).

Structured Financing Repayments

During the six months ended June 30, 2019, Fund IV received full payment of \$15.3 million plus accrued interest of \$10.0 million on its Structured Financing investment. Notes receivable aggregating \$38.7 million are scheduled to be redeemed or converted during the remainder of 2019.

Financing and Debt

As of June 30, 2019, we had \$105.9 million of additional capacity under existing Core and Fund revolving debt facilities. In addition, at that date within our Core and Fund portfolios, we had 75 unleveraged consolidated properties with an aggregate carrying value of approximately \$1.5 billion and one unleveraged unconsolidated property for which our share of the carrying value was \$101.1 million, although there can be no assurance that we would be able to obtain financing for these properties at favorable terms, if at all.

HISTORICAL CASH FLOW

The following table compares the historical cash flow for the six months ended June 30, 2019 with the cash flow for the six months ended June 30, 2018 (in millions):

	Six Months Ended June 30,		
	2019	2018	Variance
Net cash provided by operating activities	\$ 62.2	\$ 49.0	\$ 13.2
Net cash used in investing activities	(233.5)	(22.5)	(211.0)
Net cash provided by (used in) financing activities	182.6	(81.1)	263.7
Increase (decrease) in cash and restricted cash	<u>\$ 11.3</u>	<u>\$ (54.6)</u>	<u>\$ 65.9</u>

Operating Activities

Our operating activities provided \$13.2 million more cash during the six months ended June 30, 2019 as compared to the six months ended June 30, 2018, primarily due to the collection of accrued interest on a note receivable.

Investing Activities

During the six months ended June 30, 2019 as compared to the six months ended June 30, 2018, our investing activities used \$211.0 million more cash, primarily due to (i) \$93.7 million more cash used in acquisition of properties, (ii) \$97.3 million more cash used in investments in unconsolidated affiliates, (iii) \$10.8 million less cash received from repayments of notes receivable, (iv) \$13.9 million more cash used in development, construction and property improvement costs and (v) \$13.0 million less cash received from disposition of properties. These uses of cash were partially offset by \$16.9 million more cash received from return of capital from unconsolidated affiliates.

Financing Activities

Our financing activities provided \$263.7 million more cash during the six months ended June 30, 2019 as compared to the six months ended June 30, 2018, primarily from (i) \$100.9 million more cash provided from net borrowings (ii) \$75.1 million more cash received from the sale of

Common Shares, (iii) \$55.1 million less cash used to repurchase Common Shares, (iv) an increase of \$25.6 million of cash provided from contributions from noncontrolling interests, and (v) \$10.6 million less cash used in distributions to noncontrolling interests.

CONTRACTUAL OBLIGATIONS

The following table summarizes: (i) principal and interest obligations under mortgage and other notes, (ii) rents due under non-cancelable operating and capital leases, which includes ground leases at seven of our properties and the lease for our corporate office and (iii) construction commitments as of June 30, 2019 (in millions):

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years
Principal obligations on debt	\$ 1,695.7	\$ 658.1	\$ 424.9	\$ 456.6	\$ 156.1
Interest obligations on debt	238.3	79.9	87.4	38.4	32.6
Lease obligations (a)	366.7	3.6	14.2	14.1	334.8
Construction commitments (b)	52.1	52.1	—	—	—
Total	<u>\$ 2,352.8</u>	<u>\$ 793.7</u>	<u>\$ 526.5</u>	<u>\$ 509.1</u>	<u>\$ 523.5</u>

(a) A ground lease expiring during 2078 provides the Company with an option to purchase the underlying land during 2031. If we do not exercise the option, the rents that will be due are based on future values and as such are not determinable at this time. Accordingly, the above table does not include rents for this lease beyond 2020.

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

OFF-BALANCE SHEET ARRANGEMENTS

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

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

Investment	Operating Partnership		June 30, 2019	
	Ownership Percentage	Pro-rata Share of Mortgage Debt	Interest Rate	Maturity Date
650 Bald Hill	20.8%	\$ 3.5	5.08%	Apr 2020
Eden Square (a)	22.8%	5.6	4.58%	Jun 2020
Promenade at Manassas (b)	22.8%	5.9	4.18%	Dec 2021
3104 M Street	20.0%	0.9	6.00%	Dec 2021
Family Center at Riverdale (c)	18.0%	5.8	4.13%	May 2022
Gotham Plaza (d)	49.0%	9.6	4.03%	Jun 2023
Renaissance Portfolio	20.0%	32.0	4.13%	Aug 2023
Crossroads	49.0%	32.1	3.94%	Oct 2024
840 N. Michigan	88.4%	65.0	4.36%	Feb 2025
Georgetown Portfolio	50.0%	8.2	4.72%	Dec 2027
Total		<u>\$ 168.6</u>		

(a) Our unconsolidated affiliate is a party to two interest rate LIBOR caps. One of the interest rate LIBOR caps effectively fixes the interest rate at 3.00%. The second interest rate LIBOR cap effectively fixes the interest rate at 3.85%.

(b) Our unconsolidated affiliate is a party to an interest rate LIBOR swap, which effectively fixes the all-in interest rate at 4.57%.

(c) Our unconsolidated affiliate is a party to an interest rate LIBOR swap, which effectively fixes the all-in interest rate at 3.68%.

(d) Our unconsolidated affiliate is a party to an interest rate LIBOR swap, which effectively fixes the all-in interest rate at 5.09%.

CRITICAL ACCOUNTING POLICIES

Management's discussion and analysis of financial condition and results of operations is based upon our Consolidated Financial Statements, which have been prepared in accordance with U.S. GAAP. The preparation of these Consolidated Financial Statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. We base our estimates on historical experience and assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe there have been no material changes to the items that we disclosed as our critical accounting policies under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in our 2018 Annual Report on Form 10-K.

Recently Issued and Adopted Accounting Pronouncements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Information as of June 30, 2019

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

Currently, we manage our exposure to fluctuations in interest rates primarily through the use of fixed-rate debt and interest rate swap and cap agreements. As of June 30, 2019, we had total mortgage and other notes payable of \$1,695.7 million, excluding the unamortized premium of \$0.7 million and unamortized debt issuance costs of \$11.3 million, of which \$1,198.6 million, or 70.7% was fixed-rate, inclusive of debt with rates fixed through the use of derivative financial instruments, and \$497.1 million, or 29.3%, was variable-rate based upon LIBOR or Prime rates plus certain spreads. As of June 30, 2019, we were party to 37 interest rate swap and four interest rate cap agreements to hedge our exposure to changes in interest rates with respect to \$691.4 million and \$157.5 million of LIBOR-based variable-rate debt, respectively.

The following table sets forth information as of June 30, 2019 concerning our long-term debt obligations, including principal cash flows by scheduled maturity and weighted average interest rates of maturing amounts (dollars in millions):

Core Consolidated Mortgage and Other Debt

Year	Scheduled Amortization	Maturities	Total	Weighted-Average Interest Rate
2019 (Remainder)	\$ 1.6	\$ 26.3	\$ 27.9	6.0%
2020	3.2	—	3.2	—%
2021	3.4	—	3.4	—%
2022	3.5	39.0	42.5	3.8%
2023	2.9	367.8	370.7	3.7%
Thereafter	15.4	136.2	151.6	4.1%
	<u>\$ 30.0</u>	<u>\$ 569.3</u>	<u>\$ 599.3</u>	

Fund Consolidated Mortgage and Other Debt

Year	Scheduled Amortization	Maturities	Total	Weighted-Average Interest Rate
2019 (Remainder)	\$ 1.4	\$ 136.0	\$ 137.4	5.5%
2020	2.4	567.8	570.2	4.7%
2021	1.7	212.8	214.5	4.4%
2022	1.5	90.1	91.6	4.7%
2023	0.7	40.9	41.6	3.9%
Thereafter	27.6	13.5	41.1	2.6%
	<u>\$ 35.3</u>	<u>\$ 1,061.1</u>	<u>\$ 1,096.4</u>	

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

Year	Scheduled Amortization	Maturities	Total	Weighted-Average Interest Rate
2019 (Remainder)	\$ 0.5	\$ —	\$ 0.5	0.0%
2020	1.1	9.1	10.2	4.8%
2021	1.1	6.8	7.9	4.4%
2022	1.2	5.8	7.0	4.1%
2023	1.0	40.6	41.6	4.1%
Thereafter	1.6	99.8	101.4	4.3%
	<u>\$ 6.5</u>	<u>\$ 162.1</u>	<u>\$ 168.6</u>	

In 2019, \$165.3 million of our total consolidated debt and \$0.5 million of our pro-rata share of unconsolidated outstanding debt will become due. In addition, \$573.4 million of our total consolidated debt and \$10.2 million of our pro-rata share of unconsolidated debt will become due in 2020. As we intend on refinancing some or all of such debt at the then-existing market interest rates, which may be greater than the current interest rate, our interest expense would increase by approximately \$7.5 million annually if the interest rate on the refinanced debt increased by 100 basis points. After giving effect to noncontrolling interests, our share of this increase would be \$1.8 million. Interest expense on our variable-rate debt of \$497.1 million, net of variable to fixed-rate swap agreements currently in effect, as of June 30, 2019, would increase \$5.0 million if LIBOR increased by 100 basis points. After giving effect to noncontrolling interests, our share of this increase would be \$1.0 million. We may seek additional variable-rate financing if and when pricing and other commercial and financial terms warrant. As such, we would consider hedging against the interest rate risk related to such additional variable-rate debt through interest rate swaps and protection agreements, or other means.

Based on our outstanding debt balances as of June 30, 2019, the fair value of our total consolidated outstanding debt would decrease by approximately \$12.5 million if interest rates increase by 1%. Conversely, if interest rates decrease by 1%, the fair value of our total outstanding debt would increase by approximately \$14.3 million.

As of June 30, 2019, and December 31, 2018, we had consolidated notes receivable of \$94.7 million and \$109.6 million, respectively. We determined the estimated fair value of our notes receivable by discounting future cash receipts utilizing a discount rate equivalent to the rate at which similar notes receivable would be originated under conditions then existing.

Based on our outstanding notes receivable balances as of June 30, 2019, the fair value of our total outstanding notes receivable would decrease by approximately \$0.7 million if interest rates increase by 1%. Conversely, if interest rates decrease by 1%, the fair value of our total outstanding notes receivable would increase by approximately \$0.7 million.

Summarized Information as of December 31, 2018

As of December 31, 2018, we had total mortgage and other notes payable of \$1,560.3 million, excluding the unamortized premium of \$0.8 million and unamortized debt issuance costs of \$10.5 million, of which \$1,001.7 million, or 64.2% was fixed-rate, inclusive of debt with rates fixed through the use of derivative financial instruments, and \$558.7 million, or 35.8%, was variable-rate based upon LIBOR or Prime rates plus certain spreads. As of December 31, 2018, we were party to 29 interest rate swap and three interest rate cap agreements to hedge our exposure to changes in interest rates with respect to \$609.9 million and \$143.8 million of LIBOR-based variable-rate debt, respectively.

Interest expense on our variable-rate debt of \$558.7 million as of December 31, 2018, would have increased \$5.6 million if LIBOR increased by 100 basis points. Based on our outstanding debt balances as of December 31, 2018, the fair value of our total outstanding debt would have decreased by approximately \$13.5 million if interest rates increased by 1%. Conversely, if interest rates decreased by 1%, the fair value of our total outstanding debt would have increased by approximately \$14.7 million.

Changes in Market Risk Exposures from December 31, 2018 to June 30, 2019

Our interest rate risk exposure from December 31, 2018, to June 30, 2019, has decreased on an absolute basis, as the \$558.7 million of variable-rate debt as of December 31, 2018, has decreased to \$497.1 million as of June 30, 2019. As a percentage of our overall debt, our interest rate risk exposure has decreased as our variable-rate debt accounted for 35.8% of our consolidated debt as of December 31, 2018 compared to 29.3% as of June 30, 2019.

ITEM 4. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

Our disclosure controls and procedures include internal controls and other procedures designed to provide reasonable assurance that information required to be disclosed in this and other reports filed under the Exchange Act, is recorded, processed, summarized, and reported within the required time periods specified in the SEC's rules and forms; and that such information is accumulated and communicated to management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosures. It should be noted that no system of controls can provide complete assurance of achieving a company's objectives and that future events may impact the effectiveness of a system of controls. Our chief executive officer and chief financial officer, after conducting an evaluation, together with members of our management, of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2019, have concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) were effective as of June 30, 2019, at a reasonable level of assurance.

Changes in Internal Control Over Financial Reporting

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

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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

ITEM 1A. RISK FACTORS.

The most significant risk factors applicable to us are described in Item 1A. of our 2018 Annual Report on Form 10-K. There have been no material changes to those previously-disclosed risk factors.

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

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

Not applicable.

ITEM 6. EXHIBITS.

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

Exhibit No.	Description	Method of Filing
10.1	<u>First Amendment dated April 2, 2019 to Acadia Realty Limited Partnership Credit Agreement dated February 20, 2018</u>	Incorporated by reference to the copy thereof filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed for the quarter ended March 31, 2019.
10.2	<u>Second Amended and Restated Limited Partnership Agreement dated July 23, 2019</u>	Filed herewith
31.1	<u>Certification of Chief Executive Officer pursuant to rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>	Filed herewith
31.2	<u>Certification of Chief Financial Officer pursuant to rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>	Filed herewith
32.1	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>	Filed herewith
32.2	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>	Filed herewith
101.INS	XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.	Filed herewith
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	XBRL Taxonomy Extension Calculation Document	Filed herewith
101.DEF	XBRL Taxonomy Extension Definitions Document	Filed herewith
101.LAB	XBRL Taxonomy Extension Labels Document	Filed herewith
101.PRE	XBRL Taxonomy Extension Presentation Document	Filed herewith

SIGNATURES

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

**ACADIA REALTY TRUST
(Registrant)**

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

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

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

Dated: July 25, 2019

ACADIA REALTY LIMITED PARTNERSHIP
SECOND AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT

THIS SECOND AMENDED AND RESTATED LIMITED PARTNERSHIP AGREEMENT (this “Agreement”) has been executed and delivered as of July 23, 2019 but is effective as of December 31, 2018 by Acadia Realty Trust, a Maryland real estate investment trust, as general partner (the “General Partner”) of Acadia Realty Limited Partnership, a Delaware limited partnership (the “Partnership”). The General Partner, together with each of the persons admitted as limited partners pursuant to the terms of this Agreement (collectively, the “Limited Partners”), are each referred to herein, individually, as a “Partner” and, collectively, as the “Partners”.

BACKGROUND

- A. The Partnership was duly organized on May 13, 1993 under the Delaware Revised Limited Partnership Act under the name “Mark Centers Limited Partnership.”
- B. The Limited Partnership Agreement of the Partnership was entered into as of June 3, 1993 and was amended by the First Amendment dated as of June 6, 1996, the Second Amendment dated as of August 12, 1998, and the Third Amendment dated as of December 31, 1998 (as so amended, collectively, the “Original Partnership Agreement”). The Original Partnership Agreement was thereafter amended and restated on March 22, 1999 (the “A&R Partnership Agreement”), which A&R Partnership Agreement was amended by the First Amendment dated as of November 15, 1999, the Second Amendment dated as of November 18, 1999, the Third Amendment dated as of May 1, 2003, the Fourth Amendment dated as of January 27, 2004, the Fifth Amendment dated as of February 15, 2005, the Sixth Amendment dated as of August 8, 2005, the Seventh Amendment dated as of December 3, 2006, the Eighth Amendment dated as of January 15, 2007, the Ninth Amendment dated as of August 21, 2014, the Tenth Amendment dated as of December 3, 2014, the Eleventh Amendment dated as of January 1, 2016 and the Twelfth Amendment dated as of February 26, 2018 (the “Twelfth Amendment”) (as so amended, collectively, the “Existing Partnership Agreement”). Each Partner duly executed and delivered the Existing Partnership Agreement in accordance with the terms thereof.
- C. The General Partner now desires to amend and restate the Existing Partnership Agreement to include the Tax Code Modifications (as hereinafter defined) set forth in Section 11.8 below and otherwise incorporate the terms and provisions of the amendments to the A&R Partnership Agreement described in Paragraph B above.
- D. Section 16(B) of the Existing Partnership Agreement provides that the General Partner has the power, without the consent of the Limited Partners, to amend the Existing Partnership Agreement as may be required to satisfy any requirements, conditions, or guidelines contained in any order, directive, opinion, ruling or regulation of a federal or state agency or contained in federal or state law. In connection therewith, the General Partner has

made the determination that consent of the Limited Partners is not required with respect to the amendment and restatement of the Existing Partnership Agreement as set forth herein.

NOW, THEREFORE, in consideration of the mutual covenants contained in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby amend and restate the Existing Partnership Agreement, as follows:

1. Partnership.

1.1 Continuation. The Partners hereby continue the Partnership which was formed upon the filing of the Certificate of Limited Partnership of the Partnership (the "Certificate") with the Secretary of State of the State of Delaware in compliance with the provisions of the Act, for the limited purposes set forth herein. Except as otherwise specifically provided in this Agreement, the rights and obligations of the Partners and the management and termination of the Partnership shall be governed by the Act.

1.2 Name. The name of the Partnership is "Acadia Realty Limited Partnership" or such other name as may from time to time be selected by the General Partner, provided that prompt notice of any such other name selected shall be given to the other Partners. The General Partner shall cause to be executed and filed on behalf of the Partnership such assumed or fictitious name certificates as may be required to be filed in connection with the business of the Partnership.

1.3 Registered Office and Agent. The address of the Partnership's registered office in the State of Delaware is 32 Loockerman Square, Suite 100L, Dover, Kent County, Delaware 19901, and the name of the Partnership's registered agent at such address is The Prentice-Hall Corporation System, Inc. The General Partner, in its discretion, may from time to time change such registered office and agent.

2. Definitions.

2.1 As used in this Agreement, the following terms shall have the meanings set forth respectively after each:

"2006 LTIP Plan" has the meaning set forth in Section 3.B of Annex A.

"Act" shall mean the Delaware Revised Limited Partnership Act, as amended from time to time, and any successor statute.

"Adjusted Capital Account Deficit" shall mean, at any time, the then deficit balance in the Capital Account of a Partner, after giving effect to the following adjustments:

- (i) credit to such Capital Account any amounts that such Partner is obligated to restore or is deemed obligated to restore as described in the penultimate sentences of Regulations Section 1.704-2(g)(1) and Regulations Section 1.704-2(i)(5), or any successor provisions; and

(ii) debit to such Capital Account the items described in Regulations Sections 1.704-1(b)(2)(ii)(d)(4), (5) and (6).

“Agreement” shall mean this Amended and Restated Limited Partnership Agreement, as it may be amended from time to time.

“Bankruptcy” of a Partner shall mean (a) the filing by a Partner of a voluntary petition seeking liquidation, reorganization, arrangement or readjustment, in any form, of its debts under Title 11 of the United States Code (or corresponding provisions of future laws) or any other Federal or state insolvency law, or a Partner’s filing an answer consenting to or acquiescing in any such petition, (b) the making by a Partner of any assignment for the benefit of its creditors or the admission by a Partner in writing of its inability to pay its debts as they mature, or (c) the expiration of sixty (60) days after the filing of an involuntary petition under Title 11 of the United States Code (or corresponding provisions of future laws), seeking an application for the appointment of a receiver for the assets of a Partner, or an involuntary petition seeking liquidation, reorganization, arrangement or readjustment of its debts under any other Federal or state insolvency law, provided that the same shall not have been vacated, set aside or stayed within such 60-day period.

“Capital Account” shall mean the capital account maintained by the Partnership for each Partner as described in Section 3.4 hereof.

“Capital Cash Flow” shall have the meaning provided in Section 8.2 hereof.

“Capital Contribution” shall mean, when used in respect of a Partner, the initial capital contribution of such Partner as set forth in Section 3.1 hereof and any other amounts of money or the fair market value of other property contributed by such Partner to the capital of the Partnership pursuant to the terms of this Agreement, including the Capital Contribution made by any predecessor holder of the Partnership Interest of such Partner.

“Code” shall mean the Internal Revenue Code of 1986, as the same may be amended from time to time, and any successor statute hereof.

“Constituent Person” has the meaning set forth in Section 7.G of Annex A.

“Contributing Partner” shall have the meaning provided in Section 3.2(B)

“Default Rate” shall mean a rate per annum equal to the lesser of (i) the maximum rate permitted by applicable law, or (ii) five percent (5%) above the Prime Rate, compounded monthly.

“Depreciation” shall mean for any fiscal year or portion thereof of the Partnership an amount equal to the depreciation, amortization or other cost recovery deduction allowable with respect to an asset for such period for Federal income tax purposes, except that if the Gross Asset Value of an asset differs from its adjusted basis for Federal income tax purposes at the beginning of such period, Depreciation shall be an amount that bears the same relationship to such beginning Gross Asset Value as the depreciation, amortization or cost recovery deduction in such period for Federal income tax purposes bears to such beginning adjusted tax basis;

provided, however, that if the adjusted basis for Federal income tax purposes of an asset at the beginning of such period is zero, Depreciation shall be determined with reference to such beginning Gross Asset Value using any reasonable method selected by the General Partner.

“Economic Capital Account Balance” has the meaning set forth in Section 7.3(K).

“General Partner” means Acadia Realty Trust or any successor entity.

“Gross Asset Value” means, with respect to any Partnership asset, the asset’s adjusted basis for Federal income tax purposes, except as follows:

- (i) The initial Gross Asset Value of any asset contributed by a Partner to the Partnership shall be the gross fair market value of such asset, as determined by the General Partner;
- (ii) The Gross Asset Value of all Partnership assets shall be adjusted to equal their respective gross fair market values, as determined by the General Partner, as of the following times: (a) the acquisition of an additional interest in the Partnership by any new or existing Partner in exchange for more than a de minimis Capital Contribution; (b) the acquisition of a more than de minimis additional interest in the Partnership by any new or existing Partner as consideration for the provision of services to or for the benefit of the Partnership in a partner capacity or in anticipation of becoming a partner; (c) any issuance of LTIP Units by the Partnership; (d) the distribution by the Partnership to a Partner of more than a de minimis amount of Partnership property as consideration for an interest in the Partnership; and (e) the liquidation of the Partnership within the meaning of Regulations Section 1.704-1 (b)(2)(ii)(g); provided, however, that adjustments pursuant to clauses (a), (b), (c) and (d) above shall be made only if the General Partner reasonably determines that such adjustments are necessary or appropriate to reflect the relative economic interests of the Partners in the Partnership.
- (iii) The Gross Asset Value of any Partnership asset distributed to any Partner shall be adjusted to equal the gross fair market value of such asset on the date of distribution as determined by the General Partner; and
- (iv) The Gross Asset Values of Partnership assets shall be increased (or decreased) to reflect any adjustments to the adjusted basis of such assets pursuant to Code Sections 734(b) or 743(b), but only to the extent that such adjustments are taken into account in determining Capital Accounts pursuant to Regulations Section 1.704-1(b)(2)(iv)(m) and paragraph (vi) of the definition of Profits and Losses and Section 7.3(G) hereof; provided, however, that Gross Asset Values shall not be adjusted pursuant to this paragraph (iv) to the extent the General Partner determines that an adjustment pursuant to paragraph (ii) above is necessary or appropriate in connection with a transaction that would otherwise result in an adjustment pursuant to this paragraph (iv).

If the Gross Asset Value of an asset has been determined or adjusted pursuant to paragraph (i), (ii) or (iv) above, such Gross Asset Value shall thereafter be adjusted by the Depreciation taken into account with respect to such asset for purposes of computing Profits and Losses.

“Interim Distribution Amount” means, with respect to Special LTIP Units that were issued as part of the same award or program for purposes of Section 8.6 as specified in the Vesting Agreement or other documentation pursuant to which such Special LTIP Units are issued (the “Same Award”) and are not forfeited on or prior to such Special LTIP Unit Full Distribution Participation Date for such Special LTIP Units, an amount equal to the distributions that would have been distributed hereunder to the holder of such Special LTIP Units that are not forfeited on or prior to such Special LTIP Unit Full Participation Date had the Special LTIP Unit Full Distribution Participation Date for such Special LTIP Units been the date such Units were granted, *minus*, an amount equal to the amounts distributed hereunder to the holder of such Special LTIP Units with respect to all the Special LTIP Units of the Same Award held by such holder prior to the Special LTIP Unit Full Participation Date, whether or not forfeited on or prior to such date.

“Limited Partner” shall mean (i) the Persons listed as limited partners on the books and records of the Partnership maintained for such purpose by the Partnership or (ii) any Person who (x) becomes a Limited Partner pursuant to the terms and conditions of this Agreement, and (y) holds a Partnership Interest. “Limited Partners” means all such Persons and shall include, without limitation, holders of OP Units, holders of Preferred Units, and LTIP Unit Limited Partners. The General Partner shall update the books and records of the Partnership from time to time as necessary to reflect accurately the information therein.

“Liquidating Gains” has the meaning set forth in Section 7.3(K).

“Liquidating Losses” has the meaning set forth in Section 7.3(K).

“LTIP Unit Adjustment Events” has the meaning set forth in Section 5 of Annex A.

“LTIP Unit Capital Account Limitation” has the meaning set forth in Section 7.B of Annex A.

“LTIP Unit Conversion Date” has the meaning set forth in Section 7.C of Annex A.

“LTIP Unit Conversion Notice” has the meaning set forth in Section 7.C of Annex A.

“LTIP Unit Conversion Right” has the meaning set forth in Section 7.A of Annex A.

“LTIP Unit Distribution Payment Date” has the meaning set forth in Section 3.A of Annex A.

“LTIP Unit Forced Conversion” has the meaning set forth in Section 7.D of Annex A.

“LTIP Unit Forced Conversion Notice” has the meaning set forth in Section 7.D

of Annex A.

“LTIP Unit Limited Partner” means any Person holding LTIP Units listed as such on the books and records of the Partnership maintained for such purpose by the Partnership. The General Partner shall update the books and records of the Partnership from time to time as necessary to reflect accurately the information therein.

“LTIP Units” means the Partnership Interests designated as such having the rights, powers, privileges, restrictions, qualifications and limitations set forth in Annex A. For the avoidance of doubt, LTIP Units shall include Special LTIP Units.

“Nonrecourse Deductions” has the meaning set forth in Regulations Sections 1.704-2(b)(1) and 1.704-2(c).

“Operating Cash Flow” shall have the meaning provided in Section 8.1 hereof.

“OP Units” shall mean those units of common Partnership Interest issued prior to the date hereof and any additional units of common Partnership Interest issued pursuant to this Agreement.

“OP Unit Economic Balance” has the meaning set forth in Section 7.3(K).

“Partner Nonrecourse Debt” has the meaning set forth in Regulations Section 1.704-2(b)(4).

“Partner Nonrecourse Debt Minimum Gain” has the meaning set forth in Regulations Section 1.704-2(i)(2).

“Partner Nonrecourse Deductions” has the meaning set forth in Regulations Section 1.704-2(i).

“Partners” shall mean, collectively, the General Partner and each Limited Partner, or any additional or successor partners of the Partnership. Reference to a Partner shall be to any one of the Partners.

“Partnership Interest” shall mean the ownership interest of a Partner in the Partnership at any particular time, including the right of such Partner to any and all benefits to which such Partner may be entitled as provided in this Agreement, and to the extent not inconsistent with this Agreement, under the Act, together with the obligations of such Partner to comply with all of the terms and provisions of this Agreement and of the Act; provided, however, that in the event the General Partner issues classes of Partnership Interests to Limited Partners pursuant to Section 3.2(B) hereof other than the OP Units, the term Partnership Interests shall mean with respect to each class of Partnership Interests, a fractional, undivided share of the Partnership Interests of all Partners in such class.

“Partnership Minimum Gain” has the meaning set forth in Regulations Section 1.704-3(b)(3) and 1.704-2(d).

“Partnership Record Date” means the record date established by the General Partner for the distribution of cash pursuant to Sections 8.1 and 8.2 hereof, which record date shall be the same as the record date established by the General Partner for the payment of dividends to holders of Common Shares of the General Partner on account of some or all of the General Partner’s share of such distribution by the Partnership.

“Partnership Representative” shall have the meaning provided in Section 11.8(B).

“Percentage Interest” of any class issued hereunder, its interest in such class determined by dividing the Partnership Interests of such class owned by such Partner by the total number of Partnership Interests of such class then outstanding multiplied by the aggregate Percentage Interest allocable to such class of Partnership Interests. For such time or times as the Partnership shall at any time have outstanding more than one class of Partnership Interests, the Percentage Interest attributable to each class of Partnership Interests shall be determined as set forth in Section 3.2(C) hereof. Notwithstanding the foregoing, for purposes of calculating the Percentage Interests for Partners holding OP Units and/or LTIP Units at any time, OP Units and LTIP Units (whether or not vested) shall be considered Partnership Interests of the same class and the Percentage Interest of any Partner holding OP Units and/or LTIP Units shall be the percentage represented by a fraction (expressed as a percentage), the numerator of which is the total number of OP Units and LTIP Units then owned by such Partner, and the denominator of which is the total number of OP Units and LTIP Units then owned by all of the Partners; provided that, for purposes of determining allocations and distributions to all Partners prior to the Special LTIP Unit Full Distribution Participation Date for any Special LTIP Units, Percentage Interests will be calculated by only including in the numerator and denominator a number of such Special LTIP Units equal to the number of such Special LTIP Units outstanding multiplied by the Special LTIP Unit Sharing Percentage for such Special LTIP Units.

“Person” shall mean any individual, partnership, corporation, trust, limited liability company or other entity.

“Preferred Units” shall mean those units of preferred Partnership Interest issued prior to the date hereof and any additional units of preferred Partnership Interest issued pursuant to this Agreement.

“Prime Rate” shall mean the highest U.S. Prime Rate as published in The Wall Street Journal on the first (1st) business day of each month.

“Profits” and “Losses” shall mean for each fiscal year or portion thereof an amount equal to the Partnership’s items of taxable income or loss for such year or period, determined in accordance with section 703(a) of the Code with the following adjustments:

- (i) any income which is exempt from Federal income tax and not otherwise taken into account in computing Net Profits or Net Losses shall be added to (or subtracted from) taxable income (or loss);
- (ii) any expenditures of the Partnership described in Code Section 705(a)(2)(B) or treated as Section 705(a)(2)(B) expenditures under Regulations Section

1.704-1(b)(2)(iv)(i), and not otherwise taken into account in computing Profits or Losses, will be subtracted from (or added to) taxable income (or loss);

- (iii) in the event that the Gross Asset Value of any Partnership asset is adjusted pursuant to the definition of Gross Asset Value contained in this Section 2, the amount of such adjustment shall be taken into account as gain or loss from the disposition of such asset for purposes of computing Profits and Losses;
- (iv) gain or loss resulting from any disposition of Partnership assets with respect to which gain or loss is recognized for Federal income tax purposes shall be computed by reference to the Gross Asset Value of the property disposed of, notwithstanding that the adjusted tax basis of such property differs from its Gross Asset Value;
- (v) in lieu of the depreciation, amortization and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation for such fiscal year or other period;
- (vi) to the extent an adjustment to the adjusted tax basis of any Partnership asset pursuant to Code Section 734(b) is required pursuant to Regulations Section 1.704-1(b)(2)(iv)(m)(4) to be taken into account in determining Capital Accounts as a result of a distribution other than in complete liquidation of a Partner's Partnership Interest, the amount of such adjustment shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases the basis of the asset) from the disposition of the asset and shall be taken into account for purposes of computing Profits and Losses; and
- (vii) any items specifically allocated pursuant to Section 7.3 or Section 7.4 hereof shall not be considered in determining Profits or Losses.

"Push Out Election" shall have the meaning provided in Section 11.8(D).

"Real Estate Investment Trust" shall mean such term as defined in Section 856 of the Code.

"Regulations" shall mean the Income Tax Regulations, including Temporary Regulations, promulgated under the Code, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

"REIT Requirements" is defined in Section 5(C) hereof.

"Same Award" has the meaning set forth in the definition of Interim Distribution Amount.

"Special LTIP Unit Full Distribution Participation Date" has the meaning set forth in Section 3.B of Annex A.

“Special LTIP Unit Sharing Percentage” means, for a Special LTIP Unit, the percentage that is specified as the Special LTIP Unit Sharing Percentage in the Vesting Agreement or other documentation pursuant to which such Special LTIP Unit is issued or, if no such percentage is specified, 10%.

“Special LTIP Unit” means an LTIP Unit designated as a “Special LTIP Unit” as set forth in the documentation pursuant to which such LTIP Unit is granted.

“Tax Code Modifications” is defined in Section 11.8 hereof.

“Transaction” has the meaning set forth in Section 7.G of Annex A.

“Unit Certificates” is defined in Section 3.2(A) hereof.

“Unvested LTIP Units” has the meaning set forth in Section 2.A of Annex A.

“Vested LTIP Units” has the meaning set forth in Section 2.A of Annex A.

“Vesting Agreement” has the meaning set forth in Section 2.A of Annex A.

3. Capital.

3.1 Initial Capital. The Partners have previously made the Capital Contributions set forth on the books and records of the Partnership maintained for such purpose by the Partnership.

3.2 Issuance of Partnership Interests.

A. Outstanding Partnership Interests: Certificates. The aggregate total of all Partnership Interests outstanding as of the date of this Agreement is set forth on the books and records of the Partnership maintained for such purpose by the Partnership. Such Partnership Interests may, but shall not be required to be, represented by certificates (“Unit Certificates”) indicating each Partner’s Partnership Interests. In the event the General Partner issues a class of Partnership Interests other than OP Units, the Unit Certificates representing Partnership Interests of such class shall indicate the class, terms, preferences and other restrictions or rights of such class of Partnership Interests.

B. Additional Issuances of Partnership Interests. From time to time, the General Partner, subject to the provisions of this Section 3.2(B) and Section 3.2(D), shall cause the Partnership to issue additional Partnership Interests (i) to existing or newly-admitted Partners (including itself) in exchange for the contribution by a Partner (the “Contributing Partner”) of additional Capital Contributions to the Partnership, or (ii) to the General Partner upon the issuance by the General Partner of (x) additional common shares of beneficial interest in the General Partner (“Common Shares”) not in connection with the exchange of OP Units as provided in Section 3.8 hereof, or (y) other capital shares, whether common or preferred (together with Common Shares, the “Securities”) provided that any net proceeds received by the General Partner as a result of the issuance of such additional Securities are contributed to the Partnership as additional Capital Contributions, in accordance with Section 3.3(B) hereof (it

being understood that the General Partner may issue Common Shares in connection with the General Partner's employee incentive plans that may, from time to time, be in effect, without receiving any proceeds and that the issuance of such shares shall nonetheless entitle the General Partner to additional OP Units).

The number of Partnership Interests issued to the Contributing Partner under clause (i) of this Section 3.2(B) shall be equal to either (a) such amount as may be fixed by agreement between the General Partner, in the General Partner's sole discretion, and the Contributing Partner or (b) the quotient (rounded to the nearest whole number) arrived at by dividing (x) the Gross Asset Value of the property contributed as additional Capital Contributions (net of any debt to which such property is subject or assumed by the Partnership in connection with such contribution) by (y) the Market Price (as hereinafter defined). The number of OP Units issued to the General Partner under clause (ii) of this Section 3.2(B) shall be equal to the number of Common Shares issued. As used in this Section 3.2(B), "Market Price" means the average, for the most recent twenty (20) trading days for the Common Shares preceding the date on which such OP Units are to be issued pursuant to this Section 3.2(B), of the last reported sale price per Common Share at the close of trading on each such date as reported by the Wall Street Journal (New York Edition) or such other reputable stock price reporting service as may be selected by the General Partner.

Any additional Partnership Interests which may be issued may be OP Units or other Partnership Interests in one or more classes, or one or more series of such classes, with such designations, preferences and relative, participating, optional or other special rights, powers and duties, including rights, powers and duties which may be senior, *pari passu* or junior to OP Units, all as shall be determined by the General Partner in its sole and absolute discretion subject to Delaware law, including, without limitation (i) the allocations of items of Partnership income, gain, loss, deduction and credit to each such class or series of Partnership Interests; (ii) the right of each such class or series of Partnership Interests to share in Partnership distributions; and (iii) the rights of each such class or series of Partnership Interests upon dissolution and liquidation of the Partnership; provided that no such additional Partnership Interests shall be issued to the General Partner unless either (A)(1) the additional Partnership Interests are issued in connection with the issuance of shares of Securities by the General Partner, which Securities have designations, preferences and other rights such that the economic interests attributed to such Securities are substantially similar to the designations, preferences and other rights of the additional Partnership Interests issued to the General Partner in accordance with this Section 3.2(B), and (2) subject to any exceptions set forth in this Section 3.2(B), the General Partner shall make a Capital Contribution to the Partnership in an amount equal to the proceeds raised in connection with the issuance of such shares of the General Partner, or (B) the additional Partnership Interests are issued to all the Partners in proportion to their respective Percentage Interests.

C. Percentage Interest Adjustments. In the event that the Partnership issues additional Partnership Interests (including additional classes of Partnership Interests, (but excluding OP Units issued upon the redemption of Preferred Units), the General Partner shall allocate to such additional Partnership Interests a Percentage Interest in the Partnership equal to a fraction, the numerator of which is equal to either (a) such amount as may be fixed by agreement between the General Partner, in the General Partner's sole discretion, and the Contributing

Partner or (b) the amount of cash, if any, plus the Gross Asset Value of the property, if any, contributed as additional Capital Contributions (net of any debt to which such property is subject or assumed by the Partnership in connection with such contribution) with respect to such additional Partnership Interests and the denominator of which is equal to the fair market value (as determined by the General Partner as of the date of such contribution taking into account such contribution) of all the Partnership Interests for all outstanding classes of Partnership Interests (including such additional Partnership Interests). To the extent that any such issuance of additional Partnership Interests results in an overall decrease (the "Percentage Decrease") in the aggregate Percentage Interests in the Partnership represented by all of the Partnership Interests that were outstanding before the issuance of the additional Partnership Interests, the Percentage Decrease shall be allocated among the classes of Partnership Interests outstanding prior to the issuance of the additional Partnership Interests in accordance with such classes' respective Percentage Interests in the Partnership as determined prior to the issuance of the additional Partnership Interests. Similarly, to the extent that a redemption by the General Partner of any Partnership Interests for cash results in an overall increase (the "Percentage Increase") in the aggregate Percentage Interests in the Partnership represented by the remaining Partnership Interests outstanding after the redemption (the "Remaining Interests"), the Percentage Increase shall be allocated among the classes of Remaining Interests by multiplying the Percentage Increase by a fraction equal to the aggregate pre-redemption Percentage Interests of all Remaining Interests of the particular class divided by the aggregate pre-redemption Percentage Interests of all Remaining Interests of all classes. Upon the redemption of any Preferred Units for OP Units, the aggregate Percentage Interest allocated to that class of Preferred Units shall be reduced by the total Percentage Interests attributable to the redeemed Preferred Units (the "Preferred Redemption Percentage"), and the aggregate Percentage Interest allocated to the OP Units shall be increased by that Preferred Redemption Percentage.

D. From time to time, the General Partner shall cause the Partnership to issue additional Partnership Interests to the General Partner in connection with the issuance by the General Partner of additional Common Shares in exchange for OP Units as provided in Section 3.8 hereof. The amount of Partnership Interests issued under this Section 3.3(D) shall be equal to the amount of OP Units exchanged for Common Shares (subject to the anti-dilution protections set forth in Section 3.8).

E. If the Common Shares (or any other class of Securities of the General Partner for which a class of Partnership Interests may be redeemed) undergoes any split or reverse split, then without further action or consent by the General Partner or any Limited Partner, each corresponding class of Partnership Interests that is redeemable for Securities shall be split or combined in accordance with the same ratio used to split or combine the Securities. For example, if the Common Shares undergo a reverse 2 for 1 split (i.e. every two shares of old Common Shares are converted into one share of new Common Shares) then the corresponding class of Partnership Interests that are redeemable for such Common Shares shall undergo a similar reverse split (i.e. every two old OP Units shall be converted into one new OP Unit). Similarly, if any class of Partnership Interests into which another class of Partnership Interests is convertible undergoes any split or reverse split, then without further action or consent by the General Partner or any Limited Partner the latter class of Partnership Interests shall be split or combined in accordance with the same ratio used to split or combine the first class of Partnership Interests.

F. Issuance of LTIP Units. From and after the date hereof the Partnership shall be authorized to issue LTIP Units (including, for the avoidance of doubt, Special LTIP Units). From time to time the General Partner may issue LTIP Units to Persons providing services to or for the benefit of the Partnership. LTIP Units are intended to qualify as profits interests in the Partnership. LTIP Units shall have the terms set forth in Annex A.

3.3 Additional Capital.

A. No Partner shall be assessed or, except as provided for in Section 3.3(B) below, required to contribute additional funds or other property to the Partnership. Any additional funds or other property required by the Partnership, as determined by the General Partner in its sole discretion, may, at the option of the General Partner and without an obligation to do so (except as provided for in Section 3.3(B) below), be contributed by the General Partner as additional Capital Contributions. If and as the General Partner or any other Partner makes additional Capital Contributions to the Partnership, each such Partner shall receive additional Partnership Interests as provided for in Section 3.2(B) above. The General Partner shall also have the right (but not the obligation) to raise any additional funds required for the Partnership by causing the Partnership to borrow the necessary funds from third parties on such terms and conditions as the General Partner shall deem appropriate in its sole discretion. If the General Partner elects to cause the Partnership to borrow the additional funds, it may cause one or more of the Partnership's assets to be encumbered to secure the loan. Except as provided for in Section 3.3(C) below, no Limited Partner shall have the right to contribute additional Capital Contributions to the Partnership without the prior written consent of the General Partner.

B. (i) The net proceeds of any and all funds raised by or through the General Partner through the issuance of additional Securities shall be contributed to the Partnership as additional Capital Contributions, and in such event the General Partner shall be issued additional Partnership Interests pursuant to Section 3.2(B) above.

(ii) If the Partnership requires funds at any time or from time to time in excess of funds available to the Partnership through borrowings and prior or additional Capital Contributions, the General Partner may, but shall not be required to, borrow such funds from a financial institution or other lender or through public debt offerings and lend such funds to the Partnership on the same terms and conditions as are applicable to the General Partner.

C. So long as a dividend reinvestment plan is in effect for the holders of the Common Shares, each Limited Partner shall have the right to reinvest any or all cash distributions payable to it from time to time pursuant to this Agreement by having some or all (as the Limited Partner elects) of such distributions contributed to the Partnership as additional Capital Contributions, and in such event the Partnership shall issue to each such Limited Partner additional OP Units pursuant to Section 3.2(B) above. The General Partner shall create and administer a reinvestment program to effect the foregoing in substantial conformance with any dividend reinvestment program available from time to time to holders of the Common Stock.

3.4
maintained for each Partner.

Capital Accounts. A separate capital account (“Capital Account”) shall be

A. To each Partner’s Capital Account there shall be credited such Partner’s Capital Contributions, such Partner’s distributive share of Profits and any items in the nature of income or gain which are specifically allocated pursuant to Section 7.3 or Section 7.4 hereof, and the amount of any Partnership liabilities assumed by such Partner or which are secured by any Partnership property distributed to such Partner.

B. To each Partner’s Capital Account there shall be debited the amount of cash and the Gross Asset Value of any Partnership property distributed to such Partner pursuant to any provision of this Agreement, such Partner’s distributive share of Losses and any items in the nature of expenses or losses which are specifically allocated pursuant to Section 7.3 or Section 7.4 hereof, and the amount of any liabilities of such Partner assumed by the Partnership or which are secured by any property contributed by such Partner to the Partnership.

C. In the event all or a portion of a Partnership Interest is transferred in accordance with the terms of this Agreement (including a transfer of OP Units in exchange for Common Shares of the General Partner, pursuant to Section 3.8), the transferee shall succeed to the Capital Account of the transferor to the extent it relates to the transferred Partnership Interest.

D. In determining the amount of any liability for purposes of Sections 3.4(A) and 3.4 (B) hereof, there shall be taken into account Code Section 752(c) and any other applicable provisions of the Code and Regulations.

E. This Section 3.4 and the other provisions of this Agreement relating to the maintenance of Capital Accounts are intended to comply with Regulations Section 1.704-1(b), and shall be interpreted and applied in a manner consistent with such Regulations. In the event the General Partner shall determine that it is prudent to modify the manner in which the Capital Accounts, or any debits or credits thereto (including, without limitation, debits or credits relating to liabilities which are secured by contributed or distributed property or which are assumed by the Partnership, or the Partners) are computed in order to comply with such Regulations, the General Partner may make such modification, provided that it is not likely to have a material effect on the amounts distributed to any Partner pursuant to Section 14 hereof upon the dissolution of the Partnership or would otherwise not have a material adverse effect on any Partner or any Partner’s Capital Account. The General Partner also shall (i) make any adjustments that are necessary or appropriate to maintain equality between the Capital Accounts of the Partners and the amount of Partnership capital reflected on the Partnership’s balance sheet, as computed for book purposes, in accordance with Regulations Section 1.704-1(b)(2)(iv)(g), and (ii) make any appropriate modifications in the event unanticipated events might otherwise cause this Agreement not to comply with Regulations Section 1.704-1(b), provided, that such adjustments or modifications, to the extent they may be made in the discretion of the General Partner, shall not, either singly or in the aggregate, have a material adverse effect on any Partner or any Partner’s Capital Account.

3.5 Interest on and Return of Capital.

A. No Partner shall be entitled to any interest on its Capital Account or on its contributions to the capital of the Partnership.

B. Except as expressly provided for in this Agreement, no Partner shall have the right to demand or to receive the return of all or any part of his capital contributions to the Partnership and there shall be no priority of one Partner over the other as to the return of capital contributions or withdrawals or distributions of profits and losses. No Partner shall have the right to demand or receive property other than cash in return for the contributions of such Partner to the Partnership.

3.6 Negative Capital Accounts. No Partner shall be required to pay to the Partnership any deficit or negative balance which may exist in its Capital Account.

3.7 Limit on Contributions and Obligations of Partners. Neither the Limited Partners nor the General Partner shall be required to make any additional advance or contributions to or on behalf of the Partnership or to endorse any obligations of the Partnership.

3.8 Conversion of OP Units. Subject to the further provisions of this Section 3.8, the General Partner hereby grants to each Limited Partner the right to exchange any or all of the OP Units held by that Partner for Common Shares, with one OP Unit being exchangeable for one Common Share. Such right may be exercised by a Limited Partner at any time and from time to time upon not less than ten (10) days prior written notice to the General Partner or at such times as may be otherwise agreed to by the Limited Partner, on the one hand, and the Partnership or the General Partner, on the other hand. The General Partner shall at all times reserve and keep available out of its authorized but unissued Common Shares, solely for the purpose of effecting the exchange of OP Units for Common Shares, such number of Common Shares as shall from time to time be sufficient to effect the conversion of all outstanding OP Units not owned by the General Partner. No Limited Partner shall, by virtue of being the holder of one or more OP Units, be deemed to be a shareholder of or have any other interest in the General Partner. The exchange of OP Units for Common Shares described in this Section 3.8 may be effected by the contribution of Common Shares from the General Partner to the Partnership and the redemption by the Partnership of OP Units held by a Limited Partner. In the event of any change in the outstanding Common Shares by reason of any share, dividend, split, recapitalization, merger, consolidation, combination, exchange of shares or other similar corporate change, the number of OP Units held by each Partner shall be proportionately adjusted so that one OP Unit remains exchangeable for one Common Share without dilution. In the event the General Partner issues any Common Shares in exchange for OP Units pursuant to this Section 3.8, any such OP Units so acquired by the General Partner shall immediately thereafter be canceled by the Partnership and the Partnership shall issue to the General Partner new OP Units pursuant to Section 3.2(B)(ii) hereof. Notwithstanding the foregoing provisions of this Section 3.8, a Limited Partner shall not have the right to exchange OP Units for Common Shares if (i) in the opinion of counsel for the General Partner, the General Partner would, as a result thereof, no longer qualify (or it would be likely that the General Partner no longer would qualify) as a Real Estate Investment Trust; (ii) such exchange would, in the opinion of counsel for the General Partner, constitute or be likely to constitute a violation of applicable securities laws; or (iii) such

exchange would result in a Limited Partner exceeding the ownership limitation provisions in the Declaration of Trust of the General Partner, as such provisions shall then be in effect. If the General Partner is unable to issue Common Shares in accordance with this Section 3.8, it shall cause the Partnership to redeem the requested OP Units for cash for an amount equal to the Market Price (as defined in Section 3.2(B)) calculated as if one OP Unit equaled one Common Share (subject to the anti-dilution protections set forth in this Section 3.8).

No fractional Common Shares shall be issued in return for OP Units. If more than one OP Unit shall be requested to be redeemed at the same time by the same Limited Partner, the number of full Common Shares that shall be issuable upon the redemption thereof shall be computed on the basis of the aggregate number of Common Shares represented by the OP Units so presented. If any fraction of a Common Share would, except for the provisions of this Section 3.8, be issuable on the redemption of any OP Units (or specified portion thereof), the General Partner shall pay an amount in cash equal to the Market Price (determined as of the trading day immediately preceding the date upon the closing of the conversion of the OP Units is to occur), multiplied by such fraction.

Holders of LTIP Units shall not be entitled to the rights of exchange or redemption provided for in Section 3.8 of this Agreement, unless and until such LTIP Units have been converted into OP Units (or any other class or series of Partnership Interests entitled to such rights of exchange or redemption). Notwithstanding the foregoing, and except as otherwise permitted by the award, plan or other agreement pursuant to which an LTIP Unit was issued, the rights of exchange or redemption shall not be exercisable with respect to any OP Unit issued upon conversion of an LTIP Unit until two years after the date on which the LTIP Unit was issued, provided however, that the foregoing restriction shall not apply if the right of redemption is exercised by an LTIP Unit Limited Partner in connection with a transaction that falls within the definition of a "change of control" under the agreement or agreements pursuant to which the LTIP Units were issued to such holder.

4. Principal Office. The principal office of the Partnership shall be located at the principal office of the General Partner, or at such other place as the General Partner may designate after giving written notice of such designation to the other Partners.

5. Purpose and Powers of the Partnership.

A. The purposes of the Partnership shall be to acquire, purchase, own, operate, manage, develop, redevelop, construct, improve, invest in, finance, refinance, sell, lease and otherwise deal with real property and assets related thereto, and interests therein (including, without limitation, debt), whether directly or indirectly, alone or in association with others. The purposes of the Partnership include, but are not limited to:

(i) acquiring, developing, operating, leasing and managing real property and conducting any other lawful business relating thereto;

(ii) mortgaging, exchanging, selling, encumbering or otherwise disposing of all or any part of a real property or any interest therein;

(iii) constructing, reconstructing, altering, modifying and subtracting from or adding to a real property or any part thereof;

(iv) organizing and holding partnership interests in partnerships owning or otherwise having an interest in, whether directly or indirectly, one or more real properties; and

(v) in general, the making of any investments or expenditures, the borrowing and lending of money and the taking of any and all actions which are incidental or related to any of the purposes recited above.

It is agreed that each of the foregoing is an ordinary part of the Partnership's business and affairs. Property may be acquired subject to, or by assuming, the liens, encumbrances, and other title exceptions which affect such property. The Partnership may also be a partner, general or limited, in partnerships, general or limited, and joint ventures created to accomplish all or any of the foregoing.

B. The Partnership purposes may be accomplished by taking any action which is not prohibited under the Act and which is related to the acquisition, ownership, development, improvement, operation, management, financing, leasing, exchanging, selling or otherwise encumbering or disposing of all or any portion of the assets of the Partnership, or any interest therein.

C. Notwithstanding anything to the contrary contained in this Agreement, for so long as Acadia Realty Trust is a Partner, the Partnership shall operate in such a manner and the Partnership shall take or omit to take all actions as may be necessary (including making appropriate distributions from time to time), so as to permit Acadia Realty Trust (i) to continue to qualify as a Real Estate Investment Trust under Sections 856 through 860 of the Code so long as such requirements exist and as such provisions may be amended from time to time, or corresponding provisions of succeeding law (the "REIT Requirements"), and (ii) to minimize its exposure to the imposition of an excise tax under Section 4981(a) of the Code or a tax under Section 857(b)(5) of the Code, so long as such taxes may be imposed and as such provisions may be amended from time to time, or corresponding provisions of succeeding law, each of (i) and (ii) to at all times be determined (a) as if Acadia Realty Trust's sole asset is its Partnership Interest, and (b) without regard to the action or inaction of Acadia Realty Trust with respect to distributions (by way of dividends or otherwise) and the timing thereof. In addition, the Partnership shall take no action with respect to a sale, exchange or other disposition of any property owned by the Partnership with respect to which a material issue exists as to whether such sale, exchange or other disposition would cause Acadia Realty Trust to incur a prohibited transaction tax under Section 857(b)(6) of the Code.

D. Without the consent of all of the Limited Partners affected thereby, the General Partner may not change its policy of holding its assets and conducting its business solely through the Partnership or structure any transactions described in Section 5(E) or 5(F) in a manner which will change the General Partner's policy of holding its assets and conducting its business through the Partnership (or the Surviving Partnership (defined below), if applicable)), if

the result of such transaction is the recognition of gain for federal income tax purposes by such Limited Partners.

E. Whether or not Section 5(D) hereof is applicable, the General Partner shall not, unless Section 5(F) is applicable, engage in any merger, consolidation or other combination with or into another person, sale of all or substantially all of its assets or any reclassification, recapitalization or similar transaction (each a "Termination Transaction"), unless such Termination Transaction is one in connection with which each Limited Partner either will receive, or will have the right to elect to receive, for each OP Unit held by such Limited Partner, an amount of cash, securities, or other property equal to the product of the number of Common Shares into which such OP Unit is convertible (or in the case of a Series A Preferred Unit, the number of OP Units into which such Series A Preferred Unit is convertible) and the greatest amount of cash, securities or other property paid to a holder of one Common Share in consideration of one Common Share pursuant to the terms of the Termination Transaction; provided that; if, in connection with the Termination Transaction, a purchase, tender or exchange offer shall have been made to and accepted by the holders of the outstanding Common Shares, each holder of OP Units (but not Series A Preferred Units or any other class of Partnership Interests that is not directly redeemable for Common Shares) shall receive, or shall have the right to elect to receive, the greatest amount of cash, securities, or other property which such holder would have received had it exercised its exchange right (as set forth in Section 3.8) and received Common Shares in exchange for its OP Units immediately prior to the expiration of such purchase, tender or exchange offer and had thereupon accepted such purchase, tender or exchange offer and then such Termination Transaction shall have been consummated.

F. Whether or not Section 5(D) hereof is applicable, the General Partner may merge, or otherwise combine its assets, with another entity without satisfying the requirements of Section 5(E) hereof if: (i) immediately after such merger or other combination, substantially all of the assets directly or indirectly owned by the surviving entity, other than OP Units held by such General Partner, are owned directly or indirectly by the Partnership or another limited partnership or limited liability company which is the survivor of a merger, consolidation or combination of assets with the Partnership (in each case, the "Surviving Partnership"); (ii) the Limited Partners own a percentage interest of the Surviving Partnership based on the relative fair market value of the net assets of the Partnership (as determined pursuant to Section 5(G)) and the relative fair market value of the other net assets of the Surviving Partnership (as determined pursuant to Section 5(G)) immediately prior to the consummation of such transaction; (iii) the rights, preferences and privileges of each class of Limited Partners in the Surviving Partnership are at least as favorable as those in effect immediately prior to the consummation of such transaction and as those applicable to any other limited partners or non-managing members of the Surviving Partnership; and (iv) such rights of the Limited Partners include the right to exchange their interests in the Surviving Partnership for at least one of: (A) the consideration available to such Limited Partners pursuant to Section 5(E), or (B) if the ultimate controlling person of the Surviving Partnership has publicly traded common equal securities, such common equity securities, with an exchange ratio based on the relative fair market value of such securities (as determined pursuant to Section 5(G)) and the Common Shares.

G. In connection with any transaction permitted by Section 5(E) or 5(F), the relative fair market values shall be reasonably determined by the General Partner in good faith as

of the time of such transaction and, to the extent applicable, shall be no less favorable to the Limited Partners than the relative values reflected in the terms of such transactions.

6. Term. The term of the Partnership shall continue until the Partnership is terminated upon the occurrence of an event described in Section 14.1 below.

7. Allocations.

7.1 Profits. After giving effect to the special allocations set forth in Sections 7.3 and 7.4 hereof (including, without limitation, allocations to holders of Preferred Units pursuant to Section 7.3(H) and special allocations to holders of Special LTIP Units pursuant to Section 7.3(I)), Profits for any fiscal year shall be allocated among the Partners in proportion to their respective Percentage Interests.

7.2 Losses.

A. After giving effect to the special allocations set forth in Sections 7.3 and 7.4 hereof, Losses for any fiscal year shall be allocated among the Partners in proportion to their respective Percentage Interests.

B. The Losses allocated pursuant to Section 7.2(A) hereof shall not exceed the maximum amount of Losses that can be so allocated without causing any Limited Partner to have an Adjusted Capital Account Deficit at the end of any fiscal year. All Losses in excess of the limitations set forth in this Section 7.2(B) shall be allocated to the General Partner. For purposes of determining allocations of Losses pursuant to Section 7.2, an LTIP Unit Limited Partner shall be treated as having a separate Economic Capital Account Balance, and for this purpose a separate Capital Account with an appropriate share of Partnership Minimum Gain and Partner Minimum Gain shall be maintained, for its LTIP Units and a separate Capital Account for its OP Units, if applicable, and the Economic Capital Account Balance of each holder of OP Units shall not include any Economic Capital Account Balance attributable to other series or classes of Partnership Interests.

7.3 Special Allocations. Subject to Section 7.6 hereof, the following special allocations shall be made in the following order:

A. Minimum Gain Chargeback. Except as otherwise provided in Regulations Section 1.704-2(f), notwithstanding any other provision of this Section 7, if there is a net decrease in Partnership Minimum Gain during any fiscal year, each Partner shall be specially allocated items of Partnership income and gain for such fiscal year (and, if necessary, subsequent fiscal years) in an amount equal to such Partner's share of the net decrease in Partnership Minimum Gain, determined in accordance with Regulations Section 1.704-2(g). The items to be so allocated shall be determined in accordance with Regulations Section 1.704-2(f)(6) and 1.704-2(j)(2). This Section 7.3(A) is intended to comply with minimum gain chargeback requirements in Section 1.704-2(f) of the Regulations and shall be interpreted consistently therewith.

B. Partner Minimum Gain Chargeback. Except as otherwise provided in Regulations Section 1.704-2(i)(4), notwithstanding any other provision of this Section 7, if there is a net decrease in Partner Nonrecourse Debt Minimum Gain attributable to a Partner

Nonrecourse Debt during any Partnership fiscal year, each Partner who has a share of the Partner Nonrecourse Debt Minimum Gain attributable to such Partner Nonrecourse Debt determined in accordance with Regulations Section 1.704-2(i)(5) shall be specially allocated items of Partnership income and gain for such fiscal year (and, if necessary, subsequent fiscal years) in an amount equal to such Partner's share of the net decrease in Partner Nonrecourse Debt Minimum Gain attributable to such Partner Nonrecourse Debt, determined in accordance with Regulations Section 1.704-2(i)(4). The items to be so allocated shall be determined in accordance with Regulations Sections 1.704-2(i)(4) and 1.704-2(i)(2). This Section 7.3(B) is intended to comply with the minimum gain chargeback requirement in Regulations Section 1.704-2(i)(4) and shall be interpreted consistently therewith.

C. Qualified Income Offset. In the event any Partner unexpectedly receives any adjustments, allocations, or distributions described in Regulations Section 1.704-1(b)(2)(ii)(d)(4), Section 1.704-1(b)(2)(ii)(d)(5), or Section 1.704-1(b)(2)(ii)(d)(6), items of Partnership income and gain shall be specially allocated to each such Partner in an amount and manner sufficient to eliminate, to the extent required by the Regulations, the Adjusted Capital Account Deficit of such Partner as quickly as possible, provided that an allocation pursuant to this Section 7.3(C) shall be made only if and to the extent that such Partner would have an Adjusted Capital Account Deficit after all other allocations provided for this Section 7 have been tentatively made, as if this Section 7.3(C) were not in the Agreement.

D. Gross Income Allocation. In the event any Partner has an Adjusted Capital Account Deficit at the end of any Partnership fiscal year, each such Partner shall be specifically allocated items of Partnership income and gain in the amount of such excess as quickly as possible, provided that an allocation pursuant to this Section 7.3(D) shall be made only if and to the extent that such Partner would have an Adjusted Capital Account Deficit after all other allocations provided for in this Section 7 have been made as if Section 7.3(C) hereof and this Section 7.3(D) were not in the Agreement.

E. Nonrecourse Deductions. Nonrecourse Deductions for any fiscal year shall be allocated among the Partners in accordance with their respective Percentage Interests.

F. Partner Nonrecourse Deductions. Any Partner Nonrecourse Deductions for any fiscal year shall be specially allocated to the Partner who bears the economic risk of loss with respect to the Partner Nonrecourse Debt to which such Partner Nonrecourse Deductions are attributable, in accordance with Regulations Section 1.704-2(i)(1).

G. Section 754 Adjustments. The Partnership shall make a timely election under Section 754 such that the General Partner may adjust the tax basis of the Partnership assets pursuant to Section 743(b), if appropriate, upon an exchange of OP Units for Common Shares. In addition, to the extent an adjustment to the adjusted tax basis of any Partnerships asset pursuant to Code Sections 734(b) or 743(b) is required, pursuant to Regulations Section 1.704-1(b)(2)(iv)(m) to be taken into account in determining Capital Accounts as a result of a distribution to a Partner in complete liquidation of his interest in the Partnership, the amount of such adjustment to Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis) and such gain or loss shall be specifically allocated to the Partner in accordance with such Partner's Percentage

Interest in the event that Regulations Section 1.704-1(b)(2)(iv)(m)(2) applies, or the Partners to whom such distribution was made in the event that Regulations Section 1.704-1(b)(2)(iv)(m)(4) applies.

H. Allocations with Respect to Partnership Interests other than OP Units. In the event the Partnership issues additional classes of Preferred Units or other classes of Partnership Interests other than OP Units, then the General Partner shall determine, in its sole discretion, the Profits and Losses attributable to each class (subject to the requirement that the Profits attributed to any class must bear a reasonable relationship to the amount of cash distributions to that class) and shall allocate the Profits and Losses of each class of Partnership Interests among the Partners in such class in proportion to their respective percentage interests in such class, after giving effect to any and all special allocations set forth in Sections 7.3 and 7.4 above.

I. Special Interim Allocations. All or a portion of the Profits for a taxable year, if any, shall be specially allocated to the holders of Special LTIP Units, with respect to which the Special LTIP Unit Full Distribution Participation Date has occurred, in proportion to and to the extent of the aggregate distributions made, or to be made, with respect to a Special LTIP Unit with respect to a taxable period pursuant to the last sentence of Section 8.6 hereof.

J. Forfeiture Allocations. Upon a forfeiture of any unvested Partnership Interest by any Partner, gross items of income, gain, loss or deduction shall be allocated to such Partner if and to the extent required by final Regulations to ensure that allocations made with respect to all unvested Partnership Interests are recognized under Code Section 704(b).

K. Special Allocations With Respect to LTIP Units. After giving effect to the special allocations set forth in Sections 7.3(A) through 7.3(J) hereof, and notwithstanding the provisions of Sections 7.1 and 7.2 above, but subject to the prior allocation of Profits to holders of Preferred Units under Section 7.1 above, any Liquidating Gains shall first be allocated to the holders of LTIP Units until the Economic Capital Account Balances of such holders, to the extent attributable to their ownership of LTIP Units, are equal to (i) the OP Unit Economic Balance, multiplied by (ii) the number of their LTIP Units; provided that no such Liquidating Gains will be allocated with respect to any particular LTIP Unit unless, and such allocations, if any, shall be made only to the extent that, such Liquidating Gains, when aggregated with other Liquidating Gains realized by holders of LTIP Units since the issuance of such LTIP Unit, exceed Liquidating Losses realized since the issuance of such LTIP Unit. After giving effect to the special allocations set forth in Sections 7.3(A) through 7.3(K) hereof, and notwithstanding the provisions of Sections 7.1 and 7.2 above, in the event that, due to distributions with respect to OP Units in which the LTIP Units do not participate or otherwise, the Economic Capital Account Balance of any present or former holder of LTIP Units, to the extent attributable to the holder's ownership of LTIP Units, exceeds the target balance specified above, then Liquidating Losses shall be allocated to such holder, or at the option of the General Partner, Liquidating Gains may be allocated to the other Partners, to the extent necessary to reduce or eliminate the disparity. For this purpose, "Liquidating Gains" means any net gain realized in connection with the actual or hypothetical sale of all or substantially all of the assets of the Partnership (including upon the occurrence of any event of liquidation of the Partnership), including but not limited to net gain realized in connection with an adjustment to the Gross Asset Value of Partnership assets under

the definition of Gross Asset Value in Section 2 of this Agreement. Similarly, “Liquidating Losses” means any net loss realized in connection with any such event. The “Economic Capital Account Balances” of the holders of LTIP Units will be equal to their Capital Account balances, plus the amount of their shares of any Partner Nonrecourse Debt Minimum Gain or Partnership Minimum Gain, in either case to the extent attributable to their ownership of LTIP Units. Similarly, the “OP Unit Economic Balance” shall mean (i) the Capital Account balance of the General Partner, plus the amount of the General Partner’s share of any Partner Nonrecourse Debt Minimum Gain or Partnership Minimum Gain, in either case to the extent attributable to the General Partner’s ownership of OP Units and computed on a hypothetical basis after taking into account all allocations through the date on which any allocation is made under this Section 7.3(K), divided by (ii) the number of the General Partner’s OP Units. Any such allocations shall be made among the holders of LTIP Units in proportion to the amounts required to be allocated to each under this Section 7.3(K). The parties agree that the intent of this Section 7.3(K) is to make the Capital Account balance associated with each LTIP Unit economically equivalent to the Capital Account balance associated with the General Partner’s OP Units (on a per-unit basis), but only if the Partnership has sufficient cumulative net Liquidating Gains with respect to its assets since the issuance of the relevant LTIP Unit. The General Partner shall be permitted to interpret this Section 7.3(K) or to may make additional or corrective allocations to the extent necessary to achieve this intent. In the event that Liquidating Gains or Liquidating Losses are allocated under this Section 7.3(K), Profits allocable under Section 7.1 and any Losses shall be recomputed without regard to the Liquidating Gains or Losses so allocated.

7.4

Curative Allocations. The allocations set forth in Sections 7.2(B), 7.3(A), 7.3(B), 7.3(C), 7.3 (D), 7.3(E), 7.3(F) and 7.3(G) hereof (the “Regulatory Allocations”) are intended to comply with certain requirements of the Regulations under Section 704(b) of the Code. It is the intent of the Partners that, to the extent possible, all Regulatory Allocations shall be offset either with other Regulatory Allocations or with special allocations of other items of Partnership income, gain, loss, or deduction pursuant to this Section 7.4. Therefore, notwithstanding any other provision of this Section 7 (other than Regulatory Allocations and Section 7.6), the General Partner shall make such offsetting special allocations of Partnership income, gain, loss, or deduction in whatever manner it determines appropriate so that, after such offsetting allocations are made, each Partner’s Capital Account balance is, to the extent possible, equal to the Capital Account balance such Partner would have had if the Regulatory Allocations were not part of the Agreement and all Partnership items were allocated pursuant to Sections 7.1, 7.2(A), 7.3(H), 7.3(I) and 7.3(K). In exercising this discretion under this Section 7.4, the General Partner shall take into account future Regulatory Allocations that, although not yet made, are likely to offset other Regulatory Allocations previously made.

7.5

Other Allocation Rules.

A.

For purposes of determining the Profits, Losses, or any other items allocable to any period, Profits, Losses, and any such other items shall be determined on a daily, monthly or other basis, as determined by the General Partner using any permissible method under Code Section 706 and the Regulations thereunder.

B. The Partners are aware of the income tax consequences of the allocations made by this Section 7 and hereby agree to be bound by the provisions of this Section 7 in reporting their shares of Partnership income and loss for income tax purposes.

C. Solely for purposes of determining a Partner's proportionate share of the "excess nonrecourse liabilities" of the Partnership within the meaning of Regulations Section 1.752-3(a)(3), the Partners' interests in Partnership Profits are equal to their respective Percentage Interests.

7.6 Tax Allocations: Code Section 704(c).

A. Notwithstanding any other provision herein to the contrary, income, gain, loss, and deduction with respect to any property contributed to the capital of the Partnership shall, solely for tax purposes, be allocated among the Partners so as to take account of any variation between the adjusted basis of such property to the Partnership for federal income tax purposes and its initial Gross Asset Value in accordance with Code Section 704(c) and Regulations Section 1.704-3 using the "traditional method" unless otherwise determined by the General Partner and the Contributing Partner.

B. In the event the Gross Asset Value of any Partnership asset is adjusted pursuant to the definition of "Gross Asset Value" contained in Section 2 hereof, subsequent allocations of income gain, loss, and deduction with respect to such asset shall take account of any variation between the adjusted basis of such asset for federal income tax purposes and its Gross Asset Value in the same manner as set forth in Section 7.6A above.

C. Allocations pursuant to this Section 7.6 are solely for purposes of federal, state, and local taxes and shall not affect, or in any way be taken into account in computing, any Partner's Capital Account or share of Profits, Losses, other items, or distributions pursuant to any provision in this Agreement.

8. Cash Available for Distribution.

8.1 Operating Cash Flow. As used in this Agreement, "Operating Cash Flow" shall mean and be defined as all cash receipts of the Partnership from whatever source (but excluding Capital Cash Flow and proceeds of Capital Contributions) during the period in question in excess of all items of Partnership expense (including prepaid expense, financing costs and similar items but excluding non-cash expenses such as depreciation and costs and expenses paid with Capital Contributions) and other cash needs of the Partnership, including, without limitation, amounts paid by the Partnership as principal on debts and advances, during such period, capital expenditures and any reserves (as reasonably determined by the General Partner) established or increased during such period provided that the expenses listed in Section 8.2 shall not be considered expenses under this Section 8.1. Subject to Section 8.6 below, Operating Cash Flow shall be distributed to or for the benefit of the Partners not less frequently than annually, and shall be distributed (i) first, to holders of any class of Preferred Units in accordance with their Percentage Interests in an amount equal to all preferential distributions on such Preferred Units as set forth in the Unit Certificate for such class and at the times set forth therein, and (ii)

thereafter, to the extent of the remaining amount, to and among the other Partners in accordance with their respective Percentage Interests; or

8.2 Capital Cash Flow. As used in this Agreement, “Capital Cash Flow” shall mean and be defined as collectively (a) gross proceeds realized in connection with the sale of any assets of the Partnership, (b) gross financing or refinancing proceeds, (c) gross condemnation proceeds (excluding condemnation proceeds applied to restoration of remaining property) and (d) gross insurance proceeds (excluding rental insurance proceeds or insurance proceeds applied to restoration of property), less (a) closing costs, (b) the cost to discharge any Partnership financing encumbering or otherwise associated with the asset(s) in question, (c) the establishment of reserves (as determined by the General Partner, and which may include cash held for future acquisitions), and (d) other expenses of the Partnership then due and owing. Subject to Sections 8.6 and 14.2 below, Capital Cash Flow shall be distributed to or for the benefit of the Partners not less frequently than annually, and in any event as provided in the Unit Certificate and shall be distributed first to the holders of Preferred Units in the order of their preference and next to the other Partners, in accordance with the respective Percentage Interests of the Partners on the date of such distribution.

8.3 Consent to Distributions. Each of the Partners hereby consents to the distributions provided for in this Agreement. The General Partner shall determine, in accordance with the terms of this Agreement and the Unit Certificates, the amounts to be distributed to the Partners from time to time.

8.4 Distributions to General Partner’s Shareholders. To the extent available after providing for the preferences and the rights of the Partners, Operating Cash Flow and Capital Cash Flow shall be distributed to the General Partner in the amount necessary to satisfy the payment of distributions to the General Partner’s shareholders as such distributions are determined by the General Partner.

8.5 Additional Classes of Partnership Interests. Notwithstanding the foregoing provisions of this Article 8, in the event the Partnership issues additional classes of Partnership Interests other than OP Units, then the General Partner shall determine, in its sole discretion (subject to Section 7.3(H)), the amount of distributions of Operating Cash Flow and Capital Cash Flow attributable to each class in accordance with the Unit Certificates and shall distribute such Operating Cash Flow and Capital Cash Flow to each class of Partnership Interests among the Partners in such class in proportion to their respective Percentage Interests in such class or otherwise as required pursuant to the terms of such Partnership Interests.

8.6 Distributions to LTIP Unit Limited Partners. For purposes of the foregoing calculations of Sections 8.1 and 8.2, issued and outstanding LTIP Units (including, for the avoidance of doubt, Special LTIP Units) shall be treated as outstanding OP Units. For the avoidance of doubt, Special LTIP Units for which the Special LTIP Unit Full Distribution Participation Date has not occurred as of the Partnership Record Date for a particular distribution shall be entitled to such distribution only to the extent they are included in the calculation of Percentage Interest as of the Partnership Record Date for such distribution. Notwithstanding the other provisions of Article 8, but subject to distributions to holders of Preferred Units in accordance with clause (i) in each of Sections 8.1 and 8.2, with respect to a Special LTIP Unit,

upon the Special LTIP Unit Full Distribution Participation Date, Operating Cash Flow and Capital Cash Flow shall be distributed to the holder of such Special LTIP Unit in an amount equal to the Interim Distribution Amount; provided, however, the amount distributed in any taxable period shall not exceed the amount of Profits allocated to such holder pursuant to Section 7.3(I) for such taxable period; and provided, further, that, to the extent the entire amount of the Interim Distribution Amount cannot be made in a taxable period, the remaining Interim Distribution Amount will be carried forward to the next taxable period and distributed to the extent of Profits allocated to such holder pursuant to Section 7.3(I) in such following taxable period.

9. Management of Partnership.

9.1 General Partner. The General Partner shall be the sole manager of the Partnership business, and shall have the right and power to make all decisions and take any and every action with respect to the property, the business and affairs of the Partnership and shall have all the rights, power and authority generally conferred by law, or necessary, advisable or consistent with accomplishing the purposes of the Partnership. All such decisions or actions made or taken by the General Partner hereunder shall be binding upon all of the Partners and the Partnership. The powers of the General Partner to manage the Partnership business shall include, without limitation, the power and authority to:

(i) operate any business normal or customary for the owner of or investor in real properties;

(ii) perform any and all acts necessary or appropriate to the operation of the Partnership assets, including, but not limited to, applications for rezoning, objections to rezoning of other property and the establishment of bank accounts in the name of the Partnership;

(iii) procure and maintain with responsible companies such insurance as may be available in such amounts and covering such risks as are deemed appropriate by the General Partner;

(iv) take and hold all real, personal and mixed property of the Partnership in the name of the Partnership or in the name of a nominee;

(v) execute and deliver leases on behalf of and in the name of the Partnership;

(vi) borrow money, finance and refinance the assets of the Partnership or any part thereof or interest therein and in connection with such borrowing, execute and deliver documents that evidence and secure the loans which permit the holders of the loans to confess judgment against the Partnership;

(vii) (coordinate all accounting and clerical functions of the Partnership and employ such accountants, lawyers, property managers, leasing agents and other management or service personnel as may from time to time be required to carry on the business of the Partnership;

(viii) acquire, encumber, sell, ground lease or otherwise dispose of any or all of the assets of the Partnership, or any part thereof or interest therein; and

(ix) organize one or more partnerships or corporations which are controlled, directly or indirectly, by the Partnership and make any capital contributions required pursuant to the partnership agreements of any such partnerships.

9.2 Limitations on Powers and Authorities of Partners. Notwithstanding the powers of the General Partner set forth in Section 9.1 above, no Partner shall have the right or power to do any of the following:

(i) do any act in contravention of this Agreement, or any amendment hereto; or

(ii) do any act which would make it impossible to carry on the ordinary business of the Partnership, except to the extent that such act is specifically permitted by the terms hereof (it being understood and agreed that a sale of any or all of the assets of the Partnership, for example, would be an ordinary part of the Partnership's business and affairs and is specifically permitted hereby.

9.3 Limited Partners. The Limited Partners shall have no right or authority to act for or to bind the Partnership and no Limited Partner shall participate in the conduct or control of the Partnership's affairs or business; provided, however, that the exercise of the Limited Partners' rights under this Agreement shall not be considered to be participation in such conduct or control.

9.4 Liability of General Partner. The General Partner shall not be liable or accountable, in damages or otherwise, to the Partnership or to any other Partner for any error of judgment or for any mistakes of fact or law or for anything which it may do or refrain from doing hereafter in connection with the business and affairs of the Partnership except (i) in the case of fraud, willful misconduct (such as an intentional breach of fiduciary duty or an intentional breach of this Agreement) or gross negligence, and (ii) for other breaches of this Agreement, but the liability of the General Partner under this clause (ii) shall be limited to its interest in the Partnership as more particularly provided for in Section 9.8 below. The General Partner shall not have any personal liability for the return of any Limited Partner's capital.

9.5 Indemnity. The Partnership shall indemnify and shall hold the General Partner (and the officers and directors thereof) harmless from any loss or damage, including without limitation reasonable legal fees and court costs, incurred by it by reason of anything it may do or refrain from doing hereafter for and on behalf of the Partnership or in connection with its business or affairs; provided, however, that (i) the Partnership shall not be required to indemnify the General Partner (or any officer or director thereof) for any loss or damage which it might incur as a result of its fraud, willful misconduct or gross negligence in the performance of its duties hereunder and (ii) this indemnification shall not relieve the General Partner of its proportionate part of the obligations of the Partnership as a Partner. The right of indemnification

set forth in this Section 9.5 shall be in addition to any rights to which the person or entity seeking indemnification may otherwise be entitled and shall inure to the benefit of the successors and assigns or any such person or entity. No Partner shall be personally liable with respect to any claim for indemnification pursuant to this Section 9.5, but such claim shall be satisfied solely out of assets of the Partnership. Notwithstanding the foregoing provisions of this Section 9.5, the General Partner shall be entitled to reimbursement by the Partnership for any amounts paid by it in satisfaction of indemnification obligations owed by the General Partner to present or former directors of the General Partner or its predecessors, as provided for in or pursuant to the Articles of Incorporation and By-Laws of the General Partner.

9.6

Other Activities of Partners and Agreements with Related Parties.

The General Partner shall devote its full-time efforts in furtherance of the Partnership business and shall conduct all of its activities exclusively through the Partnership and shall not conduct or engage in any way in any other business; provided, however, that the General Partner may enter into or conduct business through a wholly owned subsidiary or otherwise if such business is in connection with, or incidental to, the management of the business of the Partnership. Except as may otherwise be agreed to in writing, each Limited Partner, and its affiliates, shall be free to engage in, to conduct or to participate in any business or activity whatsoever, including, without limitation, the acquisition, development, management and exploitation of real and personal property (other than property of the Partnership), without any accountability, liability or obligation whatsoever to the Partnership or to any other Partner, even if such business or activity competes with or is enhanced by the business of the Partnership. The General Partner, in the exercise of its power and authority under this Agreement, may contract and otherwise deal with or otherwise obligate the Partnership to entities in which the General Partner or any one or more of the officers, directors or shareholders of the General Partner may have an ownership or other financial interest, whether direct or indirect; provided, however, that without the approval of a majority of the disinterested trustees of the General Partner, the General Partner will not (i) acquire from or sell to any trustee, officer or employee of the General Partner or the Partnership, or any person in which a trustee, officer or employee of the General Partner or the Partnership owns more than a 1% interest, or acquire from or sell to any affiliate of any of the foregoing, any of the assets or other property of the General Partner, (ii) make any loan to or borrow from any of the foregoing persons, (iii) engage in any other transaction with any of the foregoing persons or (iv) dispose of any of the initial 31 properties set forth on Schedule B hereto; provided further that the foregoing shall not affect, or be deemed a waiver by the Limited Partners of, the General Partner's fiduciary obligations to the Partnership.

9.7

Other Matters Concerning the General Partner.

A.

The General Partner shall be protected in relying, acting or refraining from acting on any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, debenture, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

B.

The General Partner may exercise any of the powers granted or perform any of the duties imposed by this Agreement either directly or through agents. The General Partner may consult with counsel, accountants, appraisers, management consultants, investment bankers and other consultants selected by it, each of whom may serve as consultants for the

Partnership. An opinion by any consultant on a matter which the General Partner believes to be within its professional or expert competence shall be full and complete protection as to any action taken or omitted by the General Partner based on the opinion and taken or omitted in good faith. The General Partner shall not be responsible for the misconduct, negligence, acts or omissions of any consultant or contractor of the Partnership or of the General Partner, and shall assume no obligations other than to use due care in the selection of all consultants and contractors.

C. No mortgagee, grantee, creditor or any other person dealing with the Partnership shall be required to investigate the authority of the General Partner or secure the approval of or confirmation by any Limited Partner of any act of the General Partner in connection with the conduct of the Partnership business.

D. The General Partner may retain such persons or entities as it shall determine (subject to Section 9.6, including the General Partner or any entity in which the General Partner shall have an interest or with which it is affiliated) to provide services to or on behalf of the Partnership. The General Partner shall be entitled to reimbursement from the Partnership for its out-of-pocket expenses (subject to Section 9.6, including, without limitation, amounts paid or payable to the General Partner or any entity in which the General Partner shall have an interest or with which it is affiliated) incurred in connection with Partnership business. Such expenses shall be deemed to include those expenses required in connection with the administration of the Partnership such as the maintenance of Partnership books and records, management of the Partnership property and assets and preparation of information respecting the Partnership needed by the Partners in the preparation of their individual tax returns.

9.8 Partner Exculpation.

A. Except for fraud, willful misconduct and gross negligence, no Partner shall have any personal liability whatever, whether to the Partnership or to the other Partner, for the debts or liabilities of the Partnership or its obligations hereunder, and the full recourse of the other Partner shall be limited to the interest of that Partner in the Partnership. To the fullest extent permitted by law, no officer, director or shareholder of the General Partner shall be liable to the Partnership for money damages except for (i) active and deliberate dishonesty established by a final judgment or (ii) actual receipt of an improper benefit or profit in money, property or services. Without limitation of the foregoing, and except for fraud, willful misconduct and gross negligence, no property or assets of any Partner, other than its interest in the Partnership, shall be subject to levy, execution or other enforcement procedures for the satisfaction of any judgment (or other judicial process) in favor of any other Partner(s) and arising out of, or in connection with, this Agreement. This Agreement is executed by the officers of each Partner solely as officers of the same and not in their own individual capacities. No advisor, trustee, director, officer, partner, employee, beneficiary, shareholder, participant or agent of any Partner (or of any Partner of a Partner) shall be personally liable in any matter or to any extent under or in connection with this Agreement, and the Partnership, each Partner and their respective successors and assigns shall look solely to the interest of the other Partner in the Partnership for the payment of any claim or for any performance hereunder.

A. All costs and expenses incurred by the General Partner in connection with its activities as the General Partner hereunder, all costs and expenses incurred by the General Partner in connection with its continued corporate existence, qualification as a Real Estate Investment Trust under the Code and otherwise, and all other liabilities incurred or suffered by the General Partner in connection with the pursuit of its business and affairs as contemplated hereunder and in connection with its activities as the General Partner hereunder, shall be paid (or reimbursed to the General Partner, if paid by the General Partner) by the Partnership.

B. Notwithstanding any provisions to the contrary set forth in this Agreement, the amount of any distributions, payments or reimbursements pursuant to this Agreement to the General Partner shall be reduced by any amount derived by the General Partner from any investments owned directly by the General Partner (including without limitation amounts derived from its ownership of those subsidiaries described in Section 9.6).

C. Notwithstanding anything contained herein to the contrary, if the proceeds actually received and thereafter contributed to the Partnership by the General Partner pursuant to any additional issuance as described in Section 3.2(B) are less than the gross proceeds of such issuance as a result of any underwriter's discount or other expenses paid or incurred in connection with such issuance, then the General Partner shall be deemed to have made a Capital Contribution to the Partnership in the amount of the gross proceeds of such issuance and the Partnership shall be deemed simultaneously to have reimbursed the General Partner pursuant to this Section 9.9 for the amount of such underwriter's discount or other expenses.

10. Banking. The funds of the Partnership shall be kept in accounts designated by the General Partner and all withdrawals therefrom shall be made on such signature or signatures as shall be designated by the General Partner.

11. Accounting.

11.1 Fiscal Year. The fiscal year of the Partnership shall end on the last day of December of each year, unless another fiscal year end is selected by the General Partner.

11.2 Books of Account. The Partnership books of account shall be maintained at the principal office designated in Section 4 above or at such other locations and by such person or persons as may be designated by the General Partner. The Partnership shall pay the expense of maintaining its books of account. Each Partner shall have, during reasonable business hours and upon reasonable prior notice, access to the books of the Partnership and in addition, at its expense, shall have the right to copy such books. The General Partner, at the expense of the Partnership, shall cause to be prepared and distributed to the Partners annual financial data sufficient to reflect the status and operations of the Partnership and its assets and to enable each Partner to file its federal income tax return.

11.3 Method of Accounting. The Partnership books of account shall be maintained and kept, and its income, gains, losses and deductions shall be accounted for, in accordance with sound principles of accounting consistently applied, or such other method of accounting as may be adopted hereafter by the General Partner. All elections and options

available to the Partnership for Federal or state income tax purposes shall be taken or rejected by the Partnership in the sole discretion of the General Partner.

11.4 Section 754 Election. In case of a distribution of property made in the manner provided in Section 734 of the Code (or any similar provision enacted in lieu thereof), or in the case of a transfer of any interest in the Partnership permitted by this Agreement made in the manner provided in Section 743 of the Code (or any similar provision enacted in lieu thereof), the General Partner, on behalf of the Partnership, may, in its sole discretion, file an election under Section 754 of the Code (or any similar provision enacted in lieu thereof) in accordance with the procedures set forth in the applicable Regulations.

11.5 Tax Matters Partner. The General Partner is hereby designated the Tax Matters Partner (hereinafter referred to as the “TMP”) of the Partnership and shall have all the rights and obligations of the TMP under the Code.

11.6 Administrative Adjustments. If the TMP receives notice of a Final Partnership Administrative Adjustment (the “FPAA”) or if a request for an administrative adjustment made by the TMP is not allowed by the United States Internal Revenue Service (the “IRS”) and the IRS does not notify the TMP of the beginning of an administrative proceeding with respect to the Partnership’s taxable year to which such request relates (or if the IRS so notifies the TMP but fails to mail a timely notice of an FPAA), the TMP may, but shall not be obligated to, petition a Court for readjustment of partnership items. In the case of notice of an FPAA, if the TMP determines that the United States District Court or Claims Court is the most appropriate forum for such a petition, the TMP shall notify each person who was a Partner at any time during the Partnership’s taxable year to which the IRS notice relates of the approximate amount by which its tax liability would be increased (based on such assumptions as the TMP may in good faith make) if the treatment of partnership items on his return was made consistent with the treatment of partnership items on the Partnership’s return, as adjusted by the FPAA. Unless each such person deposits with the TMP, for deposit with the IRS, the approximate amount of his increased tax liability, together with a written agreement to make additional deposits if required to satisfy the jurisdictional requirements of the Court, within thirty days after the TMP’s notice to such person, the TMP shall not file a petition in such Court. Instead, the TMP may, but shall not be obligated to, file a petition in the United States District Tax Court.

11.7 Safe Harbor Election. To the extent provided for in Regulations, revenue rulings, revenue procedures and/or other IRS guidance issued after the date hereof, the Partnership is hereby authorized to, and at the direction of the General Partner shall, elect a safe harbor under which the fair market value of any Partnership Interests issued after the effective date of such Regulations (or other guidance) will be treated as equal to the liquidation value of such Partnership Interests (i.e., a value equal to the total amount that would be distributed with respect to such interests if the Partnership sold all of its assets for their fair market value immediately after the issuance of such Partnership Interests, satisfied its liabilities (excluding any nonrecourse liabilities to the extent the balance of such liabilities exceed the fair market value of the assets that secure them) and distributed the net proceeds to the Partners under the terms of this Agreement). In the event that the Partnership makes a safe harbor election as described in the preceding sentence, each Partner hereby agrees to comply with all safe harbor

requirements with respect to transfers of such Partnership Interests while the safe harbor election remains effective.

11.8

Partnership Representative.

A.

This Section 11.8 applies to taxable years of the Partnership with respect to which Subchapter C of Chapter 63 of the Code as enacted pursuant to Section 1101 of the Bipartisan Budget Act of 2015, P.L. 114-74, as amended from time to time, is applicable.

B.

The General Partner shall be the partnership representative of the Partnership under Section 6223(a) of the Code (the "Partnership Representative"). The Partnership Representative shall have the sole authority to act on behalf of the Partnership in any controversies or proceedings with or other matters involving the IRS or any state, local or non-U.S. taxing authority (provided that Section 11.6 of this Agreement regarding choice of judicial forum shall apply in the case of the Partnership Representative in a manner comparable to the manner in which it applies to the TMP). The Partnership Representative shall be entitled to take such actions on behalf of the Partnership in any and all dealings with the IRS and any other such taxing authority as it determines to be appropriate and any decision made or action taken by the Partnership Representative shall be binding on all Partners.

C.

The Partners agree timely to provide information reasonably requested by the Partnership Representative and otherwise to cooperate in good faith with the Partnership Representative (including by filing amended returns pursuant to Section 6225(c)(2) of the Code upon request of the Partnership Representative). Each Partner shall, on such Partner's tax returns, treat each item of income, gain, loss, deduction or credit attributable to the Partnership in a manner which is consistent with the treatment of such income, gain, loss, deduction or credit on the Partnership's tax returns.

D.

The Partnership Representative may, to the extent permitted by law, make an election under Section 6226 of the Code and/or Section 6227(b)(2) of the Code with respect to any imputed underpayment of the Partnership (a "Push Out Election").

E.

In the event a Push Out Election is not made, the Partnership Representative shall allocate any assessed amount under Section 6221 of the Code, any imputed underpayment or other adjustment under Section 6225 of the Code, any administrative adjustment under Section 6227(b)(1) of the Code or any other amount paid or payable by the Partnership to the IRS or another taxing authority among current or former Partners in such manner as the Partnership Representative shall in good faith deem appropriate, and such current or former Partners shall pay to the Partnership their respective shares of any amounts so paid or payable by the Partnership (including interest, penalties, additions to tax and additional amounts) within thirty (30) days after request therefor by the Partnership Representative. A current or former Partner that does not timely pay any amount so due to the Partnership shall reimburse the Partnership upon demand by the Partnership Representative for any costs of collection, and any amount not paid when due by a current or former Partner (including costs of collection) shall bear interest at the Default Rate. The Partnership may withhold from any distribution under Section 8 of this Agreement or from any other amount payable to a current or former Partner any such amount not paid to the Partnership when due including interest accrued thereon. In the

event the Partnership shall obtain a refund of any amount paid by it to the IRS or another taxing authority out of funds provided (or reimbursed to the Partnership) by current or former Partners, the Partnership shall pay over such amounts to such Partners in such manner as the Partnership Representative shall in good faith deem appropriate.

F. In the event that the Partnership is a partner in another partnership or is an owner in another entity that is classified as a partnership for Federal income tax purposes, and such other partnership or entity makes a pass through election in respect of the Partnership, requires the Partnership to file an amended return or pays an amount to the IRS, in each case under the partnership audit rules referred to in this Section 11.8, then the Partnership Representative shall take such action as it may in good faith deem appropriate in order to apply the foregoing provisions of this Section 11.8 or the principles thereof to the same.

G. The Partnership shall indemnify and hold the Partnership Representative (and the officers and directors thereof) harmless from any loss or damage, including without limitation reasonable legal fees and court costs, incurred by it as a result of its acting as Partnership Representative hereunder, provided that the Partnership shall not be required so to indemnify the Partnership Representative (or any officer or director thereof) for any loss or damage which it might incur as a result of its fraud, willful misconduct or gross negligence in the performance of its duties hereunder.

H. The obligations of each current and former Partner of the Partnership under this Section 11.8 shall survive the transfer or redemption of such Partner's interest in the Partnership and the termination of this Agreement or the dissolution of the Partnership.

For purposes of this Agreement, the terms and provisions of this Section 11.8 shall be referred to herein, collectively, as the "Tax Code Modifications".

12. Transfers of Partnership Interests.

A. General Partner. In no event may the General Partner at any time assign, sell, transfer, pledge, hypothecate or otherwise dispose of all or any portion of its Partnership Interest, except by operation of law and in a manner consistent with the rights of other Partners.

B. Limited Partner.

(i) No Limited Partner or substituted Limited Partner shall, without the prior written consent of the General Partner (which consent may be given or withheld in the sole discretion of the General Partner), sell, assign, distribute or otherwise transfer (a "Transfer") all or any part of his interest in the Partnership except by operation of law, gift (outright or in trust) or by sale, in each case to or for the benefit of a Permitted Transferee (as defined below), except for (a) pledges or other collateral transfers effected by a Limited Partner to secure the repayment of a loan and (b) the exchange of OP Units for Common Shares, pursuant to Section 3.8 above. For purposes of this Section 12(B)(i), the term "Permitted Transferee" means (i) any partner or other equity owner of a Limited Partner; (ii) an equity owner of any partner or other equity owner of a Limited Partner; (iii) members of the Immediate Family (as defined below) of any equity owner of a

Limited Partner (or any equity owner thereof) and trusts for the benefit of one or more members of the Immediate Family of the Limited Partner (or any equity owner thereof) created for a state and/or gift tax purposes and/or (iv) any public charity, public foundation or charitable institution as defined in Section 501(c)(3) of the Code or (v) any entity entirely owned and controlled by the Limited Partner or by any of the persons or entities described in clauses (i) through (iv). For purposes of this Section 12(B)(i), the term "Immediate Family" means, with respect to any natural person, such natural person's spouse, parents, parents-in-law, descendants, nephews, nieces, brothers, sisters, brothers-in-law, sisters-in-law and children-in-law. A Limited Partner shall notify the General Partner of any Transfer of beneficial interest or other interest which occurs without a transfer of record ownership, as well as any pledge or other collateral transfer. No part of the interest of a Limited Partner shall be subject to the claims of any creditor, any spouse for alimony support, or to legal process, and may not be voluntarily or involuntarily alienated or encumbered except as may be specifically provided for in this Agreement. A Limited Partner shall not be permitted to retire or withdraw from the Partnership except as expressly permitted by this Agreement.

(ii) An assignee, legatee, distributee or other transferee (whether by conveyance, will or the laws of intestacy, operation of law or otherwise) (a "Transferee") of all or any portion of a Limited Partner's interest in the Partnership shall be entitled to receive Profits, Losses and distributions hereunder attributable to such interest acquired by reason of such Transfer, from and after the effective date of the Transfer of such interest; provided, however, anything in this Agreement to the contrary notwithstanding, (a) no Transferee shall be considered a substituted Limited Partner until such Transfer has been consented to by the General Partner and (b) the Partnership and the General Partner shall be entitled to treat the transferor of such interest as the absolute owner thereof in all respects, and shall incur no liability for the allocation of Profits and Losses or distributions which are made to such transferor until such time as the written instrument of Transfer has been received by the General Partner and the "effective date" of the Transfer has passed. The "effective date" of any Transfer shall be the last day of the month set forth on the written instrument of Transfer or such other date consented to in writing by the General Partner as the "effective date."

C. Admission Adjustments. The General Partner shall, when necessary, cause this Agreement to be amended from time to time to reflect the addition or withdrawal of • Partners, including the corresponding adjustments to Percentage Interests in accordance with Section 3.2(C).

13. Death, Legal Incompetency, Etc. of a Limited Partner. The death, legal incompetency, insolvency, dissolution or bankruptcy of a Limited Partner shall not dissolve or terminate the Partnership. Upon the death or incapacity of an individual Limited Partner, such individual Limited Partner's interest in the Partnership shall be transferred either by will, the laws of intestacy or otherwise to the legal representative or successor of such individual Limited Partner.

14. Termination, Liquidation and Dissolution of Partnership.

14.1 Termination Events. The Partnership shall be dissolved and its affairs wound up in the manner hereinafter provided upon the earliest to occur of the following events:

- (i) December 31, 2080; or
- (ii) the agreement of those Partners holding at least ninety-five percent (95%) of the Percentage Interests of all of the Partners entitled to vote, determining that the Partnership should be dissolved; or
- (iii) the entry of a final judgment, order or decree of a court of competent jurisdiction adjudicating as bankrupt either the Partnership or the General Partner, and the expiration without appeal of the period, if any, allowed by applicable law to appeal therefrom.

14.2 Method of Liquidation. Upon the happening of any of the events specified in Section 14.1 above, the General Partner (or if there be no General Partner, a liquidating trustee selected by those Limited Partners holding in the aggregate more than fifty percent (50%) of the Percentage Interests held by all Limited Partners entitled to vote) shall immediately commence to wind up the Partnership's affairs and shall liquidate the assets of the Partnership as promptly as possible, unless the General Partner, or the liquidating trustee, shall determine that an immediate sale of Partnership assets would cause undue loss to the Partnership, in which event the liquidation may be deferred to a reasonable time. The Partners shall continue to share Operating Cash Flow, Capital Cash Flow, Profits and Losses during the period of liquidation in the same proportions as before dissolution. The proceeds from liquidation of the Partnership, including repayment of any debts of Partners to the Partnership, shall be applied in the order of priority as follows:

A. Debts of the Partnership, including repayment of principal and interest on loans and advances made by the General Partner pursuant to Section 3.3 above; then

B. To the establishment of any reserves deemed necessary or appropriate by the General Partner, or by the person(s) winding up the affairs of the Partnership in the event there is no remaining General Partner of the Partnership, for any contingent or unforeseen liabilities or obligations of the Partnership. Such reserves established hereunder shall be held for the purpose of repaying any such contingent or unforeseen liabilities or obligations and, at the expiration of such period as the General Partner, or such person(s) deems advisable, the balance of such reserves shall be distributed in the manner provided hereinafter in this Section 14.2 as though such reserves had been distributed contemporaneously with the other funds distributed hereunder; then

C. Then, to the Partners in accordance with their respective Capital Account balances, after giving effect to all contributions, distributions and allocations for all periods.

14.3 Date of Termination. The Partnership shall be terminated when all notes received in connection with such disposition have been paid and all of the cash or property

available for application and distribution under Section 14.2 above (including reserves) shall have been applied and distributed in accordance therewith.

15. Power of Attorney. Each Limited Partner hereby irrevocably constitutes and appoints the President of the General Partner, with full power of substitution, its true and lawful attorney, for him and in his name, place and stead and for his use and benefit to do the following and for no other purpose and provided the taking of any action authorized under this Section will not result in any liability to the Limited Partners, to sign, swear to, acknowledge, file and record:

(i) this Agreement, and subject to Section 16 below, amendments to this Agreement;

(ii) any certificates, instruments and documents (including assumed and fictitious name certificates) as may be required by, or may be appropriate under, the laws of the State of Delaware or any other State or jurisdiction in which the Partnership is doing or intends to do business, in order to discharge the purposes of the Partnership or otherwise in connection with the use of the name or names used by the Partnership;

(iii) any other instrument which may be required to be filed or recorded by the Partnership on behalf of the Partners under the laws of any State or by any governmental agency in order for the Partnership to conduct its business;

(iv) any documents which may be required to effect the continuation of the Partnership, the admission of a substitute or additional Partner, or the dissolution and termination of the Partnership, provided such continuation, admission or dissolution and termination is not in violation of any provision of this Agreement; and

(v) any documents which may be required or desirable to have the General Partner appointed, and act as, the "Tax Matters Partner" as described in the Code.

The foregoing grant of authority is a special power of attorney coupled with an interest, is irrevocable and shall survive the death or incapacity of any individual Limited Partner, and shall survive the delivery of any assignment by a Limited Partner of the whole or any portion of his interest in the Partnership.

16. Amendment of Agreement.

A. (i) Amendments to this Agreement may only be proposed by the General Partner.

(ii) (a) The General Partner shall submit any proposed amendment to the Limited Partners.

(b) The General Partner shall seek the written vote of the Partners on the proposed amendment or shall call a meeting to vote thereon and to transact any other business that it may deem appropriate.

(c) For purposes of obtaining a written vote, the General Partner may require a response within a reasonable specified time, but not less than fifteen (15) days, and failure to respond in such time period shall constitute a vote which is consistent with the General Partner's recommendation with respect to the proposal.

(d) Except as provided in Section 16(B) or 16(C), a proposed amendment shall be adopted and be effective as an amendment hereto if it is approved by the General Partner and it receives the consent of Partners holding at least a majority of the Percentage Interests of the Partners (including Partnership Interests held by the General Partner).

B. (i) Notwithstanding anything to the contrary contained in Section 16(A), the General Partner shall have the power, without the consent of the Limited Partners, to amend this Agreement as may be required to facilitate or implement any of the following purposes:

(a) to add to the obligations of the General Partner or surrender any right or power granted to the General Partner or any Affiliate of the General Partner for the benefit of the Limited Partners;

(b) to reflect the admission, substitution, termination, or withdrawal of Partners in accordance with this Agreement (which may be effected through the amendment or without amendment on the books and records of the Partnership maintained for such purpose by the Partnership);

(c) to set forth the designations, rights, powers, duties, and preferences of the holders of any additional Partnership Interests issued pursuant to Section 3.2 hereof;

(d) to reflect a change that does not adversely affect the Limited Partners in any material respect, or to cure any ambiguity, correct or supplement any provision in this Agreement not inconsistent with law or with other provisions, or make other changes with respect to matters arising under this Agreement that will not be inconsistent with law or with the provisions of this Agreement; and

(e) to satisfy any requirements, conditions, or guidelines contained in any order, directive, opinion, ruling or regulation of a federal or state agency or contained in federal or state law.

(ii) The General Partner shall promptly provide notice to the Limited Partners when any action under this Section 16(B) is taken.

C. Notwithstanding Sections 16(A) and 16(B) hereof, this Agreement shall not be amended with respect to any Partner adversely affected without the consent of such Partner(s) adversely affected if such amendment would adversely affect such Partner and:

- (i) convert a Limited Partner's interest in the Partnership into a General Partner Interest;
- (ii) modify the limited liability of a Limited Partner;
- (iii) alter rights of the Partner to receive distributions pursuant to Section 8 or the allocations specified in Section 7 (except as permitted pursuant to Sections 3.2, 7, 8 and Section 14.1(B)(i) hereof);
- (iv) alter rights of the Partner to convert OP Units pursuant to Section 3.8;
- (v) further limit the rights of a Limited Partner to transfer its interest in the Partnership other than as set forth in Section 12; or
- (vi) amend Sections 3.6; 3.7; 5(D) through (G), inclusive; or this Section 16(C).

17. Miscellaneous.

17.1 Notices. Any notice, election or other communication provided for or required by this Agreement shall be in writing and shall be deemed to have been given when delivered by hand or by telecopy or other facsimile transmission, on the first business day after sent by overnight courier (such as Federal Express), or on the second business day after deposit in the United States Mail, certified or registered, return receipt requested, postage prepaid, properly addressed to the Partner to whom such notice is intended to be given at the address for the Partner set forth on the signature pages of this Agreement, or at such other address as such person may have previously furnished in writing to the Partnership and each Partner.

17.2 Modifications. Except as otherwise provided in this Agreement, no change or modification of this Agreement shall be valid or binding upon the Partners, nor shall any waiver of any term or condition in the future, unless such change or modification or waiver shall be in writing and signed by all of the Partners, except as provided to the contrary in this Agreement.

17.3 Successors and Assigns. Any person acquiring or claiming an interest in the Partnership, in any manner whatsoever, shall be subject to and bound by all of the terms, conditions and obligations of this Agreement to which his predecessor-in-interest was subject or bound, without regard to whether such person has executed a counterpart hereof or any other document contemplated hereby. No person, including the legal representative, heir or legatee of a deceased Partner, shall have any rights or obligations greater than those set forth in the Partnership or become a Partner thereof except as this Agreement, and no person shall acquire an interest in expressly permitted by and pursuant to the terms of this Agreement. Subject to the foregoing, and the provisions of Section 12 above, this Agreement shall be binding upon and

inure to the benefit of the Partners and their respective successors, assigns, heirs, legal representatives, executors and administrators.

17.4 Duplicate Originals. For the convenience of the Partners, any number of counterparts hereof may be executed, and each such counterpart shall be deemed to be an original instrument, and all of which taken together shall constitute one agreement.

17.5 Construction. The titles of the Sections and subsections herein have been inserted as a matter of convenience of reference only and shall not control or affect the meaning or construction of any of the terms or provisions herein.

17.6 Governing Law. This Agreement shall be governed by the laws of the State of Delaware. Except to the extent the Act is inconsistent with the provisions of this Agreement, the provisions of such Act shall apply to the Partnership.

17.7 Other Instruments. The parties hereto covenant and agree that they will execute such other and further instruments and documents as, in the opinion of the General Partner, are or may become necessary or desirable to effectuate and carry out the Partnership as provided for by this Agreement.

17.8 General Partner with Interest as Limited Partner. If the General Partner ever has an interest as a Limited Partner in the Partnership, the General Partner shall, with respect to such interest, enjoy all of the rights and be subject to all of the obligations and duties of a Limited Partner.

17.9 Legal Construction. In case any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

17.10 Gender. Whenever the context shall so require, all words herein in any gender shall be deemed to include the masculine, feminine or neuter gender, all singular words shall include the plural, and all plural words shall include the singular.

17.11 Prior Agreements Superseded. This Agreement supercedes any prior understandings or written or oral agreements amongst the Partners, or any of them, respecting the within subject matter and contains the entire understanding amongst the Partners with respect thereto.

17.12 No Third Party Beneficiary. The terms and provisions of this Agreement are for the exclusive use and benefit of the General Partner and the Limited Partners and shall not inure to the benefit of any other person or entity.

17.13 Purchase for Investment. Each Partner represents, warrants and agrees that it has acquired and continues to hold its interest in the Partnership for its own account for investment only and not for the purpose of, or with a view toward, the resale or distribution of all any part thereof, nor with a view toward selling or otherwise distributing such interest or any part

thereof at any particular time or under any predetermined circumstances provided, however, that in no event shall the exercise of a Partner's conversion rights under this Agreement be deemed a violation of this covenant. Each Partner further represents and warrants that it is a sophisticated investor, able and accustomed to handling sophisticated financial matters for itself, particularly real estate investments, and that it has a sufficiently high net worth that it does not anticipate a need for the funds it has invested in the Partnership in what it understands to be a highly speculative and illiquid investment.

17.14

Waiver. No consent or waiver, express or implied, by any Partner to or of any breach or default by any other Partner in the performance by such other Partner of its obligations hereunder shall be deemed or construed to be a consent to or waiver of any other breach or default in the performance by such other Partner of the same or any other obligations of such Partner hereunder. Failure on the part of any Partner to complain of any act or failure to act on the part of any other Partner or to declare any other Partner in default, irrespective of how long such failure continues, shall not constitute a waiver by such Partner of its rights hereunder.

17.15

Time of Essence. Time is hereby expressly made of the essence with respect to the performance by the parties of their respective obligations under this Agreement.

[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, this Agreement is executed and delivered as of the date first written above.

GENERAL PARTNER:

ACADIA REALTY TRUST, a
Maryland Real Estate Investment Trust

By: /s/ Kenneth F. Bernstein
Name: Kenneth F. Bernstein
Title: President and Chief Executive Officer

LIMITED PARTNERS:

By: Kenneth F. Bernstein, as Attorney-in-Fact pursuant to Section 15 of this Agreement

/s/ Kenneth F. Bernstein
Name: Kenneth F. Bernstein
Title: President and Chief Executive Officer

The following are the terms of the LTIP Units:

1. Designation. A class of Partnership Interests in the Partnership designated as the “**LTIP Units**” is hereby established. LTIP Units are intended to qualify as profits interests in the Partnership. The number of LTIP Units that may be issued shall not be limited.

2. Vesting.

A. Vesting, Generally. LTIP Units may, in the sole discretion of the General Partner, be issued subject to vesting, forfeiture and additional restrictions on transfer pursuant to the terms of an award, vesting or other similar agreement (a “**Vesting Agreement**”). The terms of any Vesting Agreement may be modified by the General Partner from time to time in its sole discretion, subject to any restrictions on amendment imposed by the relevant Vesting Agreement or by the terms of any plan pursuant to which the LTIP Units are issued, if applicable. LTIP Units that have vested and are no longer subject to forfeiture under the terms of a Vesting Agreement are referred to as “**Vested LTIP Units**”; all other LTIP Units are referred to as “**Unvested LTIP Units**.” Subject to the terms of any Vesting Agreement, a holder of LTIP Units shall be entitled to transfer his or her LTIP Units to the same extent, and subject to the same restrictions as holders of OP Units are entitled to transfer their OP Units pursuant to Article 12 of the Agreement.

B. Forfeiture or Transfer of Unvested LTIP Units. Unless otherwise specified in the relevant Vesting Agreement, upon the occurrence of any event specified in a Vesting Agreement as resulting in either the forfeiture of any LTIP Units, or the repurchase by the Partnership or the General Partner of LTIP Units at a specified purchase price, then upon the occurrence of the circumstances resulting in such forfeiture or repurchase by the Partnership or the General Partner, the relevant LTIP Units shall immediately, and without any further action, be treated as cancelled and no longer outstanding for any purpose, or as transferred to the Partnership or General Partner, as applicable. Unless otherwise specified in the Vesting Agreement, no consideration or other payment shall be due with respect to any LTIP Units that have been forfeited, other than any distributions declared with a record date prior to the effective date of the forfeiture. In connection with any forfeiture or repurchase of LTIP Units, the balance of the portion of the Capital Account of the holder that is attributable to all of his or her LTIP Units shall be reduced by the amount, if any, by which it exceeds the target balance contemplated by Section 7.3(K) of the Agreement, calculated with respect to the holder’s remaining LTIP Units, if any.

C. Legend. Any certificate evidencing an LTIP Unit shall bear an appropriate legend indicating that additional terms, conditions and restrictions on transfer, including without limitation any Vesting Agreement, apply to the LTIP Unit.

3. Distributions.

A. LTIP Distribution Amount. The distributions to which holders of LTIP Units will be entitled with respect to their LTIP Units will be determined in accordance with

the terms of the Agreement, including, without limitation, Article 8 and Article 14 thereof. In accordance therewith, commencing from and after the Special LTIP Unit Full Distribution Participation Date established for any LTIP Units, such LTIP Units shall be entitled to receive, if, when and as authorized by the General Partner out of funds or other property legally available for the payment of distributions, as more fully set forth in Article 8 (i) to the extent of Profits for a taxable period, distributions equal to the Interim Distribution Amount and (ii) regular, special, extraordinary or other distributions (other than distributions representing proceeds of a sale or other disposition of all or substantially all of the assets of the Partnership) which may be made from time to time, in an amount per unit equal to the amount of any such distributions that would have been payable to such holders if the Special LTIP Units had been OP Units (unless otherwise specified in the Vesting Agreement or other documentation pursuant to which the Special LTIP Units are issued). For purposes of clarification, distributions of the Interim Distribution Amount shall be made to holders of Special LTIP Units to allow such holders to receive an amount of distributions as if the Special LTIP Unit Full Distribution Participation Date with respect to their Special LTIP Units that are Vested Units had been the date of grant of such Vested Units (after accounting for all distributions previously made to the holder with respect to such Special LTIP Units and all other Special LTIP Units that were part of the Same Award), but only to the extent of Profits allocated to the holder with respect to such Special LTIP Units pursuant to Section 7.3(l) in the taxable period in which the Special LTIP Unit Full Distribution Participation Date occurs, and any amount of the Interim Distribution Amount that is not paid in such taxable period shall be paid in subsequent taxable period to the extent of allocations of Profits to the holder of such Special LTIP Unit pursuant to Section 7.3(l) in such subsequent taxable period(s). Notwithstanding Article 8 of the Agreement, all vested LTIP Units (including LTIP Units that vest in connection with such transaction) shall also be entitled to receive, if, when and as authorized by the General Partner out of funds or other property legally available for the payment of distributions, distributions representing proceeds of a sale or other disposition of all or substantially all of the assets of the Partnership in an amount per unit equal to the amount of any such distributions payable on the OP Units, provided that (i) the amount of such distributions shall not exceed the positive balances of the Capital Accounts of the holders of such LTIP Units to the extent attributable to the ownership of such LTIP Units and (ii) unvested LTIP Units (other than LTIP Units that vest in connection with such transaction) shall not participate in such distribution. Distributions on LTIP Units, if authorized, shall be payable on such dates and in such manner as may be authorized by the General Partner (any such date, a “**LTIP Unit Distribution Payment Date**”); provided that the LTIP Unit Distribution Payment Date shall be the same as the corresponding date relating to the corresponding distribution on the OP Units. The record date for determining which holders of LTIP Units are entitled to receive a distribution shall be the Partnership Record Date for that distribution. All distributions paid with respect to LTIP Units prior to the date on which the determination is made with respect to events resulting in the forfeiture of such LTIP Units or the repurchase by the Partnership or the General Partner of such LTIP Units shall be retained by the holder of such LTIP Units and not subject to forfeiture in the event that Unvested LTIP Units fail to become Vested LTIP Units. Following such date of determination, no further distributions will be paid with respect to Unvested LTIP Units that have been forfeited or are repurchased by the Partnership or the General Partner, other than any distributions declared with a record date prior to the effective date of the forfeiture or repurchase.

B. Special LTIP Unit Full Distribution Participation Date. The “**Special LTIP Unit Full Distribution Participation Date**” for each Special LTIP Unit will be with respect to Special LTIP Units granted pursuant to the Acadia Realty Trust 2006 Long-Term

Incentive Plan, as amended (the “**2006 LTIP Plan**”), or with respect to other Special LTIP Units, such date as may be specified in the Vesting Agreement or other documentation pursuant to which such Special LTIP Units are issued.

4. Allocations.

The allocations to which holders of LTIP Units will be entitled with respect to their LTIP Units will be determined in accordance with the terms of the Agreement, including, without limitation, Article 7 hereof. In accordance therewith, prior to the Special LTIP Unit Full Distribution Participation Date established for any Special LTIP Units, such Special LTIP Units shall be allocated Profits and Losses in amounts per LTIP Unit equal to the product of (i) the amounts allocated per OP Unit, and (ii) the Special LTIP Sharing Percentage. Commencing with the portion of the taxable year of the Partnership that begins on the Special LTIP Unit Full Distribution Participation Date established for any Special LTIP Units, such Special LTIP Units shall be allocated (i) special allocations pursuant to Section 7.3(l) of the Agreement, in an amount equal to the Interim Distribution Amount (limited to the amount of Profits for the taxable period in which the Special LTIP Unit Full Distribution Participation Date occurs, or in subsequent taxable periods) and (ii) Profits and Losses in amounts per Special LTIP Unit equal to the amounts allocated per OP Unit. The allocations provided by the preceding sentence shall be subject to Sections 7.1 and 7.2 and in addition to any special allocations required by Sections 7.3(A) through 7.3(K) (including, without limitation, allocations to holders of Preferred Units pursuant to Section 7.3(H)). The General Partner is authorized in its discretion to adjust the allocations made under this Section 4 after the Special LTIP Unit Full Distribution Participation Date, so that the ratio of (i) the total amount of Profits or Losses allocated with respect to each Special LTIP Unit in the taxable year in which that Special LTIP Unit's Special LTIP Unit Full Distribution Participation Date falls (excluding special allocations under Sections 7.3(l) and 7.3(K) of the Agreement), to (ii) the total amount distributed to that Special LTIP Unit with respect to such period (excluding distributions of the Interim Distribution Amount pursuant to Section 8.6 of the Agreement), is more nearly equal to the ratio of (i) the Profits and Losses allocated with respect to the General Partner's OP Units in such taxable year to (ii) the amounts distributed to the General Partner with respect to such OP Units and such taxable year.

5. Adjustments.

The Partnership shall maintain at all times a one-to-one correspondence between LTIP Units and OP Units for conversion, distribution and other purposes, including without limitation complying with the following procedures; provided that the foregoing is not intended to alter the LTIP Unit Capital Account Limitation (as defined in Section 7(B), the special allocations pursuant to Sections 7.3(l), 7.3(j) and (k) of the Agreement, differences between distributions (other than distributions representing proceeds of a sale or other disposition of all or substantially all of the assets of the Partnership) to be made with respect to the Special LTIP Units and OP Units prior to the Special LTIP Unit Full Distribution Participation Date for such Special LTIP Units or with respect to distributions of an Interim Distribution Amount pursuant to Section 8.6 of the Agreement, differences between distributions (other than distributions representing proceeds of a sale or other disposition of all or substantially all of the assets of the Partnership) to be made with respect to the LTIP Units and OP Units pursuant to Section 14.2 of the Agreement or Section 3.A hereof in the event that the Capital Accounts attributable to the LTIP Units are less than those attributable to the OP Units due to insufficient special allocations pursuant

to Section 7.3(K) of the Agreement or related provisions. If an LTIP Unit Adjustment Event (as defined below) occurs, then the General Partner shall make a corresponding adjustment to the LTIP Units to maintain such one-for-one correspondence between OP Units and LTIP Units. The following shall be "**LTIP Unit Adjustment Events**": (A) the Partnership makes a distribution on all outstanding OP Units in Partnership Interests, (B) the Partnership subdivides the outstanding OP Units into a greater number of units or combines the outstanding OP Units into a smaller number of units, or (C) the Partnership issues any Partnership Interests in exchange for its outstanding OP Units by way of a reclassification or recapitalization of its OP Units. If more than one LTIP Unit Adjustment Event occurs, the adjustment to the LTIP Units need be made only once using a single formula that takes into account each and every LTIP Unit Adjustment Event as if all LTIP Unit Adjustment Events occurred simultaneously. For the avoidance of doubt, the following shall not be LTIP Unit Adjustment Events: (x) the issuance of Partnership Interests in a financing, reorganization, acquisition or other similar business transaction, (y) the issuance of Partnership Interests pursuant to any employee benefit or compensation plan or distribution reinvestment plan, or (z) the issuance of any Partnership Interests to the General Partner in respect of a Capital Contribution to the Partnership of proceeds from the sale of securities by the General Partner. If the Partnership takes an action affecting the OP Units other than actions specifically described above as LTIP Unit Adjustment Events and in the opinion of the General Partner such action would require an adjustment to the LTIP Units to maintain the one-to-one correspondence described above, the General Partner shall make such adjustment to the LTIP Units, to the extent permitted by law and by the terms of any plan pursuant to which the LTIP Units have been issued, in such manner and at such time as the General Partner, in its sole discretion, may determine to be appropriate under the circumstances. If an adjustment is made to the LTIP Units as herein provided, the Partnership shall promptly file in the books and records of the Partnership an officer's certificate setting forth such adjustment and a brief statement of the facts requiring such adjustment, which certificate shall be conclusive evidence of the correctness of such adjustment absent manifest error. Promptly after filing of such certificate, the Partnership shall mail a notice to each holder of LTIP Units setting forth the adjustment to his or her LTIP Units and the effective date of such adjustment.

6. Ranking.

The LTIP Units shall rank on parity with the OP Units in all respects and junior to all Preferred Units, with respect to distribution rights and rights upon voluntary or involuntary liquidation, winding up or dissolution of the Partnership, subject to the proviso in the first sentence of Section 5.

7. Right to Convert LTIP Units into OP Units.

A. Conversion Right. A holder of LTIP Units shall have the right (the "**LTIP Unit Conversion Right**"), at his or her option, at any time to convert all or a portion of his or her Vested LTIP Units into OP Units. Holders of LTIP Units shall not have the right to convert Unvested LTIP Units into OP Units until they become Vested LTIP Units; *provided, however*, that when a holder of LTIP Units is notified of the expected occurrence of an event that will cause his or her Unvested LTIP Units to become Vested LTIP Units, such Person may give the Partnership an LTIP Unit Conversion Notice conditioned upon and effective as of the time of vesting, and such LTIP Unit Conversion Notice, unless subsequently revoked by the holder of the LTIP Units, shall be accepted by the Partnership subject to such condition. The General Partner shall have the right at any time to cause a

conversion of Vested LTIP Units into OP Units subject to Section 7.D. of this Annex. In all cases, the conversion of any LTIP Units into OP Units shall be subject to the conditions and procedures set forth in this Section 7.

B. Number of Units Convertible. A holder of Vested LTIP Units may convert such Vested LTIP Units into an equal number of fully paid and non-assessable OP Units, giving effect to all adjustments (if any) made pursuant to Section 5. Notwithstanding the foregoing, in no event may a holder of Vested LTIP Units convert a number of Vested LTIP Units that exceeds (x) the Economic Capital Account Balance of such holder, to the extent attributable to its ownership of LTIP Units, divided by (y) the OP Unit Economic Balance, in each case as determined as of the effective date of conversion (the "**LTIP Unit Capital Account Limitation**").

C. Notice. In order to exercise his or her Conversion Right, a holder of LTIP Units shall deliver a notice (a "**LTIP Unit Conversion Notice**") in the form attached as Exhibit 1 not less than 10 nor more than 60 days prior to a date (the "**LTIP Unit Conversion Date**") specified in such LTIP Unit Conversion Notice. Each holder of LTIP Units covenants and agrees with the Partnership that all Vested LTIP Units to be converted pursuant to this Section 7 shall be free and clear of all liens. Notwithstanding anything herein to the contrary (but subject to Section 3.8 of the Agreement), a holder of LTIP Units may deliver a notice pursuant to Section 3.8 of the Agreement relating to those OP Units that will be issued to such holder upon conversion of such LTIP Units into OP Units in advance of the LTIP Unit Conversion Date; provided, however, that the exchange or redemption of such OP Units by the Partnership shall in no event take place until the LTIP Unit Conversion Date. For clarity, it is noted that the objective of this paragraph is to put a holder of LTIP Units in a position where, if he or she so wishes, the OP Units into which his or her Vested LTIP Units will be converted can be exchanged or redeemed by the Partnership simultaneously with such conversion, with the further consequence that, if in accordance with Section 3.8 of the Agreement the General Partner delivers to such holder Common Shares (rather than cash), then such holder can have such Common Shares issued to him or her simultaneously with the conversion of his or her Vested LTIP Units into OP Units. The General Partner shall cooperate with a holder of LTIP Units to coordinate the timing of the different events described in the foregoing sentence.

D. Forced Conversion. The Partnership, at any time at the election of the General Partner, may cause any number of Vested LTIP Units held by a holder of LTIP Units to be converted (a "**LTIP Unit Forced Conversion**") into an equal number of OP Units, giving effect to all adjustments (if any) made pursuant to Section 5; *provided, that* (i) the Partnership may not cause an LTIP Unit Forced Conversion of any LTIP Units that would not at the time be eligible for conversion at the option of the holder of such LTIP Units pursuant to Section 7.B. above (including taking into account the LTIP Unit Capital Account Limitation) or (ii) except in connection with a Transaction, with respect to which an Interim Distribution is payable and has not been paid. In order to exercise its right to cause an LTIP Unit Forced Conversion, the Partnership shall deliver a notice (a "**LTIP Unit Forced Conversion Notice**") in the form attached as Exhibit 2 to the applicable holder not less than 10 nor more than 60 days prior to the LTIP Unit Conversion Date specified in such LTIP Unit Forced Conversion Notice. A Forced LTIP Unit Conversion Notice shall be provided in the manner provided in Section 17.1 of the Agreement.

E. Conversion Procedures. Subject to any exchange or redemption of OP Units to be received upon the conversion of Vested LTIP Units, a conversion of Vested

LTIP Units for which the holder thereof has given an LTIP Unit Conversion Notice or the Partnership has given a Forced LTIP Unit Conversion Notice shall occur automatically after the close of business on the applicable LTIP Unit Conversion Date without any action on the part of such holder of LTIP Units, as of which time such holder of LTIP Units shall be credited on the books and records of the Partnership with the issuance as of the opening of business on the next day of the number of OP Units issuable upon such conversion. After the conversion of LTIP Units as aforesaid, the Partnership shall deliver to such holder of LTIP Units, upon his or her written request, a certificate of the General Partner certifying the number of OP Units and remaining LTIP Units, if any, held by such Person immediately after such conversion.

F. Treatment of Capital Account. For purposes of making future allocations under Section 7.3(K) of the Agreement and applying the LTIP Unit Capital Account Limitation, the portion of the Economic Capital Account Balance of the applicable holder of LTIP Units that is treated as attributable to his or her LTIP Units shall be reduced, as of the date of conversion, by the product of the number of LTIP Units converted and the OP Unit Economic Balance.

G. Mandatory Conversion in Connection with a Transaction. If the Partnership or the General Partner shall be a party to any transaction (including without limitation a merger, consolidation, unit exchange, self-tender offer for all or substantially all OP Units or other business combination or reorganization, or sale of all or substantially all of the Partnership's assets, but excluding any transaction which constitutes an LTIP Unit Adjustment Event), in each case as a result of which OP Units shall be exchanged for or converted into the right, or the holders of OP Units shall otherwise be entitled, to receive cash, securities or other property or any combination thereof (each of the foregoing being referred to herein as a "**Transaction**"), then the General Partner shall, immediately prior to the Transaction, exercise its right to cause a LTIP Unit Forced Conversion with respect to the maximum number of LTIP Units then eligible for conversion, taking into account any allocations that occur in connection with the Transaction or that would occur in connection with the Transaction if the assets of the Partnership were sold at the Transaction price or, if applicable, at a value determined by the General Partner in good faith using the value attributed to the Partnership Interests in the context of the Transaction (in which case the LTIP Unit Conversion Date shall be the effective date of the Transaction and the conversion shall occur immediately prior to the effectiveness of the Transaction).

In anticipation of such LTIP Unit Forced Conversion and the consummation of the Transaction, the Partnership shall use commercially reasonable efforts to cause each holder of LTIP Units to be afforded the right to receive in connection with such Transaction in consideration for the OP Units into which his or her LTIP Units will be converted the same kind and amount of cash, securities and other property (or any combination thereof) receivable upon the consummation of such Transaction by a holder of the same number of OP Units, assuming such holder of OP Units is not a Person with which the Partnership consolidated or into which the Partnership merged or which merged into the Partnership or to which such sale or transfer was made, as the case may be (a "**Constituent Person**"), or an Affiliate of a Constituent Person. In the event that holders of OP Units have the opportunity to elect the form or type of consideration to be received upon consummation of the Transaction, prior to such Transaction the General Partner shall give prompt written notice to each holder of LTIP Units of such election, and shall use commercially reasonable efforts to afford such holders the right to elect, by written notice to the General Partner, the form or type of consideration to be received upon conversion of each LTIP Unit held by

such holder into OP Units in connection with such Transaction. If a holder of LTIP Units fails to make such an election, such holder (and any of its transferees) shall receive upon conversion of each LTIP Unit held by him or her (or by any of his or her transferees) the same kind and amount of consideration that a holder of a OP Unit would receive if such holder of OP Units failed to make such an election.

Subject to the rights of the Partnership and the General Partner under any Vesting Agreement and the terms of any plan under which LTIP Units are issued, the Partnership shall use commercially reasonable efforts to cause the terms of any Transaction to be consistent with the provisions of this Section 7 and to enter into an agreement with the successor or purchasing entity, as the case may be, for the benefit of any holders of LTIP Units whose LTIP Units will not be converted into OP Units in connection with the Transaction that will (i) contain provisions enabling the holders of LTIP Units that remain outstanding after such Transaction to convert their LTIP Units into securities as comparable as reasonably possible under the circumstances to the OP Units and (ii) preserve as far as reasonably possible under the circumstances the distribution, special allocation, conversion, and other rights set forth in the Agreement for the benefit of the holders of LTIP Units.

8. Redemption at the Option of the Partnership.

LTIP Units will not be redeemable at the option of the Partnership; *provided, however*, that the foregoing shall not prohibit the Partnership from (i) repurchasing LTIP Units from the holder thereof if and to the extent such holder agrees to sell such LTIP Units or (ii) from exercising its LTIP Unit Forced Conversion right.

9. Voting Rights.

A. Voting with OP Units. Holders of LTIP Units shall have the right to vote on all matters submitted to a vote of the holders of OP Units; holders of LTIP Units and OP Units shall vote together as a single class, together with any other class or series of Partnership Interests upon which like voting rights have been conferred. In any matter in which the LTIP Units are entitled to vote, including an action by written consent, each LTIP Unit shall be entitled to vote a Percentage Interest equal on a per unit basis to the Percentage Interest represented by each OP Unit.

B. Special Approval Rights. Except as provided in Section 9.A. above, holders of LTIP Units shall only have (i) those voting rights required from time to time by non-waivable provisions of applicable law, if any, and (ii) have the additional voting rights that are expressly set forth in this Section 9.B. The General Partner and/or the Partnership shall not, without the affirmative vote of holders of more than 50% of the then outstanding LTIP Units affected thereby, given in person or by proxy, either in writing or at a meeting (voting separately as a class), take any action that would materially and adversely alter, change, modify or amend, whether by merger, consolidation or otherwise, the rights, powers or privileges of such LTIP Units, subject to the following exceptions:

(a) no separate consent of the holders of LTIP Units will be required if and to the extent that any such alteration, change, modification or amendment would equally, ratably and proportionately alter, change, modify or amend the rights, powers or privileges of the OP Units (in which event the holders of LTIP Units shall only

have such voting rights, if any, as provided for in the Agreement, in accordance with Section 9.A above);

(b) with respect to any merger, consolidation or other business combination or reorganization, so long as either (w) the LTIP Units are converted into OP Units immediately prior to the effectiveness of the transaction, (x) the holders of LTIP Units either will receive, or will have the right to elect to receive, for each LTIP Unit an amount of cash, securities, or other property equal to the greatest amount of cash, securities or other property paid to a holder of one OP Unit in consideration of one OP Unit pursuant to the terms of such transaction, (y) the LTIP Units remain outstanding with the terms thereof materially unchanged, or (z) if the Partnership is not the surviving entity in such transaction, the LTIP Units are exchanged for a security of the surviving entity with terms that are materially the same with respect to rights to allocations, distributions, redemption, conversion and voting as the LTIP Units and without any income, gain or loss expected to be recognized by the holder upon the exchange for federal income tax purposes (and with the terms of the OP Units or such other securities into which the LTIP Units (or the substitute security therefor) are convertible materially the same with respect to rights to allocations, distributions, redemption, conversion and voting), such merger, consolidation or other business combination or reorganization shall not be deemed to materially and adversely alter, change, modify or amend the rights, powers or privileges of the LTIP Units, provided further, that if some, but not all, of the LTIP Units are converted into OP Units immediately prior to the effectiveness of the transaction (and neither clause (y) or (z) above is applicable), then the consent required pursuant to this Section will be the consent of the holders of more than 50% of the LTIP Units to be outstanding following such conversion;

(c) any creation or issuance of Partnership Interests (whether ranking junior to, on a parity with or senior to the LTIP Units with respect to payment of distributions, rights of exchange and redemption and the distribution of assets upon liquidation, dissolution or winding up), which either (x) does not require the consent of the holders of OP Units or (y) does require such consent and is authorized by a vote of the holders of OP Units and LTIP Units voting together as a single class pursuant to Section 9.A above, together with any other class or series of units of limited partnership interest in the Partnership upon which like voting rights have been conferred, shall not be deemed to materially and adversely alter, change, modify or amend the rights, powers or privileges of the LTIP Units; and

(d) any waiver by the Partnership of restrictions or limitations applicable to any outstanding LTIP Units with respect to any holder or holders thereof shall not be deemed to materially and adversely alter, change, modify or amend the rights, powers or privileges of the LTIP Units with respect to other holders.

The foregoing voting provisions will not apply if, as of or prior to the time when the action with respect to which such vote would otherwise be required will be taken or be effective, all outstanding LTIP Units shall have been converted and/or redeemed, or provision is made for such redemption and/or conversion to occur as of or prior to such time.

EXHIBIT 1

**NOTICE OF ELECTION BY PARTNER TO CONVERT
LTIP UNITS INTO OP UNITS**

The undersigned holder of LTIP Units hereby irrevocably elects to convert the number of Vested LTIP Units in Acadia Realty Limited Partnership (the "**Partnership**") set forth below into OP Units in accordance with the terms of the Amended and Restated Limited Partnership Agreement of the Partnership, as amended. The undersigned hereby represents, warrants, and certifies that the undersigned: (a) has title to such LTIP Units, free and clear of the rights or interests of any other person or entity other than the Partnership; (b) has the full right, power, and authority to cause the conversion of such LTIP Units as provided herein; and (c) has obtained the consent or approval of all persons or entities, if any, having the right to consent or approve such conversion.

Name of Holder:

(Please Print: Exact Name as Registered with Partnership)

Number of LTIP Units to be Converted:

Conversion Date:

(Signature of Holder: Sign Exact Name as Registered with Partnership)

(Street Address)

(City)

(State)

(Zip Code)

Signature Guaranteed by:

EXHIBIT-1

EXHIBIT 2

**NOTICE OF ELECTION BY PARTNERSHIP TO FORCE CONVERSION
OF LTIP UNITS INTO OP UNITS**

Acadia Realty Limited Partnership (the "**Partnership**") hereby irrevocably elects to cause the number of LTIP Units held by the holder of LTIP Units set forth below to be converted into OP Units in accordance with the terms of the Amended and Restated Limited Partnership Agreement of the Partnership, as amended.

Name of Holder:

(Please Print: Exact Name as Registered with Partnership)

Number of LTIP Units to be Converted:

Conversion Date:

EXHIBIT-2

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

I, Kenneth F. Bernstein, certify that:

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

/s/ Kenneth F. Bernstein

Kenneth F. Bernstein

President and Chief Executive Officer

July 25, 2019

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

I, John Gottfried, certify that:

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

/s/ John Gottfried

John Gottfried

Senior Vice President and
Chief Financial Officer

July 25, 2019

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

In connection with the Quarterly Report on Form 10-Q of Acadia Realty Trust (the "Company") for the quarter ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kenneth F. Bernstein, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Kenneth F. Bernstein

Kenneth F. Bernstein
President and Chief Executive Officer
July 25, 2019

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

In connection with the Quarterly Report on Form 10-Q of Acadia Realty Trust (the "Company") for the quarter ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John Gottfried, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ John Gottfried

John Gottfried
Senior Vice President and
Chief Financial Officer
July 25, 2019