

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2002

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 as specified in its charter)

Maryland 23-2715194
(State of incorporation) (I.R.S. employer identification no.)

20 Soundview Marketplace
Port Washington, NY 11050
(Address of principal executive offices)

(516) 767-8830
(Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Act:

Common Shares of Beneficial Interest, \$.001 par value
(Title of Class)

New York Stock Exchange
(Name of Exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

None

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

YES NO

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 28, 2002 was \$202.1 million, based on a price of \$8.15 per share, the closing sales price for the Registrant's shares of beneficial interest on the New York Stock Exchange on that date.

The number of shares of the Registrant's Common Shares of Beneficial Interest outstanding on March 24, 2003 was 25,430,966.

DOCUMENTS INCORPORATED BY REFERENCE

Part III – Definitive proxy statement for the 2003 Annual Meeting of Shareholders, to be filed pursuant to Regulation 14A.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report on Form 10-K constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions, which will, among other things, affect demand for rental space, the availability and creditworthiness of prospective tenants, lease rents and the availability of financing; adverse changes in the Company's real estate markets, including, among other things, competition with other companies; risks of real estate development and acquisition; governmental actions and initiatives; and environmental/safety requirements.

PART I

ITEM 1. BUSINESS

GENERAL

Acadia Realty Trust (the “Company”), formerly Mark Centers Trust, was formed on March 4, 1993 as a Maryland Real Estate Investment Trust (“REIT”). The Company is a fully integrated, self-managed and self-administered equity REIT focused primarily on the ownership, acquisition, redevelopment and management of neighborhood and community shopping centers. The Company currently operates 62 properties, which it owns or has an ownership interest in, consisting of 58 neighborhood and community shopping centers, one enclosed mall, one mixed-use property (retail/residential) and two multi-family properties, which are located in the Northeast, Mid-Atlantic and Midwestern regions of the United States and, in total, comprise approximately nine million square feet.

All of the Company’s assets are held by, and all of its operations are conducted through, Acadia Realty Limited Partnership, a Delaware limited partnership (the “Operating Partnership”) and its majority-owned subsidiaries. As of December 31, 2002, the Company controlled 89% of the Operating Partnership as the sole general partner. As the general partner, the Company is entitled to share, in proportion to its percentage interest, in the cash distributions and profits and losses of the Operating Partnership. The limited partners represent entities or individuals who contributed their interests in certain properties or partnerships to the Operating Partnership in exchange for common or preferred units of limited partnership interest (“Common OP Units” or “Preferred OP Units”). Limited partners holding Common OP Units are generally entitled to exchange their units on a one-for-one basis for common shares of beneficial interest of the Company (“Common Shares”). This structure is commonly referred to as an umbrella partnership REIT or “UPREIT”.

The Series A Preferred OP Units were issued November 16, 1999 in connection with the acquisition of all the partnership interests of the limited partnership which owns the Pacesetter Park Shopping Center. They have a stated value of \$1,000 each and are entitled to a quarterly preferred distribution of the greater of (i) \$22.50 (9% annually) per Preferred OP Unit or (ii) the quarterly distribution attributable to a Preferred OP Unit if such unit were converted into a Common OP Unit. The Preferred OP Units are currently convertible into Common OP Units based on the stated value divided by \$7.50. After the seventh anniversary following their issuance, either the Company or the holders can call for the conversion of the Preferred OP Units at the lesser of \$7.50 or the market price of the Common Shares as of the conversion date.

On August 12, 1998, the Company completed a major reorganization (“RDC Transaction”) in which it acquired 12 shopping centers, five multi-family properties and a 49% interest in one shopping center along with certain third party management contracts and promissory notes from real estate investment partnerships (“RDC Funds”) managed by affiliates of RD Capital, Inc. In exchange for these and a cash investment of \$100.0 million, the Company issued 11.1 million Common OP Units and 15.3 million Common Shares to the RDC Funds. These Common Shares were distributed to the respective limited partners of the RDC Funds during 2000. After giving effect to the conversion of the Common OP Units the RDC Funds beneficially owned 72% of the Common Shares as of the closing of the RDC Transaction. During March of 2003, the Company issued additional Common OP Units and cash valued at \$2.8 million to certain limited partners in connection with its obligation under the RDC Transaction. The payment was due upon the commencement of rental payments from a designated tenant at one of the properties acquired in the RDC Transaction.

During 2001, certain of the Company’s larger shareholders expressed a desire for liquidity. The Company determined that it was in the best interest of the Company to provide an opportunity for all shareholders wishing to sell their Common Shares to be able to do so in a manner that would not negatively impact its share price. Furthermore, the Company believed that while providing this liquidity to some shareholders, it would be at an attractive price that would benefit its remaining shareholders. Upon completion of the “Modified Dutch Auction” tender offer (the “Tender Offer”) in February 2002, the Company purchased 4,136,321 Common Shares and 1,387,653 Common OP Units (collectively, “Shares”), at a Purchase Price of \$6.05. This included 600,000 Shares purchased from Mr. Dworman, Chairman of the Board of Trustees, who participated in the Tender Offer. This also included 139,359 Shares purchased pursuant to its right to purchase up to an additional 2% of its Common Shares outstanding. The aggregate purchase price paid for the 5,523,974 Shares was \$33.4 million.

BUSINESS OBJECTIVES AND OPERATING STRATEGY

The Company’s primary business objective is to acquire and manage commercial retail properties that will provide cash for distributions to shareholders while also creating potential for capital appreciation to enhance investor returns. Currently, the primary conduit for the Company’s acquisition program is through the recently capitalized joint venture as discussed under “Recent Developments”. The Company’s acquisition program focuses on acquiring neighborhood and community shopping centers that are well-located in markets with high barriers to entry and creating significant value through re-tenanting, timely capital improvements and property redevelopment. In considering acquisitions, the Company focuses on quality shopping centers located in the Northeast, Mid-Atlantic and Midwest regions. The Company considers both single assets and portfolios in its acquisition program. In conjunction with evaluating potential portfolio acquisitions, the Company also regularly engages in discussions with public and private entities regarding business combinations as well.

Furthermore, the Company may consider engaging in additional joint ventures related to property acquisition and development. The requirements that acquisitions be accretive on a long-term basis based on the Company's cost of capital, as well as increase the overall portfolio quality and value, are core to the Company's acquisition program. As such, the Company constantly evaluates the blended cost of equity and debt and adjusts the amount of acquisition activity to align the level of investment activity with capital flows.

Operating functions such as leasing, property management, construction, finance and legal (collectively, the "Operating Departments") are provided by Company personnel, providing for fully integrated property management and development. The Operating Departments involvement in acquisitions is an essential component to the acquisition program. By incorporating the Operating Departments in the acquisition process, acquisitions are appropriately priced giving effect to each asset's specific risks and returns. Also, because of the Operating Departments involvement with, and corresponding understanding of, the acquisition process, transition time is minimized and management can immediately execute on an asset's strategic plan.

The Company typically holds its properties for long-term investment. As such, it continuously reviews the existing portfolio and implements programs to renovate and modernize targeted centers to enhance the property's market position. This in turn strengthens the competitive position of the leasing program to attract and retain quality tenants, increasing cash flow and consequently property value. The Company also periodically identifies certain properties for disposition and redeploys the capital to existing centers or acquisitions with greater potential for capital appreciation. The Company's portfolio consists primarily of neighborhood and community shopping centers, which are generally dominant centers in high barrier-to-entry markets. The anchors at these centers typically pay market or below-market rents and have low rent-to-sales ratios, which are, on average, less than 5%. Furthermore, supermarkets anchor approximately two-thirds of the core portfolio. These attributes enable the properties to better withstand a weakening economy while also creating opportunities to increase rental income.

RECENT DEVELOPMENTS

Property Acquisitions – Acadia Strategic Opportunity Fund, LP ("ASOF")

In September of 2001, the Company committed \$20.0 million to a newly formed joint venture formed with four of its institutional shareholders, who committed \$70.0 million, for the purpose of acquiring a total of approximately \$300.0 million of community and neighborhood shopping centers on a leveraged basis. The Company plans on using this as its primary vehicle for future acquisitions of assets. The Company's primary strategy for acquisitions is to identify well-located assets with high inherent opportunity for the creation of additional value through redevelopment and leasing. Specifically, the Company focuses on targeting assets for acquisition that have superior in-fill locations, restricted competition due to high barriers of entry and in-place below-market anchor leases.

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

To date, ASOF has purchased a total of approximately \$163.9 million in assets in three separate transactions, with an additional potential earnout payment of \$42.0 million to \$62.0 million related to the Brandywine Town Center acquisition. Details of these transactions are as follows:

Ohio Portfolio

In September of 2002, ASOF acquired three supermarket-anchored shopping centers located in Cleveland and Columbus, Ohio for a total purchase price of \$26.7 million. Additional information on these properties is included in Item 2 of this Form 10-K.

Brandywine Portfolio

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

Market Square Shopping Center is a 103,000 square foot community shopping center which is 92% leased and anchored by a T.J. Maxx and a Trader Joe's gourmet food market.

Brandywine Town Center is a two phase open-air value retail center. The first phase ("Phase I") is approximately 450,000 square feet and 97% occupied, with tenants including Lowe's, Bed Bath & Beyond, Regal Cinema, Michaels, Petsmart, Old Navy, Annie Sez, Thomasville Furniture, KB Toys and Dick's Sporting Goods. The second phase ("Phase II") consists of approximately 420,000 square feet of existing space, of which Target occupies 138,000 square feet. The balance of Phase II is currently not occupied.

The initial investment for the portfolio was approximately \$89.3 million; inclusive of closing and other related acquisition costs. ASOF will also pay additional amounts for the current vacant space in Phase II when and if it is leased and occupied (the "Earnout"). The additional investment, depending on the Earnout, is projected to be between \$42.0 million and \$62.0 million.

Kroger/Safeway Portfolio

In January of 2003, ASOF formed a joint venture (the “Kroger/Safeway JV”) with an affiliate of real estate developer and investor AmCap Incorporated (“AmCap”) for the purpose of acquiring a portfolio of twenty-five supermarket leases for \$47.9 million inclusive of the closing and other related acquisition costs. The portfolio, which aggregates approximately 1.0 million square feet, consists of 25 anchor-only leases with Kroger (12 leases) and Safeway supermarkets (13 leases). The majority of the properties are free-standing and all are triple-net leases. The Kroger/Safeway JV acquired the portfolio subject to long-term ground leases with terms, including renewal options, averaging in excess of 80 years, which are master leased to a non-affiliated entity. The rental options for the supermarket leases at the end of their primary lease term in approximately seven years (“Primary Term”) are at an average of \$5.13 per square foot. Although there is no obligation for the Kroger/Safeway JV to pay ground rent during the Primary Term, to the extent it exercises an option to renew a ground lease for a property at the end of the Primary Term, it will be obligated to pay an average ground rent of \$1.55 per square foot.

The following table sets forth more specific information with respect to the 25 leases:

| Location | Tenant | GLA | Current rent | Rent upon initial option commencement | Lease expiration year/ Last option expiration year |
|-------------------|----------------|-----------|--------------|---------------------------------------|--|
| Great Bend, KS | Kroger Co. (1) | 48,000 | \$ 4.13 | \$ 2.40 | 2009/2049 |
| Cincinnati, OH | Kroger Co. | 32,200 | 9.29 | 5.36 | 2009/2049 |
| Conroe, TX | Kroger Co. (2) | 75,000 | 7.97 | 4.60 | 2009/2049 |
| Harahan, LA | Kroger Co. (2) | 60,000 | 7.95 | 4.61 | 2009/2049 |
| Indianapolis, IN | Kroger Co. | 34,000 | 6.71 | 3.87 | 2009/2049 |
| Irving, TX | Kroger Co. | 43,900 | 7.49 | 4.32 | 2009/2049 |
| Pratt, KS | Kroger Co. (1) | 38,000 | 6.53 | 3.78 | 2009/2049 |
| Roanoke, VA | Kroger Co. | 36,700 | 14.94 | 8.62 | 2009/2049 |
| Shreveport, LA | Kroger Co. | 45,000 | 12.07 | 6.96 | 2009/2049 |
| Wichita, KS | Kroger Co. (1) | 50,000 | 12.90 | 7.48 | 2009/2049 |
| Wichita, KS | Kroger Co. (1) | 40,000 | 12.03 | 6.97 | 2009/2049 |
| Atlanta, TX | Safeway (3) | 31,000 | 8.47 | 3.98 | 2009/2049 |
| Batesville, AR | Safeway (1) | 29,000 | 12.15 | 5.72 | 2009/2049 |
| Benton, AR | Safeway (1) | 33,500 | 10.01 | 4.71 | 2009/2049 |
| Carthage, TX | Safeway (1) | 27,700 | 8.75 | 4.12 | 2009/2049 |
| Little Rock, AR | Safeway (1) | 36,000 | 14.00 | 6.58 | 2009/2049 |
| Longview, WA | Safeway | 48,700 | 9.53 | 4.48 | 2009/2049 |
| Mustang, OK | Safeway (1) | 30,200 | 8.83 | 4.15 | 2009/2049 |
| Roswell, NM | Safeway (2) | 36,300 | 12.63 | 5.94 | 2009/2049 |
| Ruidoso, NM | Safeway (1) | 38,600 | 12.69 | 5.97 | 2009/2049 |
| San Ramon, CA | Safeway | 54,000 | 10.56 | 4.96 | 2009/2049 |
| Springerville, AZ | Safeway | 30,500 | 10.28 | 4.83 | 2009/2049 |
| Tucson, AZ | Safeway | 41,800 | 9.95 | 4.68 | 2009/2049 |
| Tulsa, OK | Safeway (1) | 30,000 | 10.54 | 4.96 | 2009/2049 |
| Cary, NC | Kroger Co. (3) | 48,000 | 7.89 | 4.55 | 2009/2049 |
| | Total | 1,018,100 | | | |

Notes:

- (1) The tenant is obligated to pay rent pursuant to the lease and has sub-leased this location to a supermarket sub-tenant.
- (2) The tenant is obligated to pay rent pursuant to the lease and has sub-leased this location to a non-supermarket sub-tenant.
- (3) The tenant is currently not operating at this location although they continue to pay rent in accordance with the lease.

Asset Sales

A significant component of the Company's business has been its multi-year plan to dispose of non-core real estate assets. The Company began this initiative following the RDC Transaction. Non-core assets were identified based on factors including property type and location, tenant mix and potential income growth as well as whether a property complemented other assets within the Company's portfolio. Since announcing this initiative, the Company has sold 26 non-core assets. 20 of these assets were sold during 2002 as follows (dollar amounts in millions):

| Property | State | GLA | Sales price | Net proceeds |
|------------------------------------|-------|-----------|-------------|--------------|
| Union Plaza | PA | 217,992 | \$ 4.8 | \$ 4.2(1) |
| Ames Plaza | PA | 96,154 | 52.7(2) | 12.9(2) |
| Birney Plaza | PA | 193,899 | —(2) | —(2) |
| Circle Plaza | PA | 92,171 | —(2) | —(2) |
| Dunmore Plaza | PA | 45,380 | —(2) | —(2) |
| Kingston Plaza | PA | 64,824 | —(2) | —(2) |
| Monroe Plaza | PA | 130,569 | —(2) | —(2) |
| Mountainville Shopping Center | PA | 118,847 | —(2) | —(2) |
| Plaza 15 | PA | 113,530 | —(2) | —(2) |
| Shillington Plaza | PA | 150,742 | —(2) | —(2) |
| 25th Street Shopping Center | PA | 131,477 | —(2) | —(2) |
| Kings Fairgrounds | VA | 118,535 | —(2) | —(2) |
| Troy Plaza | NY | 128,479 | —(2) | —(2) |
| Midway Plaza | AL | 207,538 | —(2) | —(2) |
| Northside Mall | AL | 382,299 | —(2) | —(2) |
| New Smyrna Beach Shopping Center | FL | 101,321 | —(2) | —(2) |
| Cloud Springs Plaza | GA | 113,367 | —(2) | —(2) |
| Martintown Plaza | SC | 133,892 | —(2) | —(2) |
| Manahawkin Village Shopping Center | NJ | 175,228 | 16.8(3) | 9.5(3) |
| Valmont Plaza | PA | 200,164 | —(3) | —(3) |
| Total | | 2,916,408 | \$ 74.3 | \$ 26.6 |

Notes:

- (1) The Company received a \$3.6 million purchase money note. As part of the transaction, the Company agreed to reimburse the purchaser 50% of the former Ames rent, or \$22 per month, for a period of 18 months (through July 2003).
- (2) This portfolio of 17 properties was sold to a single buyer subject to a \$42.4 million fixed-rate, cross-collateralized and securitized loan. Proceeds include the sale of various escrows including capital expenditure reserves. \$6.3 million of the initial proceeds represented senior preferred equity in the buyer which was subsequently redeemed to the Company in December 2002.
- (3) These two properties were sold to a single buyer. The Company received two purchase money notes in connection with the sale. The first for \$11.0 million was repaid in full in November 2002. The second for \$1.6 million matures October 2003.

Property Redevelopment and Expansion

The Company's redevelopment program focuses on selecting well-located neighborhood and community shopping centers and creating significant value through re-tenanting and property redevelopment. The Company completed the redevelopment of the Elmwood Park Shopping Center during 2002 and continued its progress on the redevelopment of the Gateway Shopping Center as follows:

Elmwood Park Shopping Center – This shopping center located in Elmwood Park, New Jersey, is approximately ten miles west of New York City. The redevelopment consisted of re-anchoring, renovating and expanding the existing 125,000 square foot shopping center by 30,000 square feet. The first phase included the relocation and expansion of a Walgreen's into a 15,000 square foot, state-of-the-art drugstore that includes a drive-through pharmacy. In November 2002, a Pathmark supermarket opened in a new freestanding 49,000 square foot building, replacing the former undersized (28,000 square feet) in-line Grand Union supermarket. As of December 31, 2002, costs incurred on this project totaled \$13.3 million, which excludes \$3.8 million in tenant reimbursements. Costs incurred to date include \$2.8 million representing an obligation to the original owners who contributed the property to the Company in connection with the RDC Transaction in August 1998. These partners had the option to receive either cash or OP Units in settlement of this obligation. In March 2003, \$2.5 million was paid in cash and \$262,000 was satisfied with the issuance of a total of 34,841 Common OP Units, all of which were issued to Mr. Dworman, Chairman of the Board of Trustees. The Company expects remaining redevelopment costs of approximately \$1.0 million to complete this project.

Gateway Shopping Center – The redevelopment of the Gateway Shopping Center, formerly a partially enclosed mall located in South Burlington, Vermont, includes the demolition of 90% of the property and the construction of a new anchor supermarket. Construction of a new 72,000 Shaw's Supermarket is ongoing, which will replace the 32,000 square foot store formerly occupied by Grand Union. Total costs through December 31, 2002 for this project, including the original acquisition costs, were \$10.4 million. The Company expects remaining redevelopment costs of approximately \$7.5 million to complete this project, which it anticipates completing in the second half of 2003.

FINANCING STRATEGY

The Company intends to continue financing acquisitions and property redevelopment with sources of capital determined by management to be the most appropriate based on, among other factors, availability, pricing and other commercial and financial terms. The sources of capital may include cash on hand, bank and other institutional borrowing, the sale of properties and issuance of equity securities. The Company manages its interest rate risk primarily through the use of variable and fixed rate debt. It also utilizes LIBOR caps and interest rate swap agreements in managing its exposure to interest rate fluctuations. See Item 7A for a discussion on the Company's market risk exposure related to its mortgage debt.

FINANCIAL INFORMATION ABOUT MARKET SEGMENTS

The Company has two reportable segments: retail properties and multi-family properties. The accounting policies of the segments are the same as those described in the notes to the consolidated financial statements appearing in Item 8 of this Annual Report on Form 10-K. The Company evaluates property performance primarily based on net operating income before depreciation, amortization and certain non-recurring items. The reportable segments are managed separately due to the differing nature of the leases and property operations associated with retail versus residential tenants. The Company does not have any foreign operations. See the consolidated financial statements and notes thereto included in Item 8 of this Annual Report on Form 10-K for certain information on industry segments as required by Item 1.

CORPORATE HEADQUARTERS AND EMPLOYEES

The Company's executive offices are located at 20 Soundview Marketplace, Port Washington, New York 11050, and its telephone number is (516) 767-8830. The Company has an internet Web address at www.acadiarealty.com. The Company has 95 employees, of which 44 are located at the executive office, 7 at the Pennsylvania regional office and the remaining property management personnel are located on-site at the Company's properties.

COMPETITION

There are numerous shopping facilities that compete with the Company's properties in attracting retailers to lease space. In addition, there are numerous commercial developers and real estate companies that compete with the Company in seeking land for development, properties for acquisition and tenants for their properties. Also, retailers at the Company's properties face increasing competition from outlet malls, discount shopping clubs, internet commerce, direct mail and telemarketing.

COMPLIANCE WITH GOVERNMENTAL REGULATIONS – ENVIRONMENTAL MATTERS

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

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

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

RETAIL ENVIRONMENT

Seasonality

The retail environment is seasonal in nature, particularly in the fourth calendar quarter when retail sales are typically at their highest levels. As such, contingent rents based on tenants achieving certain sales targets are generally higher in the fourth quarter when such targets are typically met.

Tenant Bankruptcies

Since January of 2002, certain of the Company's tenants experienced financial difficulties and several have filed for bankruptcy protection under Chapter 11 of the United States bankruptcy laws ("Chapter 11 Bankruptcy"). Pursuant to bankruptcy law, tenants have the right to reject their leases. In the event the tenant exercises this right, the landlord generally has the right to file claims for lost rent equal to the greater of either one year's rent (including expense pass-throughs) for remaining terms greater than one year, or 15% of the rent remaining under the balance of the lease term, but not to exceed three years rent. Actual amounts to be received in satisfaction of those claims will be subject to the tenant's final plan of reorganization and the availability of funds to pay its creditors.

During 2002 and thereafter, there has been one significant bankruptcy within the Company's portfolio. On January 22, 2002 Kmart Corporation ("Kmart") filed for protection under Chapter 11 Bankruptcy. This tenant currently operates in five locations in the Company's wholly-owned portfolio totaling approximately 520,000 square feet. Rental revenues from this tenant at these locations totaled \$2.7 million and \$2.8 million for the years ended December 31, 2002 and 2001, respectively. This tenant also operated in a location occupying 101,000 square feet at a property in which the Company holds a 49% ownership interest. Rental revenues from the tenant at this location were \$1.2 million and \$1.1 million for the years ended December 31, 2002 and 2001, respectively. Kmart continues to operate in all of these locations, but has neither accepted nor rejected any of the leases.

TAX STATUS – QUALIFICATION AS REAL ESTATE INVESTMENT TRUST

The Company has and currently transacts its affairs so as to qualify as, and has elected to be treated as, a REIT under sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"). Under the Code, a real estate investment trust that meets applicable requirements is not subject to Federal income tax to the extent that it distributes at least 90% of its REIT taxable income to its shareholders. If the Company fails to qualify as a REIT in any taxable year, it will be subject to Federal income tax on its taxable income.

ITEM 2. PROPERTIES
SHOPPING CENTER PROPERTIES

As of December 31, 2002, the Company owned and operated 33 shopping centers, which included a mixed-use property (retail and residential) and one property under redevelopment. Four of these properties are owned through joint ventures in which the Company owns a partial interest. The Company's shopping centers, which total approximately 5.7 million square feet of gross leasable area ("GLA"), are located in 11 states and are generally well-established, anchored community and neighborhood shopping centers. The properties are diverse in size, ranging from approximately 31,000 to 517,000 square feet with an average size of 173,000 square feet. The Company's portfolio was approximately 87% occupied at December 31, 2002. The Company's shopping centers are typically anchored by supermarkets or national discount retailers.

The Company had 519 leases (including the joint venture properties) as of December 31, 2002 of which a majority of the rental revenues received thereunder were from national or regional tenants. A majority of the income from the properties consists of rent received under long-term leases. Most of these leases provide for the payment of fixed minimum rent monthly in advance and for the payment by tenants of a pro-rata share of the real estate taxes, insurance, utilities and common area maintenance of the shopping centers. Minimum rents and expense reimbursements accounted for approximately 86% of the Company's total revenues from continuing operations for the year ended December 31, 2002.

As of December 31, 2002, approximately 50% of the Company's existing leases also provided for the payment of percentage rents either in addition to or in place of minimum rents. These arrangements generally provide for payment to the Company of a certain percentage of a tenant's gross sales in excess of a stipulated annual amount. Percentage rents accounted for approximately 2% of the total 2002 revenues from continuing operations of the Company.

Three of the Company's shopping center properties are subject to long-term ground leases in which a third party owns and has leased the underlying land to the Company. The Company pays rent for the use of the land and is responsible for all costs and expenses associated with the building and improvements.

No individual property contributed in excess of 10% of the Company's total revenues for the years ended December 31, 2002, 2001 and 2000.

Reference is made to the Company's consolidated financial statements in Item 8 of this Annual Report on form 10-K for information on the mortgage debt pertaining to the Company's properties.

The following sets forth more specific information with respect to each of the Company's shopping centers at December 31, 2002:

| <u>Shopping Center Property</u> | <u>Location</u> | <u>Year Constructed(C) Acquired(A)</u> | <u>Ownership Interest</u> | <u>GLA</u> | <u>Occupancy (1) % 12/31/02</u> | <u>Anchor Tenants (2) Current Lease Expiration Lease Option Expiration</u> |
|---------------------------------|------------------|--|---------------------------|------------|---|--|
| <u>NEW ENGLAND REGION</u> | | | | | | |
| <u>Connecticut</u> | | | | | | |
| 239 Greenwich Avenue | Greenwich | 1998 (A) | Fee | 16,834(3) | 100% | Restoration Hardware 2015/2025 Chico's Fashion 2010/2020 |
| Town Line Plaza | Rocky Hill | 1998 (A) | Fee | 206,236(4) | 100% | A&P Superfresh 2017/2052 Wal*Mart(4) |
| <u>Massachusetts</u> | | | | | | |
| Methuen Shopping Center | Methuen | 1998 (A) | LI/Fee | 130,238 | 100% | Wal*Mart 2011/2051 DeMoulas Market 2005/2015 |
| Crescent Plaza | Brockton | 1984 (A) | Fee | 218,235 | 98% | Home Depot 2021/2056 Shaw's 2012/2042 |
| <u>Rhode Island</u> | | | | | | |
| Walnut Hill Plaza | Woonsocket | 1998 (A) | Fee | 297,639 | 96% | Sears 2003/2033 Shaw's 2013/2043 |
| <u>Vermont</u> | | | | | | |
| The Gateway Shopping Center | South Burlington | 1999 (A) | Fee | 12,026(5) | 92% | Shaw's 2023/2052 |

| Shopping Center Property | Location | Year Constructed(C) Acquired(A) | Ownership Interest | GLA | Occupancy (1) % 12/31/02 | Anchor Tenants (2) Current Lease Expiration Lease Option Expiration |
|---------------------------------|-----------------|------------------------------------|--------------------|------------|--------------------------------|---|
| NEW YORK REGION | | | | | | |
| New Jersey | | | | | | |
| Berlin Shopping Center | Berlin | 1994 (A) | Fee | 187,178 | 80% | Kmart 2004/2029 (6) Acme 2005/2015 |
| Elmwood Park Shopping Center | Elmwood Park | 1998 (A) | Fee | 149,726 | 93% | Pathmark 2017/2052 Walgreen's 2022/2062 |
| Ledgewood Mall | Ledgewood | 1983 (A) | Fee | 517,335 | 81% | The Sports' Authority 2007/2037 Macy's 2005/2025 Wal*Mart 2019/2049 Circuit City 2020/2040 Marshall's 2007/2027 |
| Marketplace of Absecon | Absecon | 1998 (A) | Fee | 104,297 | 97% | Eckerd Drug 2020/2040 Acme 2015/2055 |
| New York | | | | | | |
| Branch Shopping Plaza | Smithtown | 1998 (A) | LI (7) | 125,640 | 92% | Pathmark 2013/2028 |
| New Loudon Center | Latham | 1982 (A) | Fee | 253,111 | 70% | Price Chopper 2015/2035 Marshalls 2004/2009 |
| Village Commons Shopping Center | Smithtown | 1998 (A) | Fee | 87,150 | 95% | Daffy's 2008/2028 Walgreens 2021/none |
| Soundview Marketplace | Port Washington | 1998 (A) | LI/Fee (7) | 183,972 | 88% | King Kullen 2007/2022 Clearview Cinema 2010/2030 |
| Pacesetter Park Shopping Center | Pomona | 1999 (A) | Fee | 95,615 | 81% | Stop & Shop 2020/2040 |
| MID-ATLANTIC REGION | | | | | | |
| Pennsylvania | | | | | | |
| Abington Towne Center | Abington | 1998 (A) | Fee | 216,352(8) | 97% | TJ Maxx 2010/2020 Target (8) |
| Blackman Plaza | Wilkes-Barre | 1968 (C) | Fee | 120,711 | 93% | Kmart 2004/2049 (6) |
| Bradford Towne Centre | Towanda | 1993 (C) | Fee | 256,719 | 88% | Kmart 2019/2069 (6) P&C Foods 2014/2024 |
| East End Centre | Wilkes-Barre | 1986 (C) | Fee | 308,268 | 56% | Price Chopper 2008/2028 |
| Greenridge Plaza | Scranton | 1986 (C) | Fee | 198,362 | 48% | Giant Food 2021/2051 |
| Luzerne Street Shopping Center | Scranton | 1983 (A) | Fee | 57,988 | 94% | Price Chopper 2004/2024 (9) Eckerd Drug 2004/2019 |
| Mark Plaza | Edwardsville | 1968 (C) | LI/Fee (7) | 214,021 | 91% | Kmart 2004/2054 (6) Redner's Markets 2018/2028 |
| Pittston Plaza | Pittston | 1994 (C) | Fee | 79,488 | 98% | Redner's Markets 2018/2028 Eckerd Drug 2006/2016 |
| Plaza 422 | Lebanon | 1972 (C) | Fee | 154,791 | 87% | Ames 2006/2021 (6) Giant Food 2004/2029 (10) |
| Route 6 Mall | Honesdale | 1994 (C) | Fee | 175,482 | 99% | Kmart 2020/2070 (6) |
| MIDWEST REGION | | | | | | |
| Illinois | | | | | | |
| Hobson West Plaza | Naperville | 1998 (A) | Fee | 99,038 | 98% | Eagle Foods 2007/2032 |

Indiana

| | | | | | | |
|--------------------|--------|----------|-----|---------|-----|--|
| Merrillville Plaza | Hobart | 1998 (A) | Fee | 235,601 | 99% | JC Penney 2008/2018 Office Max 2008/2028 TJ Maxx 2004/2014 |
|--------------------|--------|----------|-----|---------|-----|--|

Michigan

| | | | | | | |
|------------------------|------------------|----------|-----|---------|-----|--|
| Bloomfield Town Square | Bloomfield Hills | 1998 (A) | Fee | 223,457 | 82% | TJ Maxx 2009/2014 Marshalls 2011/2026 Home Goods 2010/2025 |
|------------------------|------------------|----------|-----|---------|-----|--|

Ohio

| | | | | | | |
|-------------------|--------|----------|-----|-------------|-----|---|
| Mad River Station | Dayton | 1999 (A) | Fee | 153,652(11) | 85% | Office Depot 2005/2010 Babies 'R' Us 2005/2020 |
|-------------------|--------|----------|-----|-------------|-----|---|

| Shopping Center Property | Location | Year Constructed(C) Acquired(A) | Ownership Interest | GLA | Occupancy (1) % 12/31/02 | Anchor Tenants (2) Current Lease Expiration Lease Option Expiration |
|--|--------------|------------------------------------|--------------------|-----------|--------------------------------|--|
| PROPERTIES HELD IN JOINT VENTURES | | | | | | |
| NEW YORK REGION | | | | | | |
| New York | | | | | | |
| Crossroads Shopping Center | White Plains | 1998 (A) | JV (12) | 309,553 | 99% | Kmart 2012/2037 (6) Waldbaum's 2007/2032 B. Dalton 2012/2022 Modell's 2009/2019 Pay Half 2018/none |
| MIDWEST REGION | | | | | | |
| Ohio | | | | | | |
| Amherst Marketplace | Cleveland | 2002 (A) | JV (13) | 79,937 | 100% | Giant Eagle 2021/2041 |
| Granville Centre | Columbus | 2002 (A) | JV (13) | 131,269 | 92% | Big Bear 2020/2050 California Fitness 2017/2027 |
| Sheffield Crossing | Cleveland | 2002 (A) | JV (13) | 112,634 | 94% | Giant Eagle 2022/2042 |
| | | | Total | 5,712,555 | 87% | |

Notes:

- (1) Does not include space leased but not yet occupied by the tenant.
- (2) Generally, anchors represent those tenants whose leases comprise at least 10% of the GLA of the center.
- (3) In addition to the 16,834 square feet of retail GLA, this property also has 21 apartments comprising 14,434 square feet.
- (4) Includes a 92,500 square foot Wal*Mart which is not owned by the Company.
- (5) The Company is currently constructing a 72,000 square foot Shaw's Supermarket in conjunction with the redevelopment of this property. Although not yet open, rent has commenced for this space pursuant to the lease. Upon completion of this redevelopment project, the property will total approximately 101,000 square feet of GLA.
- (6) This tenant is currently operating under Chapter 11 Bankruptcy and has neither rejected nor affirmed this lease to date.
- (7) The Company is a ground lessee under a long-term ground lease.
- (8) Includes a 157,616 square foot Target Store that is not owned by the Company.
- (9) This tenant has ceased operating in their space but continues to pay rent pursuant to the lease.
- (10) This space is currently being sub-leased to a non-grocery store tenant.
- (11) The GLA for this property includes 27,702 square feet of office space.
- (12) The Company has a 49% investment in this property.
- (13) The Company has a 22% investment in this property.

MAJOR TENANTS

No individual retail tenant accounted for more than 5.8% of minimum rents for the year ended December 31, 2002 or 10.2% of total leased GLA as of December 31, 2002. The following table sets forth certain information for the 25 largest retail tenants based upon minimum rents in place as of December 31, 2002. The table does not include leases related to the Company's joint venture properties (GLA and rent in thousands):

| Retail Tenant | Number of Stores in Portfolio | Total GLA | Annualized Base Rent (1) | Percentage of Total Represented by Retail Tenant | |
|------------------------------------|-------------------------------|--------------|--------------------------|--|--------------------------|
| | | | | Total Portfolio GLA (2) | Annualized Base Rent (2) |
| Shaw's (3) | 3 | 175 | \$ 2,311 | 3.4% | 5.8% |
| Kmart (4,5) | 5 | 520 | 1,871 | 10.2% | 4.7% |
| T.J. Maxx | 8 | 238 | 1,803 | 4.7% | 4.5% |
| A&P/Waldbaum's (4) | 2 | 128 | 1,567 | 2.5% | 4.0% |
| Wal*Mart | 2 | 210 | 1,516 | 4.2% | 3.8% |
| Price Chopper (6) | 3 | 168 | 1,296 | 3.3% | 3.3% |
| Eckerd Drug (7) | 8 | 90 | 1,054 | 1.8% | 2.7% |
| Pathmark | 1 | 47 | 955 | 0.9% | 2.4% |
| Acme (Albertson's) | 2 | 77 | 919 | 1.5% | 2.3% |
| Redner's Supermarket | 2 | 112 | 837 | 2.2% | 2.1% |
| Restoration Hardware | 1 | 12 | 830 | 0.2% | 2.1% |
| Ahold (Stop & Shop and Giant) | 2 | 155 | 735 | 3.1% | 1.9% |
| Macy's | 1 | 73 | 611 | 1.4% | 1.5% |
| Home Depot | 1 | 107 | 602 | 2.2% | 1.5% |
| Clearview Cinemas (8) | 1 | 25 | 596 | 0.5% | 1.5% |
| Walgreen's | 2 | 24 | 589 | 0.5% | 1.5% |
| Kay Bee Toys | 5 | 41 | 574 | 0.8% | 1.4% |
| King Kullen | 1 | 48 | 563 | 0.9% | 1.4% |
| Payless Shoe Source | 11 | 38 | 553 | 0.8% | 1.4% |
| JC Penney | 2 | 73 | 547 | 1.4% | 1.4% |
| Blockbuster Video | 4 | 22 | 464 | 0.4% | 1.2% |
| Circuit City | 1 | 33 | 449 | 0.7% | 1.1% |
| CVS | 3 | 29 | 424 | 0.6% | 1.1% |
| Fashion Bug (Charming Shoppes) (9) | 7 | 82 | 423 | 1.6% | 1.1% |
| Penn Traffic Co. (P&C Foods) | 1 | 52 | 413 | 1.0% | 1.0% |
| Total | 80 | 2,579 | \$ 22,502 | 50.8% | 56.7% |

Notes:

- Base rents do not include percentage rents (except where noted), additional rents for property expense reimbursements, and contractual rent escalations due after December 31, 2002.
- Represents total GLA and annualized base rent for the Company's core retail properties excluding joint venture properties.
- The Company is currently constructing a 72,000 square foot Shaw's Supermarket in conjunction with the redevelopment of a property. Although not yet open, rent has commenced for this space pursuant to the lease.
- The Company is a 49% partner in a property which is anchored by a 100,725 square foot Kmart with an annual base rent of \$566 and a 38,208 square foot Waldbaum's with an annual base rent of \$504. These tenants are not included in the above amounts as this partnership does not report on a consolidated basis with the Company.
- The tenant is currently operating under Chapter 11 Bankruptcy and, as of December 31, 2002, has neither affirmed nor rejected its leases at any of these locations.
- The tenant is currently not operating the store at the Luzerne Street Shopping Center. They are obligated, and continue, to pay annual base rent of \$178 until the lease expires in April 30, 2004.
- Subsidiary of JC Penney. The stores at the Route 6 Mall and Berlin Shopping Center have ceased operating, but continue to pay annual rent of \$107 and \$29, respectively, through January 31, 2011 and November 30, 2004, respectively, pursuant to the leases.
- Subsidiary of Cablevision.
- This tenant pays percentage rent only (no minimum rent) at four of its locations. Included in the above rent is \$307 of percentage rent paid for calendar 2002.

LEASE EXPIRATIONS

The following table shows scheduled lease expirations for retail tenants in place as of December 31, 2002, assuming that none of the tenants exercise renewal options. The table does not include leases related to the Company's joint venture property or non-owned anchor square footage (GLA and rent in thousands):

| December 31, | Number of Leases Expiring | GLA of Expiring Leases | Annualized Base Rent (1) | Percentage of Total Represented by Expiring Leases | |
|--------------|---------------------------|------------------------|--------------------------|--|----------------------|
| | | | | Leased GLA | Annualized Base Rent |
| 2003 | 56 | 141 | \$ 1,713 | 3% | 4% |
| 2004 | 63 | 686 | 4,303 | 17% | 11% |
| 2005 | 55 | 436 | 4,398 | 11% | 11% |
| 2006 | 48 | 293 | 2,470 | 7% | 6% |
| 2007 | 54 | 374 | 4,078 | 9% | 10% |
| 2008 | 30 | 348 | 3,377 | 8% | 9% |
| 2009 | 24 | 153 | 1,686 | 4% | 5% |
| 2010 | 19 | 212 | 2,512 | 5% | 6% |
| 2011 | 19 | 197 | 2,133 | 5% | 5% |
| 2012 | 8 | 73 | 981 | 2% | 2% |
| Thereafter | 27 | 1,217 | 12,001 | 29% | 31% |
| Total | 403 | 4,130 | \$ 39,652 | 100% | 100% |

Note:

- (1) Base rents do not include percentage rents, additional rents for property expense reimbursements, nor contractual rent escalations due after December 31, 2002.

GEOGRAPHIC CONCENTRATIONS

The following table summarizes the Company's retail properties (including joint venture properties) by region as of December 31, 2002. (GLA and rent in thousands):

| Region | GLA (1) | Occupied % | Annualized Base Rent (2) | Annualized Base Rent per Leased Square Foot | Percentage of Total Represented by Region | |
|------------------------------|--------------|------------|--------------------------|---|---|----------------------|
| | | | | | GLA | Annualized Base Rent |
| New England | 869 | 98% | \$ 7,053 | \$ 9.35 | 17% | 16% |
| New York Region | 1,704 | 84% | 18,027 | 12.66 | 32% | 42% |
| Mid-Atlantic | 1,782 | 82% | 7,531 | 5.81 | 34% | 18% |
| Midwest | 712 | 90% | 6,848 | 10.64 | 13% | 16% |
| | 5,067 | 86% | 39,459 | 9.58 | 96% | 92% |
| Redevelopment Property (3) | 12 | 92% | 193 | 17.53 | 0% | 0% |
| Joint Venture Properties (4) | 223 | 98% | 3,344 | 15.37 | 4% | 8% |
| Total | 5,302 | 87% | \$ 42,996 | \$ 9.87 | 100% | 100% |

Notes:

- (1) Property GLA includes a total of 255 square feet which is not owned by the Company. This square footage has been adjusted out in calculating annualized base rent per square foot.
- (2) Base rents do not include percentage rents, additional rents for property expense reimbursements, nor contractual rent escalations due after December 31, 2002.
- (3) The Company currently has one ongoing redevelopment project.
- (4) The above GLA and base rents for these joint ventures reflect the Company's pro-rata share of the total amounts for these properties.

MULTI-FAMILY PROPERTIES

The Company owns two multi-family properties located in the Mid-Atlantic and Midwest regions. The properties average 737 units and as of December 31, 2002, had an average occupancy rate of 90%. The following sets forth more specific information with respect to each of the Company's multi-family properties at December 31, 2002:

| <u>Multi-Family Property</u> | <u>Location</u> | <u>Year Acquired</u> | <u>Ownership Interest</u> | <u>Units</u> | <u>% Occupied</u> |
|---|-----------------|----------------------|---------------------------|--------------|-------------------|
| Missouri Gate House, Holiday House, Tiger Village and Colony Apartments(1) | Columbia | 1998 | Fee | 874 | 91% |
| North Carolina Village Apartments | Winston Salem | 1998 | Fee | 600 | 88% |
| | | Totals | | 1,474 | 90% |

- (1) The Company owns four similar residential complexes in Columbia, Missouri which, although owned in two separate entities, are managed as a single property and therefore reflected as such.

ITEM 3. LEGAL PROCEEDINGS

In 2002, the Company settled its lawsuit against The Great Atlantic & Pacific Tea Company ("A&P") which had been filed in July 2001. The terms of the settlement are subject to a confidentiality agreement. The Company had alleged that A&P defaulted under its lease at the Elmwood Park Shopping Center by failing to accept delivery of its site at the center. The Company believed A&P wrongfully refused acceptance of the site and sought to have the Court declare the lease in default, terminate the lease and accelerate the rent that totaled approximately \$24.4 million over the 20 year lease term.

On December 31, 1998, the Company and Jack Wertheimer, a former President of the Company, settled certain litigation filed by Mr. Wertheimer in connection with his termination of employment and entered into an agreement whereby the Company paid Mr. Wertheimer \$1.0 million on December 31, 1998 and \$900,000 on April 1, 1999, and agreed to pay him five annual payments of \$200,000 commencing January 10, 2000, the first of which was paid on such date. In March 2002, the Company paid Mr. Wertheimer \$388,000 in satisfaction of all remaining payments owed.

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders through the solicitation of proxies or otherwise during the fourth quarter of 2002.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

(a) Market Information

The following table shows, for the period indicated, the high and low sales price for the Common Shares as reported on the New York Stock Exchange, and cash dividends paid during the two years ended December 31, 2002 and 2001.

| Quarter Ended | High | Low | Dividend Per Share |
|--------------------|---------|---------|-----------------------|
| <u>2002</u> | | | |
| March 31, 2002 | \$ 7.59 | \$ 6.16 | \$ 0.13 |
| June 30, 2002 | 8.65 | 6.45 | 0.13 |
| September 30, 2002 | 8.15 | 6.87 | 0.13 |
| December 31, 2002 | 7.79 | 6.77 | 0.13 |
| <u>2001</u> | | | |
| March 31, 2001 | 6.86 | 5.75 | 0.12 |
| June 30, 2001 | 7.00 | 6.05 | 0.12 |
| September 30, 2001 | 7.05 | 5.91 | 0.12 |
| December 31, 2001 | 6.55 | 6.11 | 0.12 |

At March 24, 2003, there were 254 holders of record of the Company's Common Shares.

(b) Dividends

The Company has determined that 44% and 56% of the total dividends distributed to shareholders in 2002 represented ordinary income and return of capital, respectively. The Company's cash flow is affected by a number of factors, including the revenues received from rental properties, the operating expenses of the Company, the interest expense on its borrowings, the ability of lessees to meet their obligations to the Company and unanticipated capital expenditures. Future dividends paid by the Company will be at the discretion of the Trustees and will depend on the actual cash flows of the Company, its financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Code and such other factors as the Trustees deem relevant.

(d) Securities authorized for issuance under equity compensation

The following table provides information related to the Company's 1999 Share Incentive Plan (the "Plan") as of December 31, 2002:

Equity Compensation Plan Information

| | (a) | (b) | (c) |
|---|--|---|---|
| | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted- average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column a) |
| Equity compensation plans approved by security holders | 2,472,400 | \$ 6.84 | —(1) |
| Equity compensation plans Not approved by security holders | — | — | — |
| Total | 2,472,400 | \$ 6.84 | —(1) |

Notes:

- (1) The Plan authorizes the issuance of options equal to up to 8% of the total Common Shares outstanding from time to time on a fully diluted basis. However, not more than 4,000,000 of the Common Shares in the aggregate may be issued pursuant to the exercise of options and no participant may receive more than 5,000,000 Common Shares during the term of the 1999 Plan. Based on 25,257,178 outstanding Common Shares and 3,162,980 OP Units as of December 31, 2002, there was no additional capacity to issue any options, warrants or rights under the Plan.

SELECTED FINANCIAL DATA

The following table sets forth, on a historical basis, selected financial data for the Company. This information should be read in conjunction with the audited consolidated financial statements of the Company and Management's Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this Annual Report on Form 10-K.

| | Years ended December 31, | | | | |
|---|--------------------------|------------|------------|------------|-------------|
| | 2002 | 2001 | 2000 | 1999 | 1998(1) |
| OPERATING DATA: | | | | | |
| Revenues | \$ 69,347 | \$ 61,282 | \$ 63,450 | \$ 58,933 | \$ 31,662 |
| Operating expenses | 30,894 | 29,049 | 28,736 | 27,651 | 18,912 |
| Interest expense | 11,017 | 12,370 | 15,877 | 13,686 | 9,532 |
| Depreciation and amortization | 14,804 | 13,605 | 13,136 | 12,241 | 8,006 |
| Non-recurring charges (2) | — | — | — | — | 2,249 |
| Abandoned project costs | 274 | — | — | — | — |
| Equity in earnings of unconsolidated partnerships | 628 | 504 | 645 | 584 | 256 |
| Minority interest | (2,426) | (1,466) | (1,952) | (1,832) | 181 |
| Income (loss) from continuing operations | 10,560 | 5,296 | 4,394 | 4,107 | (6,600) |
| Income (loss) from discontinued operations | 8,839 | 4,795 | 15,513 | 3,088 | (6,591) |
| Income (loss) before extraordinary item and cumulative effect of a change in accounting principle | 19,399 | 10,091 | 19,907 | 7,195 | (13,191) |
| Extraordinary item — loss on early extinguishment of debt | — | (140) | — | — | (707) |
| Cumulative effect of a change in accounting principle | — | (149) | — | — | — |
| Net income (loss) | \$ 19,399 | \$ 9,802 | \$ 19,907 | \$ 7,195 | \$ (13,898) |
| Basic earnings per share: | | | | | |
| Income (loss) from continuing operations | \$ 0.42 | \$ 0.19 | \$ 0.16 | \$ 0.16 | \$ (0.43) |
| Income (loss) from discontinued operations | 0.35 | 0.17 | 0.59 | 0.12 | (0.43) |
| Extraordinary item and cumulative effect of a change in accounting principle | — | (0.01) | — | — | (0.05) |
| Basic earnings per share | \$ 0.77 | \$ 0.35 | \$ 0.75 | \$ 0.28 | \$ (0.91) |
| Diluted earnings per share: | | | | | |
| Income (loss) from continuing operations | \$ 0.42 | \$ 0.19 | \$ 0.16 | \$ 0.16 | \$ (0.43) |
| Income (loss) from discontinued operations | 0.34 | 0.17 | 0.59 | 0.12 | (0.43) |
| Extraordinary item and cumulative effect of a change in accounting principle | — | (0.01) | — | — | (0.05) |
| Diluted earnings per share | \$ 0.76 | \$ 0.35 | \$ 0.75 | \$ 0.28 | \$ (0.91) |
| Weighted average number of Common Shares outstanding | | | | | |
| - basic | 25,320,631 | 28,313,070 | 26,437,265 | 25,708,787 | 15,205,962 |
| - diluted (3) | 25,806,035 | — | — | — | — |
| BALANCE SHEET DATA: | | | | | |
| Real estate before accumulated depreciation | \$ 413,878 | \$ 398,416 | \$ 387,729 | \$ 389,111 | \$ 348,563 |
| Total assets | 410,935 | 493,939 | 523,611 | 570,803 | 528,512 |
| Total mortgage indebtedness | 202,361 | 211,444 | 193,693 | 213,154 | 162,314 |
| Minority interest – Operating Partnership | 22,745 | 37,387 | 48,959 | 74,462 | 79,344 |
| Total equity | 161,323 | 179,098 | 179,317 | 152,487 | 154,591 |
| OTHER: | | | | | |
| Funds from Operations (4) | \$ 29,402 | \$ 29,513 | \$ 31,789 | \$ 31,160 | \$ 10,352 |
| Cash flows provided by (used in): | | | | | |
| Operating activities | 24,918 | 20,521 | 19,197 | 25,886 | 7,459 |
| Investing activities | 24,646 | (11,199) | (11,165) | (19,930) | (24,822) |
| Financing activities | (58,807) | (7,047) | (45,948) | 14,201 | 31,259 |

Notes:

- (1) Activity for the year ended December 31, 1998 includes the operations of the properties acquired in the RDC Transaction from August 12, 1998 through December 31, 1998.
- (2) Non-recurring charges represent expenses incurred in 1998 related to the RDC Transaction, including payments made to certain officers and key employees pursuant to change in control provisions of employment contracts, severance paid to the former CEO, retention bonuses for certain employees and transaction-related consulting and professional fees.
- (3) For 1997 through 2001, the weighted average number of shares outstanding on a diluted basis is not presented as the inclusion of additional shares was anti-dilutive.

- (4) The Company considers funds from operations (“FFO”) as defined by the National Association of Real Estate Investment Trusts (“NAREIT”) to be an appropriate supplemental disclosure of operating performance for an equity REIT due to its widespread acceptance and use within the REIT and analyst communities. FFO is presented to assist investors in analyzing the performance of the Company. However, the Company’s method of calculating FFO may be different from methods used by other REITs and, accordingly, may not be comparable to such other REITs. FFO does not represent cash generated from operations as defined by accounting principles generally accepted in the United States (“GAAP”) and is not indicative of cash available to fund all cash needs, including distributions. It should not be considered as an alternative to net income for the purpose of evaluating the Company’s performance or to cash flows as a measure of liquidity. NAREIT defines FFO as net income (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Effective January 1, 2000, NAREIT clarified the definition of FFO to include non-recurring events except those that are defined as extraordinary items under GAAP. FFO for the year ended December 31, 1998 has been restated above to conform to this clarification. See Management’s Discussion and Analysis of Financial Condition and Results of Operations – Funds from Operations for the reconciliation of net income to FFO.

ITEM 7. MANagements Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements of the Company (including the related notes thereto) appearing elsewhere in this Annual Report on Form 10-K. Certain statements contained in this report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions, which will, among other things, affect demand for rental space, the availability and creditworthiness of prospective tenants, lease rents and the availability of financing; adverse changes in the Company’s real estate markets, including, among other things, competition with other companies; risks of real estate development and acquisition; governmental actions and initiatives; and environmental/safety requirements.

RESULTS OF OPERATIONS

Comparison of the year ended December 31, 2002 (“2002”) to the year ended December 31, 2001 (“2001”)

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

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

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

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

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

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

Total operating expenses increased \$3.3 million, or 8%, to \$46.0 million for 2002, from \$42.7 million for 2001.

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

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

Depreciation and amortization increased \$1.2 million, or 9%, from \$13.6 million for 2001 to \$14.8 million for 2002. Depreciation expense increased \$591,000. This was principally a result of increased depreciation expense related to capitalized tenant installation costs during 2001 and 2002 and the write-off of tenant improvement costs related to certain tenant leases. Amortization expense increased \$608,000, which was primarily attributable to the write-off of deferred leasing costs related to certain tenant leases and increased loan amortization expense related to financing activity in 2002.

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

The \$140,000 extraordinary loss in 2001 was a result of the write-off of deferred financing fees as a result of the early repayment of debt.

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

Operating income from discontinued operations decreased \$2.8 million due to the timing of property sales in 2002 and 2001.

Comparison of the year ended December 31, 2001 (“2001”) to the year ended December 31, 2000 (“2000”)

Total revenues decreased \$2.2 million, or 3%, to \$61.3 million for 2001 compared to \$63.5 million for 2000.

Minimum rents increased \$638,000, or 1%, to \$47.1 million for 2001 compared to \$46.4 million for 2000. This increase was primarily due to an increase in rents from re-tenanting activities and rent step-ups for existing tenants throughout the portfolio during 2000 and 2001.

Percentage rents decreased \$381,000, or 24%, to \$1.2 million for 2001 compared to \$1.6 million for 2000. This decrease was primarily attributable to certain tenants paying percentage rent in lieu of minimum rent in 2000 pursuant to anchor co-tenancy lease provisions. These tenants reverted to paying full minimum rent in 2001. Additionally, certain tenant bankruptcies contributed to lower percentage rent income in 2001.

In total, expense reimbursements decreased \$212,000, or 2%, from \$11.1 million for 2000 to \$10.9 million for 2001. CAM expense reimbursements decreased \$515,000, or 11%, from \$4.7 million in 2000 to \$4.2 million in 2001. This resulted primarily from a decrease in reimbursements following the planned termination of certain leases and the sale of 160,000 square feet of the main building at the Abington Towne Center in connection with its redevelopment which commenced in 2000. Real estate tax reimbursements increased \$303,000, which was primarily the result of general increases in real estate taxes experienced throughout the portfolio in 2001.

Lease termination income of \$2.0 million in 2000 relates to termination income received from former tenants at the Abington Towne Center.

Other income decreased \$189,000, or 11%, from \$1.7 million in 2000 to \$1.5 million in 2001. This was primarily the result of a decrease in third-party management fees earned in 2001 following the cancellation of one management contract in November 2000.

Total operating expenses increased \$782,000, or 2%, to \$42.7 million for 2001, from \$41.9 million for 2000.

Property operating expenses decreased \$549,000, or 5%, to \$11.6 million for 2001 compared to \$12.1 million for 2000. This decrease resulted primarily from a decrease in non-recurring repairs and maintenance expense experienced throughout the portfolio and a reduction in estimated property liability claims related to prior year policies based on actual claims filed under these policies in 2001. These decreases were partially offset by higher payroll costs and an increase in bad debt expense in 2001.

Real estate taxes increased \$228,000, or 3%, from \$8.2 million in 2000 to \$8.4 million in 2001. This increase was attributable to higher real estate taxes experienced generally throughout the portfolio in 2001.

General and administrative expense increased \$634,000, or 8%, from \$8.4 million for 2000 to \$9.0 million for 2001, which was primarily attributable to an increase in third-party professional fees in 2001.

Depreciation and amortization increased \$469,000, or 4%, from \$13.1 million for 2000 to \$13.6 million for 2001. Depreciation expense increased \$492,000. This increase was due to additional depreciation expense related to capitalized tenant installation costs incurred during 2000 and 2001. Amortization expense decreased \$23,000, which was primarily the result of a decrease in amortization of loan costs following certain loan payoffs during 2000 and 2001.

Interest expense of \$12.4 million for 2001 decreased \$3.5 million, or 22%, from \$15.9 million for 2000. Of the decrease, \$3.0 million was the result of a lower average interest rate on the portfolio mortgage debt and \$541,000 was attributable to lower average outstanding borrowings in 2001.

See the 2002 discussion regarding the \$140,000 extraordinary loss and the \$149,000 cumulative effect of a change in accounting principle.

Operating income from discontinued operations decreased \$1.7 million due to the timing of property sales in 2001 and 2000.

Funds from Operations

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

NAREIT defines FFO as net income (computed in accordance with GAAP), excluding gains (or losses) from sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Effective January 1, 2000, NAREIT clarified the definition of FFO to include non-recurring events except those that are defined as extraordinary items under GAAP. The reconciliations of net income to FFO for the years ended December 31, 2002, 2001, 2000, 1999 and 1998 are as follows:

Reconciliation of Net Income (Loss) to Funds from Operations

| | For the Years Ended December 31, | | | | |
|--|----------------------------------|-----------|-----------|-----------|-------------|
| | 2002 | 2001 | 2000 | 1999 | 1998(1) |
| Net income (loss) | \$ 19,399 | \$ 9,802 | \$ 19,907 | \$ 7,195 | \$ (13,898) |
| Depreciation of real estate and amortization of leasing costs: | | | | | |
| Wholly owned and consolidated partnerships | 15,305 | 18,422 | 19,325 | 18,949 | 14,925 |
| Unconsolidated partnerships | 662 | 627 | 625 | 626 | 231 |
| Income (loss) attributable to minority interest (2) | 2,928 | 2,221 | 5,674 | 3,106 | (3,348) |
| (Gain)loss on sale of properties (3) | (9,089) | (17,734) | (13,742) | 1,284 | 175 |
| Impairment of real estate | 197 | 15,886 | — | — | 11,560 |
| Extraordinary item – loss on extinguishment of debt | — | 140 | — | — | 707 |
| Cumulative effect of change in accounting Principle | — | 149 | — | — | — |
| Funds from operations | \$ 29,402 | \$ 29,513 | \$ 31,789 | \$ 31,160 | \$ 10,352 |

Notes:

- (1) Effective January 1, 2000, NAREIT clarified the definition of FFO to include non-recurring events except those that are defined as extraordinary items under GAAP. FFO for the year ended December 31, 1998 has been restated above to conform to this clarification.
- (2) Does not include distributions paid to Preferred OP Unitholders.
- (3) Amount is net of minority interest of \$573 related to land sale.

LIQUIDITY AND CAPITAL RESOURCES

USES OF LIQUIDITY

The Company's principal uses of its liquidity are expected to be for distributions to its shareholders and OP unitholders, debt service and loan repayments, and property investment which includes funding of its joint venture commitments, acquisition, redevelopment, expansion and re-tenanting activities. In order to qualify as a REIT for Federal income tax purposes, the Company must currently distribute at least 90% of its taxable income to its shareholders. For the year ended December 31, 2002, the Company paid a quarterly dividend of \$0.13 per Common Share and Common OP Unit. In February of 2003, the Board of Trustees approved and declared an 11.5% increase in the Company's quarterly dividend to \$0.145 per Common Share and Common OP Unit. The first quarter 2003 dividend is payable April 15, 2003 to shareholders and OP unitholders of record as of March 31, 2003. The Board of Trustees also approved a distribution of \$22.50 per Preferred OP Unit, to be paid on April 15, 2003.

Acadia Strategic Opportunity Fund, LP ("ASOF")

During 2001, the Company committed \$20.0 million to a newly formed joint venture formed with four of its institutional shareholders, who committed \$70.0 million, for the purpose of acquiring a total of approximately \$300.0 million of community and neighborhood shopping centers on a leveraged basis. The Company is the manager and general partner of ASOF with a 22% interest. In addition to a pro-rata return on its invested equity, the Company is entitled to a profit participation in excess of its invested capital based upon certain investment return thresholds. Cash flow is to be distributed to the partners (including the Company) until they have received a 9% cumulative return and a full return of all contributions. Thereafter, remaining cash flow is to be distributed 80% to the partners (including the Company) and 20% to the Company. The Company also earns a fee for asset management services equal to 1.5% of the total equity commitments, as well as market-rate fees for property management, leasing and construction services.

To date, ASOF has purchased a total of approximately \$163.9 million in assets in three separate transactions, with an additional potential earnout of \$42.0 million to \$62.0 million related to the Brandywine Town Center acquisition. Details of these transactions are as follows:

Ohio Portfolio

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

Kroger/Safeway Portfolio

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

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

Brandywine Portfolio

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

Market Square Shopping Center is a 103,000 square foot community shopping center which is 92% leased and anchored by a T.J. Maxx and a Trader Joe's gourmet food market.

Brandywine Town Center is a two phase open-air value retail center. The first phase ("Phase I") is approximately 450,000 square feet and 97% occupied, with tenants including Lowe's, Bed Bath & Beyond, Regal Cinema, Michaels, Petsmart, Old Navy, Annie Sez, Thomasville Furniture, KB Toys and Dick's Sporting Goods. The second phase ("Phase II") consists of approximately 420,000 square feet of existing space, of which Target occupies 138,000 square feet. The balance of Phase II, which is currently not occupied, is to be paid for on an earnout basis as it is leased and occupied.

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

Property Redevelopment and Expansion

The Company's redevelopment program focuses on selecting well-located neighborhood and community shopping centers and creating significant value through re-tenanting and property redevelopment. The Company completed the redevelopment of the Elmwood Park Shopping Center during 2002 and continued its progress on the redevelopment of the Gateway Shopping Center as follows:

Elmwood Park Shopping Center – This shopping center located in Elmwood Park, New Jersey, is approximately ten miles west of New York City. The redevelopment consisted of re-anchoring, renovating and expanding the existing 125,000 square foot shopping center by 30,000 square feet. The first phase included the relocation and expansion of a Walgreen's into a 15,000 square foot, state-of-the-art drugstore that includes a drive-through pharmacy.

In November 2002, a Pathmark supermarket opened in a new freestanding 49,000 square foot building, replacing the former undersized (28,000 square feet) in-line Grand Union supermarket. As of December 31, 2002, costs incurred on this project totaled \$13.3 million, which excludes \$3.8 million in tenant reimbursements. Costs incurred to date include \$2.8 million representing an obligation to the original owners who contributed the property to the Company in connection with the RDC Transaction in August 1998. These partners had the option to receive either cash or OP Units in settlement of this obligation. In March 2003, \$2.5 million was paid in cash and \$262,000 was satisfied with the issuance of a total of 34,841 Common OP Units, all of which were issued to Mr. Dworman, Chairman of the Board of Trustees. The Company expects remaining redevelopment costs of approximately \$1.0 million to complete this project.

Gateway Shopping Center – The redevelopment of the Gateway Shopping Center, formerly a partially enclosed mall located in South Burlington, Vermont, includes the demolition of 90% of the property and the construction of a new anchor supermarket. Construction of a new 72,000 Shaw's Supermarket is ongoing, which will replace the 32,000 square foot store formerly occupied by Grand Union. Total costs through December 31, 2002 for this project, including the original acquisition costs, were \$10.4 million. The Company expects remaining redevelopment costs of approximately \$7.5 million to complete this project, which it anticipates completing in the second half of 2003.

Additionally, for the year ending December 31, 2003, the Company currently estimates that capital outlays of approximately \$12.0 million to \$14.0 million will be required for tenant improvements, related renovations and other property improvements.

Share Repurchase

The Company's repurchase of its Common Shares is an additional use of liquidity. Upon completion of a tender offer in February 2002, the Company purchased a total of 5,523,974 Common Shares and Common OP Units (collectively, "Shares"), comprised of 4,136,321 Common Shares and 1,387,653 Common OP Units (which were converted to Common Shares upon tender), at a Purchase Price of \$6.05 per Share. The aggregate purchase price paid for the 5,523,974 Shares was \$33.4 million. In addition to the tender offer, the Company has an existing share repurchase program that authorizes management, at its discretion, to repurchase up to \$20.0 million of the Company's outstanding Common Shares. Through March 24, 2003, the Company had repurchased 1,931,682 Common Shares (net of 123,173 shares reissued) at a total cost of \$11.6 million. The program may be discontinued or extended at any time and there is no assurance that the Company will purchase the full amount authorized.

SOURCES OF LIQUIDITY

The Company intends on using ASOF as the primary vehicle for future acquisitions. Sources of capital for funding the Company's joint venture commitment, other property acquisitions, redevelopment, expansion and re-tenanting, as well as future repurchases of Common Shares are expected to be obtained primarily from cash on hand, additional debt financings and future sales of existing properties. As of December 31, 2002, the Company had a total of approximately \$48.1 million of additional capacity with six lenders, of which the Company is required to draw \$12.7 million by December 2003, or forego the ability to draw these funds at any time during the remaining term of the loans. Of the remaining capacity, approximately \$6.0 million is subject to additional leasing requirements at the collateral properties and certain lender requirements, which the Company has not yet satisfied. The Company also had cash and cash equivalents on hand of \$45.2 million at December 31, 2002 as well as six properties that are currently unencumbered and therefore available as potential collateral for future borrowings. The Company anticipates that cash flow from operating activities will continue to provide adequate capital for all debt service payments, recurring capital expenditures and REIT distribution requirements.

Financing and Debt

At December 31, 2002, mortgage notes payable aggregated \$202.4 million and were collateralized by 25 properties and related tenant leases. Interest on the Company's outstanding mortgage indebtedness ranged from 2.9% to 8.1% with maturities that ranged from August 2003 to January 2011. Taking into effect \$87.1 million of notional principal under variable to fixed-rate swap agreements, \$145.2 million of the portfolio, or 72%, was fixed at a 6.8% weighted average interest rate and \$57.2 million, or 28% was floating at a 3.3% weighted average interest rate. Of the total outstanding debt, \$19.6 million will become due by 2004, with scheduled maturities of \$16.1 million with a weighted average interest rate of 3.4% in 2003, and \$3.5 million with a weighted average interest rate of 7.9% in 2004. As the Company does not anticipate having sufficient cash on hand to repay such indebtedness, it will need to refinance this indebtedness or select other alternatives based on market conditions at that time.

The following summarizes the financing and refinancing transactions since December 31, 2001:

On March 15, 2002, the Company extended a maturing \$7.0 million loan with a bank. The debt, which is secured by one of the Company's properties, requires the monthly payment of interest at the rate of LIBOR plus 175 basis points and principal amortized over 25 years and now matures March 15, 2007.

On April 16, 2002, the Company closed on a \$9.4 million loan with a bank. The debt, which is secured by one of the Company's properties and matures January 1, 2007, initially requires the monthly payment of interest at the rate of LIBOR plus 300 basis points and principal amortized over 25 years. Following the completion of certain construction at the property, the rate decreases to LIBOR plus 175 basis points. The Company has drawn \$6.3 million under this facility to repay \$6.2 million to the previous lender on the property and for loan closing costs. Upon completion of the planned construction at this property and subject to other conditions including loan-to-value limit and debt service coverage ratio, the Company may draw the remaining \$3.1 available under this facility.

On May 31, 2002, the Company refinanced a maturing \$9.1 million loan with a bank. The loan, which is secured by one of the Company's properties, requires the monthly payment of interest at the rate of LIBOR plus 175 basis points and principal amortized over 25 years and now matures June 1, 2007. Subject to other conditions including loan-to-value limit and debt service coverage ratio, the Company may draw an additional \$1.3 million under this facility.

On June 17, 2002, the Company repaid a \$7.2 million loan, which was secured by one of the Company's properties, with a bank using funds from working capital.

On June 25, 2002, the Company refinanced a maturing \$13.4 million loan with a life insurance company, increasing the outstanding principal to \$13.8 million. The loan, which is secured by one of the Company's properties, requires the monthly payment of interest at the rate of 6.5% and principal amortized over 25 years and now matures July 1, 2007.

In June of 2002, the Company completed two interest rate swap transactions ("Swap Agreements") to hedge the Company's exposure to changes in interest rates with respect to \$25.1 million of LIBOR based variable rate debt. The Swap Agreements, which are for \$15.9 million and \$9.2 million of notional principal mature January 1, 2007 and June 1, 2007, respectively. These Swap Agreements are at a weighted average fixed interest rate, including the credit spreads of 175 basis points, of 6.2%.

On July 10, 2002, the Company entered into an interest rate swap agreement to hedge its exposure to changes in interest rates with respect to \$12.3 million of LIBOR based variable-rate debt. The swap agreement, which matures January 1, 2007, provides for a fixed all-in interest rate of 4.1%.

On September 26, 2002, the Company refinanced a maturing \$9.5 million loan with a life insurance company. The loan, which is secured by one of the Company's properties, requires monthly payment of interest at the rate of LIBOR plus 173 basis points and principal amortized over 25 years and matures October 1, 2005.

On September 27, 2002, the Company repaid a \$4.0 million loan with a life insurance company in connection with the sale of a property on October 11, 2002.

On November 22, 2002, the Company closed on a \$20.0 million revolving credit facility with a bank. The facility, which is secured by one of the Company's properties and matures November 22, 2007, requires the monthly payment of interest only at the rate of LIBOR plus 170 basis points subject to a total floor of 3.3%. As of December 31, 2002, no amounts have been drawn under this facility and future draws are subject to meeting certain conditions including a loan-to-value limit and debt service coverage ratio. The Company also pays a 15 basis point fee per annum for the unused portion of the facility on a quarterly basis.

On January 2, 2003, the Company drew down \$5.0 million of an available \$10.0 million facility with a bank and used the proceeds to partially pay down the outstanding principal on another loan with the same lender.

Asset Sales

Asset sales are an additional source of liquidity for the Company. 20 assets were sold during 2002 as follows (dollar amounts in millions):

| Property | State | GLA | Sales price | Net proceeds |
|------------------------------------|-------|-----------|-------------|--------------|
| Union Plaza | PA | 217,992 | \$ 4.8 | \$ 4.2(1) |
| Ames Plaza | PA | 96,154 | 52.7(2) | 12.9(2) |
| Birney Plaza | PA | 193,899 | —(2) | —(2) |
| Circle Plaza | PA | 92,171 | —(2) | —(2) |
| Dunmore Plaza | PA | 45,380 | —(2) | —(2) |
| Kingston Plaza | PA | 64,824 | —(2) | —(2) |
| Monroe Plaza | PA | 130,569 | —(2) | —(2) |
| Mountainville Shopping Center | PA | 118,847 | —(2) | —(2) |
| Plaza 15 | PA | 113,530 | —(2) | —(2) |
| Shillington Plaza | PA | 150,742 | —(2) | —(2) |
| 25th Street Shopping Center | PA | 131,477 | —(2) | —(2) |
| Kings Fairgrounds | VA | 118,535 | —(2) | —(2) |
| Troy Plaza | NY | 128,479 | —(2) | —(2) |
| Midway Plaza | AL | 207,538 | —(2) | —(2) |
| Northside Mall | AL | 382,299 | —(2) | —(2) |
| New Smyrna Beach Shopping Center | FL | 101,321 | —(2) | —(2) |
| Cloud Springs Plaza | GA | 113,367 | —(2) | —(2) |
| Martintown Plaza | SC | 133,892 | —(2) | —(2) |
| Manahawkin Village Shopping Center | NJ | 175,228 | 16.8(3) | 9.5(3) |
| Valmont Plaza | PA | 200,164 | —(3) | —(3) |
| Total | | 2,916,408 | \$ 74.3 | \$ 26.6 |

Notes:

- (1) The Company received a \$3.6 million purchase money note. The note, which matures January 15, 2005, requires monthly interest of 7% for year one, increasing at a rate of 1% per annum throughout the term. As part of the transaction, the Company agreed to reimburse the purchaser 50% of the former Ames rent, or \$22 per month, for a period of 18 months (through July 2003).
- (2) This portfolio of 17 properties was sold to a single buyer subject to a \$42.4 million fixed-rate, cross-collateralized and securitized loan. Proceeds include the sale of various escrows including capital expenditure reserves. \$6.3 million of the initial proceeds represented senior preferred equity in the buyer which was subsequently redeemed to the Company in December 2002.
- (3) These two properties were sold to a single buyer. The Company received two purchase money notes in connection with the sale. The first for \$11.0 million was repaid in full in November 2002. The second for \$1.6 million matures October 2003, requiring monthly interest of 5% to February 1, 2003, and then 10% thereafter. As part of the transaction, the Company repaid \$3.1 million of mortgage debt secured by the Valmont Plaza. The \$4.0 million of mortgage debt secured by the Manahawkin Village Shopping Center was repaid in full in September 2002, prior to the sale.

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

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

On November 8, 2002, the Company and an unaffiliated joint venture partner completed the sale of a contract to purchase land in Bethel, Connecticut, to the Target Corporation for \$1.5 million after closing and other related costs. The joint venture received a \$1.6 million note receivable for the net purchase price and additional reimbursements due from the buyer, which was paid in full subsequent to December 31, 2002. The Company's share of net proceeds totaled \$1.4 million.

OFF BALANCE SHEET ARRANGEMENTS

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

The Company owns a 49% interest in two partnerships which own the Crossroads Shopping Center (“Crossroads”). The Company accounts for its investment in Crossroads using the equity method of accounting as it has a non-controlling investment in Crossroads, but exercises significant influence. As such, the Company’s financial statements reflect its share of income from, but not the assets and liabilities of, Crossroads. The Company’s effective pro rata share of Crossroads mortgage debt as of December 31, 2002 was \$16.5 million. Interest on the debt, which matures in October 2007, has been effectively fixed at 7.2% through variable to fixed-rate swap agreements.

Reference is made to the discussion of ASOF under “Uses of Liquidity” in this Item 7 for additional detail related to the Company’s investment in and commitments to ASOF. The Company owns a 22% interest in ASOF for which it also uses the equity method of accounting. The Company’s effective pro rata share of ASOF fixed-rate mortgage debt as of December 31, 2002 was \$2.8 million at a weighted average interest rate of 8.1%. The Company’s effective pro rata share of ASOF variable-rate mortgage debt as of December 31, 2002 was \$1.3 million at an interest rate of 3.4%. Maturities on these loans range from October 2007 to January 2023.

The accompanying consolidated financial statements in Item 8 contain a complete discussion of the Company’s obligations under various operating leases.

The following table sets forth information as it relates to the Company’s contractual obligations under off balance sheet arrangements (amounts in millions):

| Contractual obligation | Payments due by period | | | | |
|---|------------------------|------------------|--------------|--------------|-------------------|
| | Total | Less than 1 year | 1 to 3 years | 3 to 5 years | More than 5 years |
| Future debt maturities on joint venture mortgage debt (1) | \$ 20.6 | \$ 0.4 | \$ 0.9 | \$ 16.9 | \$ 2.4 |
| Operating lease obligations | 20.7 | 0.5 | 1.1 | 1.1 | 18.0 |
| Total | \$ 41.3 | \$ 0.9 | \$ 2.0 | \$ 18.0 | \$ 20.4 |

Notes:

- (1) These amounts represent the Company’s pro-rata share of joint venture debt.

HISTORICAL CASH FLOW

The following discussion of historical cash flow compares the Company’s cash flow for the year ended December 31, 2002 (“2002”) with the Company’s cash flow for the year ended December 31, 2001 (“2001”).

Cash and cash equivalents were \$45.2 million and \$33.9 million at December 31, 2002 and 2001, respectively. The increase of \$11.3 million was a result of the following increases and decreases in cash flows:

(amounts in millions)

| | Years Ended December 31, | | |
|---|--------------------------|---------|----------|
| | 2002 | 2001 | Variance |
| Net cash provided by operating activities | \$ 24.9 | \$ 20.5 | \$ 4.4 |
| Net cash provided by (used in) investing activities | 24.6 | (11.2) | 35.8 |
| Net cash used in financing activities | (58.8) | (7.0) | (51.8) |
| Net cash provided by discontinued operations | 20.5 | 10.2 | 10.3 |

The variance in net cash provided by operating activities resulted from an increase of \$7.0 million in operating income before non-cash expenses in 2002, which was primarily due to \$3.9 million of lease termination income received in 2002 and lower interest expense due to lower average interest rates on the portfolio mortgage debt. This increase was partially offset by a net decrease in cash provided by changes in operating assets and liabilities of \$2.6 million, primarily rents receivable.

The variance in net cash provided by (used in) investing activities was primarily the result of an increase of \$41.0 million received in 2002 from the collection of purchase money notes from the sale of properties, offset by an increase of \$2.1 million in expenditures for real estate acquisitions, development and tenant installation costs in 2002 and an additional \$2.9 million investment in an unconsolidated partnership in 2002.

The increase in net cash used in financing activities resulted primarily from \$33.4 million of cash used in 2002 for the Company's Tender Offer and a decrease of \$43.6 million of cash provided by additional borrowings in 2002. This was partially offset by \$16.8 million of additional cash used in 2001 for the repayment of debt and \$5.1 million used in 2001 for the redemption of Common OP Units.

The increase in net cash provided by discontinued operations resulted from additional cash used in 2001 for the repayment of debt. This increase was offset by a decrease in operating income before non-cash expenses in 2002, a decrease in net sales proceeds received in 2002 and a decrease in cash provided by additional borrowings in 2002.

CRITICAL ACCOUNTING POLICIES

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

Valuation of Property Held for Use and Sale

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

Bad Debts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of tenants to make payments on arrearages in billed rents, as well as the likelihood that tenants will not have the ability to make payment on unbilled rents including estimated expense recoveries and straight-line rent. As of December 31, 2002, the Company had recorded an allowance for doubtful accounts of \$2.3 million. If the financial condition of the Company's tenants were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

INFLATION

The Company's long-term leases contain provisions designed to mitigate the adverse impact of inflation on the Company's net income. Such provisions include clauses enabling the Company to receive percentage rents based on tenants' gross sales, which generally increase as prices rise, and/or, in certain cases, escalation clauses, which generally increase rental rates during the terms of the leases. Such escalation clauses are often related to increases in the consumer price index or similar inflation indexes. In addition, many of the Company's leases are for terms of less than ten years, which permits the Company to seek to increase rents upon re-rental at market rates if current rents are below the then existing market rates. Most of the Company's leases require the tenants to pay their share of operating expenses, including common area maintenance, real estate taxes, insurance and utilities, thereby reducing the Company's exposure to increases in costs and operating expenses resulting from inflation.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In April 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS No. 145"). This statement eliminates the requirement to report gains and losses from extinguishment of debt as extraordinary unless they meet the criteria of APB Opinion 30. SFAS No. 145 also requires sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The changes related to lease accounting are effective for transactions occurring after May 15, 2002 and the changes related to debt extinguishment are effective for fiscal years beginning after May 15, 2002. The impact of adopting the provisions related to lease accounting did not have a material impact on the Company's financial position or results of operations. The impact of adopting the provisions related to debt extinguishment is not expected to have a material impact on the Company's financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS No. 146"). SFAS No. 146 nullifies Emerging Issues Task Force Issue No. 94-3 and requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. This statement also establishes that fair value is the objective for initial measurement of the liability. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002.

The impact of the adoption of SFAS No. 146 is not expected to have a material impact on the Company's financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of FASB Statement No. 123" ("SFAS No. 148"). SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation" to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of SFAS No. 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. Effective January 1, 2002, the Company adopted the fair value method of recording stock-based compensation contained in SFAS No. 123. As such, all vested stock options granted after December 31, 2001 will be reflected as compensation expense in the Company's consolidated financial statements over the vesting period based on the fair value at the date the stock-based compensation was granted. Under SFAS No. 123, companies may elect to choose from three alternative transition methods as it relates to the adoption of the fair value basis method of accounting for employee stock options. The Company has elected the prospective method whereby compensation expense will be recognized only for those options issued after December 31, 2001.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires that upon issuance of a guarantee a guarantor must recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. The recognition provisions of FIN 45 are effective for any guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company is currently evaluating the effects of the recognition provision of FIN 45, but does not expect the adoption to have a material impact on the Company's financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46 "Consolidation of Variable Interest Entities" ("FIN 46"). In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. A variable interest entity often holds financial assets, including loans or receivables, real estate or other property. A variable interest entity may be essentially passive or it may engage in activities on behalf of another company. Until now, a company generally has included another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN 46 changes that by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. FIN 46's consolidation requirements apply immediately to variable interest entities created or acquired after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company has adopted FIN 46 effective January 31, 2003. The Company does not anticipate that the adoption of FIN 46 will have a material impact on the Company's consolidated financial condition or results of operations taken as a whole. The Company's joint ventures are summarized in the notes to the consolidated financial statements appearing in Item 17 of this Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Currently, the Company manages its exposure to fluctuations in interest rates primarily through the use of fixed-rate debt, interest rate swap agreements and LIBOR caps. As of December 31, 2002, the Company had total mortgage debt of \$202.4 million of which \$58.1 million, or 29% was fixed-rate and \$144.3 million, or 71%, was variable-rate based upon LIBOR plus certain spreads. As of December 31, 2002, the Company had entered into five interest rate swap transactions to hedge the Company's exposure to changes in interest rates with respect to \$87.1 million of LIBOR based variable rate debt, effectively increasing the fixed-rate portion of its total outstanding debt as of December 31, 2002 to 72%. The Company also has two interest rate swaps hedging the Company's exposure to changes in interest rates with respect to \$16.5 million of LIBOR based variable rate debt related to its investment in Crossroads. As of December 31, 2002, ASOF fixed the treasury rate on \$30.0 million of contemplated financing in connection with the Brandywine Towne Center acquisition. The Company's pro-rata share was \$6.7 million of notional value based on its 22% interest in ASOF.

The following table sets forth information as of December 31, 2002 concerning the Company's long-term debt obligations, including principal cash flows by scheduled maturity and weighted average interest rates of maturing amounts (amounts in millions):

Consolidated mortgage debt:

| Year | Scheduled amortization | Maturities | Total | Weighted average interest rate |
|------------|------------------------|------------|----------|--------------------------------|
| 2003 | \$ 3.6 | \$ 16.1 | \$ 19.7 | 3.4% |
| 2004 | 3.5 | 3.5 | 7.0 | 7.9% |
| 2005 | 2.4 | 75.8 | 78.2 | 3.2% |
| 2006 | 2.0 | — | 2.0 | n/a |
| 2007 | 1.1 | 56.7 | 57.8 | 4.1% |
| Thereafter | 2.5 | 35.2 | 37.7 | 7.9% |
| | \$ 15.1 | \$ 187.3 | \$ 202.4 | |

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

| Year | Scheduled amortization | Maturities | Total | Weighted average interest rate |
|-------------|------------------------|------------|---------|--------------------------------|
| 2003 – 2006 | \$ 1.8 | \$ — | \$ 1.8 | n/a |
| 2007 | 0.4 | 16.0 | 16.4 | 6.9% |
| Thereafter | 2.4 | — | 2.4 | n/a |
| | \$ 4.6 | \$ 16.0 | \$ 20.6 | |

Of the Company's total outstanding debt, \$19.6 million will become due by 2004. As the Company intends on refinancing some or all of such debt at the then-existing market interest rates which may be greater than the current interest rate, the Company's interest expense would increase by approximately \$196,000 annually if the interest rate on the refinanced debt increased by 100 basis points. Furthermore, interest expense on the Company's variable debt as of December 31, 2002 would increase by \$572,000 annually for a 100 basis point increase in interest rates. The Company may seek additional variable-rate financing if and when pricing and other commercial and financial terms warrant. As such, the Company would consider hedging against the interest rate risk related to such additional variable-rate debt through interest rate swaps and protection agreements, or other means.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data listed in items 15(a) (1) and 15(a) (2) hereof are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

This item is incorporated by reference from the definitive proxy statement for the 2003 Annual Meeting of Shareholders, to be filed pursuant to Regulation 14A.

ITEM 11. EXECUTIVE COMPENSATION

This item is incorporated by reference from the definitive proxy statement for the 2003 Annual Meeting of Shareholders, to be filed pursuant to Regulation 14A.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

This item is incorporated by reference from the definitive proxy statement for the 2003 Annual Meeting of Shareholders, to be filed pursuant to Regulation 14A.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

This item is incorporated by reference from the definitive proxy statement for the 2003 Annual Meeting of Shareholders, to be filed pursuant to Regulation 14A.

ITEM 14. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures. The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-14(c) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to the Company required to be included in the Company's reports filed or submitted under the Exchange Act.

(b) Changes in Internal Controls. Since the Evaluation Date, there have not been any significant changes in the Company's internal controls or in other factors that could significantly affect such controls.

PART IV**ITEM 15. EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES AND REPORTS ON FORM 8-K**

(a) Financial Statements – Form 10-K. The following consolidated financial Report Page information is included as a separate section of this annual report on Form 10-K

ACADIA REALTY TRUST

| | |
|--|------|
| Report of Independent Auditors | F-2 |
| Consolidated Balance Sheets as of December 31, 2002 and 2001 | F-3 |
| Consolidated Statements of Income for the years ended December 31, 2002, 2001 and 2000 | F-4 |
| Consolidated Statements of Shareholders' Equity for the years ended December 31, 2002, 2001 and 2000 | F-6 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001 and 2000 | F-7 |
| Notes to Consolidated Financial Statements | F-9 |
| Financial Statement Schedule | |
| Schedule III – Real Estate and Accumulated Depreciation | F-30 |

All other schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule.

(b) Reports on Form 8-K filed during the quarter ended December 31, 2002

There were no 8-K's filed during the three months ended December 31, 2002:

| | |
|----------|---|
| 10.22(a) | Indenture of Mortgage, Deed of Trust, Security Agreement, Financing Statement, Fixture Filing and Assignment of Leases, Rents and Security Deposits between the Company and Morgan Stanley Mortgage Capital, Inc. (9) |
| 10.22(b) | Mortgage Note between the Company and Morgan Stanley Mortgage Capital, Inc. (9) |
| 10.22(c) | First Amendment to the Indenture of Mortgage, Deed of Trust, Security Agreement, Financing Statement, Fixture Filing and Assignment of Lease, Rents and Security Deposits Between the Company and GMAC Commercial Mortgage Corporation (10) |
| 10.24(a) | Open-End Mortgage, Security Agreement, Future Filing, Financing Statement and Assignment of Leases and Rents between the Company and Anchor National Life Insurance Company (11) |
| 10.24(b) | Promissory Note between the Company and Anchor National Life Insurance Company (11) |
| 10.30 | Contribution and Share Purchase Agreement with RD Capital, Inc. (12) |
| 10.31 | Severance and Consulting Agreement For Marvin L. Slomowitz (5) |

- 10.32 Settlement agreement between the Company and Jack Wertheimer (13)
- 10.33 Employment agreement between the Company and Ross Dworman (5)
- 10.34 Employment agreement between the Company and Kenneth F. Bernstein (5)
- 10.36 Secured Promissory Note between RD Absecon Associates, L.P. and Fleet Bank, N.A. dated February 8, 2000 (6)
- 10.37 Mortgage Note between RD Branch Associates, L.P. and North Fork Bank dated November 22, 1999 (6)
- 10.38 Promissory Note between 239 Greenwich Associates, L.P. and First Union National Bank dated December 16, 1999 (6)
- 10.39 Note and Mortgage Assumption Agreement between Acadia Mad River Property LLC and LaSalle National Bank for the benefit of Certificateholders of American Southwest Financial Securities Corporation, Commercial Mortgage Pass-Through Certificates, Series 1195-C1 Dated February 24, 1999 (6)
- 10.40 Mortgage Note Modification Agreement Between Heathcote Associates and Huntoon Hastings Capital Corp. dated May 5, 1999 (6)
- 10.41 Promissory Note between Merrillville Realty, L.P. and Sun America Life Insurance Company dated July 7, 1999 (6)
- 10.42 Mortgage and Note Modification Agreement between Pacesetter/Ramapo Associates and M&T Real Estate, Inc. (6)
- 10.43 Secured Promissory Note between Acadia Town Line, LLC and Fleet Bank, N.A. dated March 23, 1999 (6)
- 10.44 Promissory Note between RD Village Associates Limited Partnership and Sun America Life Insurance Company Dated September 21, 1999 (6)
- 10.45 Sale-Purchase Agreement between Acadia Realty L.P. and Mark Northwood Associates L.P., seller, and UrbanAmerica, L.P., Buyer, dated June 14, 2000 (14)
- 10.46 Purchase Agreement between RD Abington Associates L.P. and Target Corporation dated June 29, 2000 (14)
- 10.47 Agreement to Sell and Purchase real estate between Mark Twelve Associates, L.P. and Lowes Home Centers, Inc. dated April 25, 2000 (14)
- 10.48 Amended and Restated Mortgage Note between Port Bay Associates, LLC and Fleet Bank, N.A. dated July 19, 2000 (14)
- 10.48.a Mortgage and Security Agreement between Port Bay Associates, LLC and Fleet Bank, N.A. dated July 19, 2000 (14)
- 10.49 Amended and Restated Promissory Note between Acadia Realty L.P. and Metropolitan Life Insurance Company for \$25.2 million dated October 13, 2000 (14)
- 10.50 Amended and Restated Promissory Note between Acadia Realty L.P. and Metropolitan Life Insurance Company for \$10.8 million dated October 13, 2000 (14)

- 10.50.a Amended and Restated Mortgage, Security Agreement and Fixture Filing between Acadia Realty L.P. and Metropolitan Life Insurance Company dated October 13, 2000 (14)
- 10.51 Term Loan Agreement between Acadia Realty L.P. and The Dime Savings Bank of New York, dated March 30, 2000 (14)
- 10.51a Mortgage Agreement between Acadia Realty L.P. and The Dime Savings Bank of New York, dated March 30, 2000 (14)
- 10.52 Promissory Note between RD Whitegate Associates, L.P. and Bank of America, N.A. Dated December 22, 2000 (14)
- 10.53 Promissory Note between RD Columbia Associates, L.P. and Bank of America, N.A. Dated December 22, 2000 (14)
- 10.54 Term Loan Agreement dated as of December 28, 2001, among Fleet National Bank and RD Branch Associates, L.P., et al (15)
- 10.55 Term Loan Agreement dated as of December 21, 2001, among RD Woonsocket Associates Limited Partnership, et al. and The Dime Savings Bank of New York, FSB (15)
- 10.56 Severance Agreement between the Company and Joel Braun, Sr. Vice President, dated April 6, 2001 (15)
- 10.57 Severance Agreement between the Company and Joseph Hogan, Sr. Vice President, dated April 6, 2001 (15)
- 10.58 Severance Agreement between the Company and Perry Kamerman, Sr. Vice President dated April 6, 2001 (15)
- 10.59 Severance Agreement between the Company and Tim Bruce, Sr. Vice President dated January 2001 (15)
- 10.60 Revolving Loan Promissory Note dated as of November 22, 2002, among RD Elmwood Associates, L.P. and Washington Mutual Bank, FA (16)
- 10.61 Revolving Loan Agreement dated as of November 22, 2002, among RD Elmwood Associates, L.P. and Washington Mutual Bank, FA (16)
- 10.62 Mortgage Agreement dated as of November 22, 2002, among RD Elmwood Associates, L.P. and Washington Mutual Bank, FA (16)
- 10.63 Letter of employment offer between the Company and Michael Nelsen, Sr. Vice President and Chief Financial Officer dated February 19, 2003 (16)
- 10.64 Severance Agreement between the Company and Michael Nelsen, Sr. Vice President and Chief Financial Officer dated February 19, 2003 (16)
- 21 List of Subsidiaries of Acadia Realty Trust (16)
- 23 Consent of Independent Auditors to Form S-3 and Form S-8 (16)

99.1 Certification of Kenneth F. Bernstein as CEO pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (16), (17)

99.2 Certification of Michael Nelsen as CFO pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (16), (17)

Notes:

- (1) Incorporated by reference to the copy thereof filed as an exhibit to the Company's Form 10-K filed for the fiscal Year ended December 31, 1994
- (2) Incorporated by reference to the copy thereof filed as an Exhibit to Company's Form 10-Q filed for the quarter ended September 30, 1998
- (3) Incorporated by reference to the copy thereof filed as an exhibit to the Company's Form S-11 (File No.33-60008) (Form S-11)
- (4) Incorporated by reference to the copy thereof filed as an exhibit to Amendment No. 3 to the Company's Form S-11
- (5) Incorporated by reference to the copy thereof filed as an exhibit to the Company's Form10-K filed for the fiscal year ended December 31, 1998
- (6) Incorporated by reference to the copy thereof filed as an exhibit to the Company's Form10-K filed for the fiscal year ended December 31, 1999
- (7) Incorporated by reference to the copy thereof filed as an exhibit to the Company's Form S-8 filed September 28, 1999
- (8) Incorporated by reference to the copy thereof filed as an exhibit to Amendment No. 4 to the Company's Form S-11
- (9) Incorporated by reference to the copy thereof filed as an exhibit to the Company's Form 10-Q filed for the quarter ended September 30, 1996
- (10) Incorporated by reference to the copy thereof filed as an exhibit to the Company's Form 10-Q filed for the quarter ended September 30, 1998
- (11) Incorporated by reference to the copy thereof filed as an exhibit to the Company's Form 10-K filed for the fiscal year ended December 31, 1996
- (12) Incorporated by reference to the copy thereof filed as an exhibit to the Company's Form 8-K filed on April 20, 1998
- (13) Incorporated by reference to the copy thereof filed as an exhibit to the Company's Form 8-K filed on January 5, 1999
- (14) Incorporated by reference to the copy thereof filed as an exhibit to the Company's Form 10-K filed for the fiscal year ended December 31, 2000
- (15) Incorporated by reference to the copy thereof filed as an exhibit to the Company's Form 10-K filed for the fiscal year ended December 31, 2001
- (16) Filed herewith
- (17) Pursuant to Commission Release No. 33-8212, this certification will be treated as "accompanying" this Annual Report on Form 10-K and not "filed" as part of such report for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of Section 18 of the Exchange Act and this certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

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/ Michael Nelsen

Michael Nelsen
Sr. Vice President and
Chief Financial Officer

Dated: March 26, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| <u>Signature</u> | <u>Title</u> | <u>Date</u> |
|---|---|----------------|
| <u>/s/ Kenneth F. Bernstein</u> (Kenneth F. Bernstein) | Chief Executive Officer, President and Trustee (Principal Executive Officer) | March 26, 2003 |
| <u>/s/ Michael Nelsen</u> (Michael Nelsen) | Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer) | March 26, 2003 |
| <u>/s/ Ross Dworman</u> (Ross Dworman) | Chairman and Trustee | March 26, 2003 |
| <u>/s/ Martin L. Edelman</u> (Martin L. Edelman, Esq.) | Trustee | March 26, 2003 |
| <u>/s/ Alan S. Forman</u> (Alan S. Forman) | Trustee | March 26, 2003 |
| <u>/s/ Marvin J. Levine</u> (Marvin J. Levine, Esq) | Trustee | March 26, 2003 |
| <u>/s/ Lawrence J. Longua</u> (Lawrence J. Longua) | Trustee | March 26, 2003 |
| <u>/s/ Gregory A. White</u> (Gregory A. White) | Trustee | March 26, 2003 |
| <u>/s/ Lee S. Wielansky</u> (Lee S. Wielansky) | Trustee | March 26, 2003 |

EXHIBIT INDEX

The following is an index to all exhibits filed with the Annual Report on Form 10-K other than those incorporated by reference herein:

| Exhibit Number | Description |
|---------------------------|---|
| 10.60 | Revolving Loan Promissory Note dated as of November 22, 2002, among RD Elmwood Associates, L.P. and Washington Mutual Bank, FA (17) |
| 10.61 | Revolving Loan Agreement dated as of November 22, 2002, among RD Elmwood Associates, L.P. and Washington Mutual Bank, FA |
| 10.62 | Mortgage Agreement dated as of November 22, 2002, among RD Elmwood Associates, L.P. and Washington Mutual Bank, FA |
| 10.63 | Letter of employment offer between the Company and Michael Nelsen, Sr. Vice President and Chief Financial Officer dated February 19, 2003 |
| 10.64 | Severance Agreement between the Company and Michael Nelsen, Sr. Vice President and Chief Financial Officer dated February 19, 2003 |
| 21 | List of Subsidiaries of Acadia Realty Trust |
| 23 | Consent of Independent Auditors to Form S-3 and Form S-8 |
| 99.1 | Certification of Kenneth F. Bernstein as CEO pursuant to section 906 of the Sarbanes-Oxley Act of 2002* |
| 99.2 | Certification of Michael Nelsen as CFO pursuant to section 906 of the Sarbanes-Oxley Act of 2002* |

* Pursuant to Commission Release No. 33-8212, this certification will be treated as “accompanying” this Annual Report on Form 10-K and not “filed” as part of such report for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of Section 18 of the Exchange Act and this certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

CERTIFICATION

I, Kenneth F. Bernstein, certify that:

1. I have reviewed this annual report on Form 10-K of Acadia Realty Trust;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - (a) designed such disclosure controls and procedures 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 annual report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Kenneth F. Bernstein

Kenneth F. Bernstein
President and Chief Executive Officer
March 26, 2003

CERTIFICATION

I, Michael Nelsen, certify that:

1. I have reviewed this annual report on Form 10-K of Acadia Realty Trust;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - (a) designed such disclosure controls and procedures 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 annual report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Michael Nelsen

Michael Nelsen
Sr. Vice President and Chief Financial Officer
March 26, 2003

**ACADIA REALTY TRUST AND SUBSIDIARIES
INDEX TO FINANCIAL STATEMENTS**

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REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Trustees of Acadia Realty Trust

We have audited the accompanying consolidated balance sheets of Acadia Realty Trust and subsidiaries (the “Company”) as of December 31, 2002 and 2001, and the related consolidated statements of income, shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2002. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and the schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Acadia Realty Trust and subsidiaries at December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in the Notes to the consolidated financial statements, in 2002, the Company adopted the provisions of Statement of Financial Accounting Standards No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” and No. 148, “Accounting for Stock-Based Compensation—Transition and Disclosure”.

/s/ ERNST & YOUNG LLP

New York, New York
February 25, 2003

Part I. Financial Information**Item 1. Financial Statements**

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

| | December 31, | |
|---|--------------|------------|
| | 2002 | 2001 |
| ASSETS | | |
| Real estate: | | |
| Land | \$ 54,890 | \$ 54,340 |
| Buildings and improvements | 352,359 | 336,950 |
| Construction in progress | 6,629 | 7,126 |
| | 413,878 | 398,416 |
| Less: accumulated depreciation | 85,062 | 72,805 |
| | 328,816 | 325,611 |
| Cash and cash equivalents | 45,168 | 33,947 |
| Cash in escrow | 3,447 | 2,597 |
| Investments in unconsolidated partnerships | 6,164 | 5,169 |
| Rents receivable, net | 6,959 | 5,524 |
| Notes receivable | 6,795 | 34,757 |
| Prepaid expenses | 2,042 | 1,613 |
| Deferred charges, net | 10,360 | 11,635 |
| Other assets | 1,184 | 1,884 |
| Assets of discontinued operations | — | 71,202 |
| | \$ 410,935 | \$ 493,939 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Mortgage notes payable | \$ 202,361 | \$ 211,444 |
| Accounts payable and accrued expenses | 8,528 | 4,973 |
| Dividends and distributions payable | 3,744 | 4,119 |
| Due to related parties | 174 | 107 |
| Deferred gain on sale of properties | 1,212 | — |
| Derivative instruments | 5,470 | 357 |
| Other liabilities | 2,998 | 3,389 |
| Liabilities of discontinued operations | — | 51,636 |
| | 224,487 | 276,025 |
| Total liabilities | 224,487 | 276,025 |
| Minority interest in Operating Partnership | 22,745 | 37,387 |
| Minority interests in majority- owned partnerships | 2,380 | 1,429 |
| | 25,125 | 38,816 |
| Total minority interests | 25,125 | 38,816 |
| Shareholders' equity: | | |
| Common shares, \$.001 par value, authorized 100,000,000 shares, issued and outstanding 25,257,178 and 28,697,666 shares, respectively | 25 | 29 |
| Additional paid-in capital | 170,851 | 189,378 |
| Accumulated other comprehensive loss | (6,874) | (1,206) |
| Deficit | (2,679) | (9,103) |
| | 161,323 | 179,098 |
| Total shareholders' equity | 161,323 | 179,098 |
| | \$ 410,935 | \$ 493,939 |

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)

| | Years ended December 31, | | |
|--|--------------------------|-----------|-----------|
| | 2002 | 2001 | 2000 |
| Revenues | | | |
| Minimum rents | \$ 48,488 | \$ 47,086 | \$ 46,448 |
| Percentage rents | 1,079 | 1,196 | 1,577 |
| Expense reimbursements | 11,419 | 10,884 | 11,096 |
| Lease termination income | 3,945 | — | 1,957 |
| Other property income | 536 | 589 | 656 |
| Other | 3,880 | 1,527 | 1,716 |
| Total revenues | 69,347 | 61,282 | 63,450 |
| Operating Expenses | | | |
| Property operating | 12,274 | 11,597 | 12,146 |
| Real estate taxes | 8,447 | 8,427 | 8,199 |
| General and administrative | 10,173 | 9,025 | 8,391 |
| Depreciation and amortization | 14,804 | 13,605 | 13,136 |
| Abandoned project costs | 274 | — | — |
| Total operating expenses | 45,972 | 42,654 | 41,872 |
| Operating income | 23,375 | 18,628 | 21,578 |
| Equity in earnings of unconsolidated partnerships | 628 | 504 | 645 |
| Interest expense | (11,017) | (12,370) | (15,877) |
| Minority interest | (2,426) | (1,466) | (1,952) |
| Income from continuing operations | 10,560 | 5,296 | 4,394 |
| Discontinued operations: | | | |
| Operating income from discontinued operations | 1,165 | 3,972 | 5,711 |
| Impairment of real estate | (197) | (15,886) | — |
| Gain on sale of properties | 9,662 | 17,734 | 13,742 |
| Minority interest | (1,791) | (1,025) | (3,940) |
| Income from discontinued operations | 8,839 | 4,795 | 15,513 |
| Income before extraordinary item and cumulative effect of a change in accounting principle | 19,399 | 10,091 | 19,907 |
| Extraordinary item – Loss on early extinguishments of debt | — | (140) | — |
| Cumulative effect of a change in accounting principle | — | (149) | — |
| Net income | \$ 19,399 | \$ 9,802 | \$ 19,907 |

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

ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (continued)
(In thousands, except per share amounts)

| | Years ended December 31, | | |
|---|--------------------------|----------------|----------------|
| | 2002 | 2001 | 2000 |
| Basic earnings per share | | | |
| Income from continuing operations | \$ 0.42 | \$ 0.19 | \$ 0.16 |
| Income from discontinued operations | 0.35 | 0.17 | 0.59 |
| Extraordinary item | — | — | — |
| Cumulative effect of a change in accounting principle | — | (0.01) | — |
| | <u>\$ 0.77</u> | <u>\$ 0.35</u> | <u>\$ 0.75</u> |
| Diluted earnings per share | | | |
| Income from continuing operations | \$ 0.42 | \$ 0.19 | \$ 0.16 |
| Income from discontinued operations | 0.34 | 0.17 | 0.59 |
| Extraordinary item | — | — | — |
| Cumulative effect of a change in accounting principle | — | (0.01) | — |
| | <u>\$ 0.76</u> | <u>\$ 0.35</u> | <u>\$ 0.75</u> |

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

ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands, except per share amounts)

| | Common Shares | | Additional Paid-in Capital | Accumulated Other Comprehensive Loss | Deficit | Total Shareholders' Equity |
|--|---------------|--------|-------------------------------|---|-------------|----------------------------------|
| | Shares | Amount | | | | |
| Balance, December 31, 1999 | 25,724,315 | \$ 26 | \$ 168,641 | \$ — | \$ (16,180) | \$ 152,487 |
| Conversion of 3,679,999 OP Units to Common Shares by limited partners of the Operating Partnership | 3,679,999 | 3 | 26,999 | — | — | 27,002 |
| Dividends declared (\$0.48 per Common Share) | — | — | — | — | (12,830) | (12,830) |
| Repurchase of Common Shares | (1,339,905) | (1) | (7,691) | — | — | (7,692) |
| Reissuance of Common Shares | 86,063 | — | 443 | — | — | 443 |
| Income before minority interest | — | — | — | — | 25,799 | 25,799 |
| Minority interest's equity | — | — | — | — | (5,892) | (5,892) |
| Balance, December 31, 2000 | 28,150,472 | 28 | 188,392 | — | (9,103) | 179,317 |
| Conversion of 826,884 OP Units to Common Shares by limited partners of the Operating Partnership | 826,884 | 1 | 5,815 | — | — | 5,816 |
| Repurchase of 8,000 OP Units from limited partner of the Operating Partnership | — | — | 8 | — | — | 8 |
| Dividends declared (\$0.48 per Common Share) | — | — | (3,832) | — | (9,802) | (13,634) |
| Repurchase of Common Shares | (316,800) | — | (1,964) | — | — | (1,964) |
| Reissuance of Common shares | 37,110 | — | 239 | — | — | 239 |
| Purchase of minority interest in majority-owned partnership | — | — | 720 | — | — | 720 |
| Unrealized loss on valuation of swap agreements | — | — | — | (1,206) | — | (1,206) |
| Income before minority interest | — | — | — | — | 12,023 | 12,023 |
| Minority interest's equity | — | — | — | — | (2,221) | (2,221) |
| Balance at December 31, 2001 | 28,697,666 | 29 | 189,378 | (1,206) | (9,103) | 179,098 |
| Conversion of 2,086,736 OP Units to Common Shares by limited partners of the Operating Partnership | 2,086,736 | 2 | 14,901 | — | — | 14,903 |
| Dividends declared (\$0.52 per Common Share) | — | — | — | — | (12,975) | (12,975) |
| Repurchase of Common Shares | (5,523,974) | (6) | (33,414) | — | — | (33,420) |
| Forfeiture of restricted Common Shares | (3,250) | — | (14) | — | — | (14) |
| Unrealized loss on valuation of swap agreements | — | — | — | (5,668) | — | (5,668) |
| Income before minority interest | — | — | — | — | 22,327 | 22,327 |
| Minority interest's equity | — | — | — | — | (2,928) | (2,928) |
| Balance at December 31, 2002 | 25,257,178 | \$ 25 | \$ 170,851 | \$ (6,874) | \$ (2,679) | \$ 161,323 |

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

ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, except per share amounts)

| | Years ended December 31, | | |
|--|--------------------------|-----------------|-----------------|
| | 2002 | 2001 | 2000 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Income from continuing operations after extraordinary item and cumulative effect of change in accounting principle | \$ 10,560 | \$ 5,007 | \$ 4,394 |
| Adjustments to reconcile income from continuing operations to net cash provided by operating activities: | | | |
| Depreciation and amortization | 14,804 | 13,605 | 13,136 |
| Minority interests | 2,426 | 1,466 | 1,952 |
| Abandoned project costs | 274 | — | — |
| Equity in earnings of unconsolidated partnerships | (628) | (504) | (645) |
| Provision for bad debts | 447 | 741 | 330 |
| Stock-based compensation | — | 239 | 443 |
| Extraordinary item | — | 140 | — |
| Cumulative effect of a change in accounting principle | — | 149 | — |
| Changes in assets and liabilities: | | | |
| Funding of escrows, net | (850) | 89 | 1,082 |
| Rents receivable | (1,882) | 937 | (1,676) |
| Prepaid expenses | (429) | 251 | 81 |
| Other assets | 346 | (273) | (657) |
| Accounts payable and accrued expenses | 174 | (1,739) | 637 |
| Due to related parties | 67 | (4) | 130 |
| Other liabilities | (391) | 417 | (10) |
| Net cash provided by operating activities | 24,918 | 20,521 | 19,197 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Expenditures for real estate and improvements | (14,134) | (10,685) | (10,969) |
| Contribution to unconsolidated partnership | (2,956) | (36) | — |
| Distributions from unconsolidated partnerships | 1,049 | 1,252 | 1,324 |
| Collections on purchase money notes | 41,042 | — | — |
| Payment of deferred leasing costs | (355) | (1,730) | (1,520) |
| Net cash provided by (used in) investing activities | 24,646 | (11,199) | (11,165) |

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

ACADIA REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
(In thousands, except per share amounts)

| | Years ended December 31, | | |
|--|--------------------------|-----------|-----------|
| | 2002 | 2001 | 2000 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Principal payments on mortgages | \$ (16,841) | (33,599) | (122,711) |
| Proceeds received on mortgage notes | 7,758 | 51,350 | 103,250 |
| Payment of deferred financing and other costs | (812) | (847) | (1,415) |
| Dividends paid | (13,131) | (13,569) | (12,545) |
| Distributions to minority interests in Operating Partnership | (2,023) | (2,985) | (4,617) |
| Distributions on preferred Operating Partnership Units | (199) | (199) | (173) |
| Distributions to minority interests in majority-owned partnership | (139) | (90) | (45) |
| Purchase of minority interest in majority-owned partnerships | — | (30) | — |
| Redemption of Operating Partnership Units | — | (5,114) | — |
| Repurchase of Common Shares | (33,420) | (1,964) | (7,692) |
| Net cash used in financing activities | (58,807) | (7,047) | (45,948) |
| Cash flows from discontinued operations: | | | |
| Net cash provided by discontinued operations | 20,464 | 10,174 | 25,408 |
| Increase (decrease) in cash and cash equivalents | 11,221 | 12,449 | (12,508) |
| Cash and cash equivalents, beginning of year | 33,947 | 21,689 | 34,675 |
| | 45,168 | 34,138 | 22,167 |
| Less: Cash of discontinued operations | — | 191 | 478 |
| Cash and cash equivalents, end of year | \$ 45,168 | \$ 33,947 | \$ 21,689 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid during the period for interest, net of amounts capitalized of \$931, \$372 and \$439, respectively | \$ 12,346 | \$ 19,047 | \$ 25,035 |
| Notes received in connection with sale of properties | \$ 22,425 | \$ 34,757 | \$ — |
| Disposition of real estate through assumption of debt | \$ 42,438 | \$ — | \$ 22,051 |

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

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002
(In thousands, except per share amounts)

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

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

All of the Company’s assets are held by, and all of its operations are conducted through, Acadia Realty Limited Partnership (the “Operating Partnership”) and its majority owned partnerships. As of December 31, 2002, the Company controlled 89% of the Operating Partnership as the sole general partner. As the general partner, the Company is entitled to share, in proportion to its percentage interest, in the cash distributions and profits and losses of the Operating Partnership. The limited partners represent entities or individuals who contributed their interests in certain properties or partnerships to the Operating Partnership in exchange for common or preferred units of limited partnership interest (“Common or Preferred OP Units”). Limited partners holding Common OP Units are generally entitled to exchange their units on a one-for-one basis for common shares of beneficial interest of the Company (“Common Shares”). This structure is commonly referred to as an umbrella partnership REIT or “UPREIT”.

On August 12, 1998, the Company completed a major reorganization (“RDC Transaction”) in which it acquired twelve shopping centers, five multi-family properties and a 49% interest in one shopping center along with certain third party management contracts and promissory notes from real estate investment partnerships (“RDC Funds”) managed by affiliates of RD Capital, Inc. In exchange for these and a cash investment of \$100,000, the Company issued 11.1 million Common OP Units and 15.3 million Common Shares to the RDC Funds. After giving effect to the conversion of the Common OP Units, the RDC Funds beneficially owned 72% of the Common Shares as of the closing of the RDC Transaction. Subsequent to December 31, 2002, the Company issued OP Units and cash valued at \$2,750 to certain limited partners in connection with an obligation from the RDC Transaction. The payment was due upon the commencement of rental payments from a designated tenant at one of the properties acquired in the RDC Transaction.

As of December 31, 2002, the Company operated 35 properties, which it owned or had an ownership interest in, consisting of 32 neighborhood and community shopping centers, one enclosed shopping mall and two multi-family properties, all of which are located in the Eastern and Midwestern regions of the United States.

Principles of Consolidation

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

Use of Estimates

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

Properties

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

Effective January 1, 2002, the Company adopted the provisions of SFAS No. 144 as further described in this note under “Recent Accounting Pronouncements”. The Company reviews its long-lived assets used in operations for impairment when there is an event, or change in circumstances that indicates impairment in value. The Company records impairment losses and reduces the carrying value of properties when indicators of impairment are present and the expected undiscounted cash flows related to those properties are less than their carrying amounts. In cases where the Company does not expect to recover its carrying costs on properties held for use, the Company reduces its carrying cost to fair value, and for properties held for sale, the Company reduces its carrying value to the fair value less costs to sell. During the year ended December 31, 2002, an impairment loss of \$197 was recognized related to a property that was sold as of December 31, 2002. For the year ended December 31, 2001, an impairment loss of \$14,756 was recognized related to a property sold subsequent to December 31, 2001. In addition, an impairment loss of \$1,130 was recognized related to a shopping center that was held for sale as of December 31, 2001. Management does not believe that the value of the remaining properties held for sale or properties in use are impaired as of December 31, 2002.

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

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

Deferred Costs

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

Revenue Recognition

Leases with tenants are accounted for as operating leases. Minimum rents are recognized on a straight-line basis over the term of the respective leases. As of December 31, 2002 and 2001, unbilled rents receivable relating to straight-lining of rents were \$5,302 and \$4,828, respectively.

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

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

An allowance for doubtful accounts has been provided against certain tenant accounts receivable that are estimated to be uncollectible. Rents receivable at December 31, 2002 and 2001 are shown net of an allowance for doubtful accounts of \$2,284 and \$2,376, respectively.

Cash and Cash Equivalents

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

Cash in Escrow

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

Income Taxes

The Company has made an election to be taxed, and believes it qualifies as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. A REIT will generally not be subject to Federal income taxation on that portion of its income that qualifies as REIT taxable income to the extent that it distributes at least 90% of its taxable income to its shareholders and complies with certain other requirements. Accordingly, no provision has been made for Federal income taxes for the Company in the accompanying consolidated financial statements. The Company is subject to state income or franchise taxes in certain states in which some of its properties are located. These state taxes, which in total are not significant, are included in general and administrative expenses in the accompanying consolidated financial statements.

Recent Accounting Pronouncements

In October, 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 144 "Accounting for the Impairment and Disposal of Long-Lived Assets" ("SFAS No. 144"), which supercedes SFAS No. 121, "Accounting for the Impairment of Long Lived Assets and for Long-Lived Assets to be Disposed Of". It also supercedes the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". SFAS No. 144 retains the fundamental provisions of SFAS No. 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale, but broadens the definition of what constitutes a discontinued operation and how the results of a discontinued operation are to be measured and presented. The Company adopted this statement on January 1, 2002.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS No. 145"). This statement eliminates the requirement to report gains and losses from extinguishment of debt as extraordinary unless they meet the criteria of APB Opinion 30. SFAS No. 145 also requires sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The changes related to lease accounting are effective for transactions occurring after May 15, 2002 and the changes related to debt extinguishment are effective for fiscal years beginning after May 15, 2002. The impact of adopting the provisions related to lease accounting did not have a material impact on the Company's financial position or results of operations. The impact of adopting the provisions related to debt extinguishment is not expected to have a material impact on the Company's financial position or results of operations.

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

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

Recent Accounting Pronouncements, continued

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS No. 146"). SFAS No. 146 nullifies Emerging Issues Task Force Issue No. 94-3 and requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. This statement also establishes that fair value is the objective for initial measurement of the liability. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The impact of the adoption of SFAS No. 146 is not expected to have a material impact on the Company's financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of FASB Statement No. 123" ("SFAS No. 148"). SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation" to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of SFAS No. 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. Effective January 1, 2002, the Company adopted the fair value method of recording stock-based compensation contained in SFAS No. 123. As such, all vested stock options granted after December 31, 2001 will be reflected as compensation expense in the Company's consolidated financial statements over the vesting period based on the fair value at the date the stock-based compensation was granted. Under SFAS No. 123, companies may elect to choose from three alternative transition methods as it relates to the adoption of the fair value basis method of accounting for employee stock options. The Company has elected the prospective method whereby compensation expense will be recognized only for those options issued after December 31, 2001.

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

| | Years ended December 31, | | |
|----------------------------|--------------------------|----------|-----------|
| | 2002 | 2001 | 2000 |
| Net income: | | | |
| As reported | \$ 19,399 | \$ 9,802 | \$ 19,907 |
| Pro forma | \$ 19,363 | \$ 9,699 | \$ 19,038 |
| Basic earnings per share | | | |
| As reported | \$ 0.77 | \$ 0.35 | \$ 0.75 |
| Pro forma | \$ 0.76 | \$ 0.34 | \$ 0.72 |
| Diluted earnings per share | | | |
| As reported | \$ 0.76 | \$ 0.35 | \$ 0.75 |
| Pro forma | \$ 0.76 | \$ 0.34 | \$ 0.72 |

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires that upon issuance of a guarantee a guarantor must recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. The recognition provisions of FIN 45 are effective for any guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company is currently evaluating the effects of the recognition provision of FIN 45, but does not expect the adoption to have a material impact on the Company's financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46 "Consolidation of Variable Interest Entities" ("FIN 46"). In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. A variable interest entity often holds financial assets, including loans or receivables, real estate or other property. A variable interest entity may be essentially passive or it may engage in activities on behalf of another company. Until now, a company generally has included another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN 46 changes that by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. FIN 46's consolidation requirements apply immediately to variable interest entities created or acquired after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003.

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

1. Organization, Basis of Presentation and Summary of Significant Accounting Policies, continued*Recent Accounting Pronouncements, continued*

Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The Company has adopted FIN 46 effective January 31, 2003. The Company does not anticipate that the adoption of FIN 46 will have a material impact on the Company's consolidated financial condition or results of operations taken as a whole. The Company's interests in joint ventures are summarized in note 4.

Comprehensive income

Comprehensive income for the years ended December 31, 2002 and 2001 totaled \$13,731 and \$8,596, respectively, and was comprised of net income of \$19,399 and \$9,802, respectively, and other comprehensive loss related to the changes in the fair value of derivative instruments of \$5,668 and \$1,206, respectively. For the year ended December 31, 2000, the Company had no items of other comprehensive income requiring additional disclosure. The following table sets forth the change in accumulated other comprehensive loss for the years ended December 31, 2002 and 2001:

| Accumulated other comprehensive loss: | 2002 | 2001 |
|--|----------|----------|
| Beginning balance | \$ 1,206 | \$ — |
| Unrealized loss on valuation of derivative instruments | 5,668 | 1,206 |
| Ending balance | \$ 6,874 | \$ 1,206 |

As of December 31, 2002, the balance in accumulated other comprehensive loss was comprised entirely of unrealized losses on the valuation of derivative instruments.

Reclassifications

Certain 2001 and 2000 amounts were reclassified to conform to the 2002 presentation.

2. Acquisition and Disposition of Properties

A significant component of the Company's business plan has been the disposition of non-core real estate assets. Under this initiative, the Company sold a total of two apartment complexes and 23 shopping centers during 2002, 2001 and 2000.

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

Consistent with SFAS No. 144, the results of operations of sold properties is reported separately as discontinued operations for the years ended December 31, 2002, 2001 and 2000. Revenues from discontinued operations for the years ended December 31, 2002, 2001 and 2000 totaled \$6,295, \$24,178 and \$33,308, respectively. Assets and liabilities of the sold properties have been classified separately in the Company's consolidated balance sheet as of December 31, 2001 and are summarized in the following table:

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

2. Acquisition and Disposition of Properties, continued

| | <u>December 31,</u> <u>2001</u> |
|---|------------------------------------|
| ASSETS | |
| Net real estate | \$ 62,909 |
| Cash and cash equivalents | 191 |
| Cash in escrow | 2,649 |
| Rents receivable, net | 1,590 |
| Prepaid expenses | 695 |
| Deferred charges, net | 2,496 |
| Other assets | 672 |
| | <hr/> |
| Total assets | 71,202 |
| | <hr/> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | |
| Mortgage notes payable | 50,163 |
| Accounts payable and accrued expenses | 732 |
| Other liabilities | 741 |
| | <hr/> |
| Total liabilities | 51,636 |
| | <hr/> |
| Net assets of discontinued operations | \$ 19,566 |
| | <hr/> |

2002 Acquisitions and Dispositions

On November 8, 2002, the Company and an unaffiliated joint venture partner completed the sale of a contract to purchase land in Bethel, Connecticut, to the Target Corporation for \$1,540 after closing and other related costs. The joint venture received a \$1,632 note receivable for the net purchase price and additional reimbursements due from the buyer, which was paid in full subsequent to December 31, 2002. As of December 31, 2002, the Company had deferred the gain of \$1,212 pending collection on the note.

On October 11, 2002, the Company sold the Manahawkin Village Shopping Center and Valmont Plaza for \$16,825 to a single unaffiliated buyer. The Company received two purchase money notes in connection with the sale. The first for \$11,000 was repaid in full on November 8, 2002. The second for \$1,600, matures October 11, 2003, requires monthly interest of 5% to February 1, 2003, and 10% thereafter. As part of the transaction, the Company repaid \$3,084 of mortgage debt secured by the Valmont Plaza. The \$4,049 of mortgage debt secured by the Manahawkin Village Shopping Center was repaid in full on September 27, 2002, prior to the sale. The Company recorded a \$166 gain on the sale.

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

On January 16, 2002, the Company sold Union Plaza, a 218,000 square foot shopping center located in New Castle, Pennsylvania, for \$4,750. The Company received a \$3,563 purchase money note. The note, which matures January 15, 2005, requires monthly interest of 7% for year one, increasing at a rate of 1% per annum throughout the term. As part of the transaction, the Company agreed to reimburse the purchaser 50% of a former tenant's rent, or \$22 a month, for a period of 18 months. The Company recorded a loss of \$166 on the sale.

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

2001 Dispositions

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

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

2. Acquisition and Disposition of Properties, continued

2001 Dispositions, continued

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

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

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

2000 Dispositions

On December 14, 2000, the Company sold the Northwood Centre, located in Tallahassee, Florida, for \$31,500 resulting in a \$15,616 gain on the sale.

On December 11, 2000, the Company sold approximately 160,000 square feet of the main building and related parking lot at the Abington Towne Center for \$11,500 resulting in a \$1,035 loss on the sale. The Company retained ownership of approximately 50,000 square feet of the main building, as well as the outparcels (14,000 square feet) and related parking areas.

On August 25, 2000, the Company sold 13 acres at the Union Plaza, located in New Castle, Pennsylvania, for \$1,900 resulting in an \$839 loss on the sale.

3. Segment Reporting

The Company has two reportable segments: retail properties and multi-family properties. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates property performance primarily based on net operating income before depreciation, amortization and certain nonrecurring items. The reportable segments are managed separately due to the differing nature of the leases and property operations associated with the retail versus residential tenants. The following table sets forth certain segment information for the Company, reclassified for discontinued operations, as of and for the years ended December 31, 2002, 2001, and 2000 (does not include unconsolidated partnerships):

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

3. Segment Reporting, continued

2002

| | Retail Properties | Multi-Family Properties | All Other | Total |
|---|----------------------|----------------------------|--------------|-----------|
| Revenues | \$ 58,498 | \$ 6,969 | \$ 3,880 | \$ 69,347 |
| Property operating expenses and real estate taxes | 17,030 | 3,691 | — | 20,721 |
| Net property income before depreciation and amortization | 41,468 | 3,278 | 3,880 | 48,626 |
| Depreciation and amortization | 13,287 | 1,201 | 316 | 14,804 |
| Interest expense | 9,390 | 1,627 | — | 11,017 |
| Real estate at cost | 375,482 | 38,396 | — | 413,878 |
| Total assets | 368,547 | 36,224 | 6,164 | 410,935 |
| Gross leasable area (multi-family – 1,474 units) | 5,079 | 1,207 | — | 6,286 |
| Expenditures for real estate and improvements | 13,134 | 1,000 | — | 14,134 |
| | | | | |
| Revenues | | | | |
| Total revenues for reportable segments | \$ 70,413 | | | |
| Elimination of intersegment management fee income | (1,066) | | | |
| Total consolidated revenues | \$ 69,347 | | | |
| | | | | |
| Property operating expenses and real estate taxes | | | | |
| Total property operating expenses and real estate taxes for reportable segments | \$ 21,778 | | | |
| Elimination of intersegment management fee expense | (1,057) | | | |
| Total consolidated expense | \$ 20,721 | | | |
| | | | | |
| Reconciliation to income before minority interest, extraordinary item, and cumulative effect of change in accounting principle Net property income before depreciation and amortization | \$ 48,626 | | | |
| Depreciation and amortization | (14,804) | | | |
| General and administrative | (10,447) | | | |
| Equity in earnings of unconsolidated partnerships | 628 | | | |
| Interest expense | (11,017) | | | |
| Income from discontinued operations | 8,839 | | | |
| Minority interest | (2,426) | | | |
| Income before extraordinary item and cumulative effect of change in accounting principle | \$ 19,399 | | | |

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

3. Segment Reporting, continued

2001

| | Retail Properties | Multi-Family Properties | All Other | Total |
|--|----------------------|----------------------------|--------------|-----------|
| Revenues | \$ 52,756 | \$ 6,870 | \$ 1,656 | \$ 61,282 |
| Property operating expenses and real estate taxes | 16,662 | 3,362 | — | 20,024 |
| Net property income before depreciation and amortization | 36,094 | 3,508 | 1,656 | 41,258 |
| Depreciation and amortization | 12,154 | 1,097 | 354 | 13,605 |
| Interest expense | 10,468 | 1,902 | — | 12,370 |
| Real estate at cost | 361,075 | 37,341 | — | 398,416 |
| Total assets | 453,034 | 35,736 | 5,169 | 493,939 |
| Gross leasable area (multi-family – 1,474 units) | 5,079 | 1,207 | — | 6,286 |
| Expenditures for real estate and improvements | 9,425 | 1,260 | — | 10,685 |
| | | | | |
| Revenues | | | | |
| Total revenues for reportable segments | \$ 62,273 | | | |
| Elimination of intersegment management fee income | (991) | | | |
| | | | | |
| Total consolidated revenues | \$ 61,282 | | | |
| | | | | |
| Property operating expenses and real estate taxes | | | | |
| Total property operating expenses and real estate taxes for reportable segments | \$ 21,015 | | | |
| Elimination of intersegment management fee expense | (991) | | | |
| | | | | |
| Total consolidated expense | \$ 20,024 | | | |
| | | | | |
| Reconciliation to income before minority interest | | | | |
| Net property income before depreciation and amortization | \$ 41,258 | | | |
| Depreciation and amortization | (13,605) | | | |
| General and administrative | (9,025) | | | |
| Equity in earnings of unconsolidated partnerships | 504 | | | |
| Interest expense | (12,370) | | | |
| Income from discontinued operations | 4,795 | | | |
| Minority interest | (1,466) | | | |
| | | | | |
| Income before extraordinary item and cumulative effect of change in accounting principle | \$ 10,091 | | | |

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

3. Segment Reporting, continued

2000

| | Retail Properties | Multi-Family Properties | All Other | Total |
|--|----------------------|----------------------------|--------------|-----------|
| Revenues | \$ 54,501 | \$ 6,816 | \$ 2,133 | \$ 63,450 |
| Property operating expenses and real estate taxes | 17,330 | 3,015 | — | 20,345 |
| Net property income before depreciation and amortization | 37,171 | 3,801 | 2,133 | 43,105 |
| Depreciation and amortization | 11,823 | 983 | 330 | 13,136 |
| Interest expense | 14,099 | 1,778 | — | 15,877 |
| Real estate at cost | 351,648 | 36,081 | — | 387,729 |
| Total assets | 481,257 | 35,570 | 6,784 | 523,611 |
| Gross leasable area (multi-family – 1,474 units) | 5,079 | 1,207 | — | 6,286 |
| Expenditures for real estate and improvements | 10,217 | 752 | — | 10,969 |
| | | | | |
| Revenues | | | | |
| Total revenues for reportable segments | \$ 64,402 | | | |
| Elimination of intersegment management fee income | (952) | | | |
| | | | | |
| Total consolidated revenues | \$ 63,450 | | | |
| | | | | |
| Property operating expenses and real estate taxes | | | | |
| Total property operating expenses and real estate taxes for reportable segments | \$ 21,297 | | | |
| Elimination of intersegment management fee expense | (952) | | | |
| | | | | |
| Total consolidated expense | \$ 20,345 | | | |
| | | | | |
| Reconciliation to income before minority interest | | | | |
| Net property income before depreciation and amortization | \$ 43,105 | | | |
| Depreciation and amortization | (13,136) | | | |
| General and administrative | (8,391) | | | |
| Equity in earnings of unconsolidated partnerships | 645 | | | |
| Interest expense | (15,877) | | | |
| Income from discontinued operations | 15,513 | | | |
| Minority interest | (1,952) | | | |
| | | | | |
| Income before extraordinary item and cumulative effect of change in accounting principle | \$ 19,907 | | | |

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

4. Investment in Unconsolidated Partnerships

Crossroads

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

| | December 31, | | |
|--|--------------------------|-----------|----------|
| | 2002 | 2001 | |
| Balance Sheets | | | |
| Assets: | | | |
| Rental property, net | \$ 7,603 | \$ 7,997 | |
| Other assets | 3,536 | 3,715 | |
| Total assets | \$ 11,139 | \$ 11,712 | |
| Liabilities and partners' equity | | | |
| Mortgage note payable | \$ 33,575 | \$ 34,133 | |
| Other liabilities | 5,832 | 2,759 | |
| Partners' equity | (28,268) | (25,180) | |
| Total liabilities and partners' equity | \$ 11,139 | \$ 11,712 | |
| Company's investment | \$ 3,241 | \$ 5,147 | |
| | Years Ended December 31, | | |
| | 2002 | 2001 | 2000 |
| Statements of Operations | | | |
| Total revenue | \$ 7,091 | \$ 7,174 | \$ 7,242 |
| Operating and other expenses | 2,150 | 2,159 | 1,895 |
| Interest expense | 2,722 | 2,620 | 2,699 |
| Depreciation and amortization | 547 | 538 | 532 |
| Net income | \$ 1,672 | \$ 1,857 | \$ 2,116 |
| Company's share of net income | \$ 934 | \$ 910 | \$ 1,037 |
| Amortization of excess investment (See below) | 392 | 392 | 392 |
| Income from Partnerships | \$ 542 | \$ 518 | \$ 645 |

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

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

4. Investment in Unconsolidated Partnerships, Continued

Acadia Strategic Opportunity Fund, LP ("ASOF")

In 2001, the Company formed a joint venture, ASOF, with four of its institutional investors for the purpose of acquiring real estate assets. The Company is the sole general partner with a 22% interest in the joint venture and is also entitled to a profit participation in excess of its invested capital based on certain investment return thresholds. The Company also earns market-rate fees for asset management as well as for property management, construction and leasing services. On September 19, 2002, ASOF acquired three supermarket-anchored shopping centers. The Company accounts for its investment in ASOF using the equity method. Summary financial information of ASOF and the Company's investment in and share of income from ASOF follows:

| | December 31, | |
|---|---|--|
| | 2002 | 2001 |
| Balance Sheets | | |
| Assets: | | |
| Rental property, net | \$ 28,046 | \$ — |
| Other assets | 5,977 | 98 |
| Total assets | \$ 34,023 | \$ 98 |
| Liabilities and partners' equity | | |
| Mortgage note payable | \$ 18,450 | \$ — |
| Other liabilities | 2,418 | — |
| Partners' equity | 13,155 | 98 |
| Total liabilities and partners' equity | \$ 34,023 | \$ 98 |
| Company's investment in ASOF | \$ 2,923 | \$ 22 |
| | | |
| | Year ended December 31, 2002 | Period from September 28, 2001 (inception) to December 31, 2001 |
| Statements of Operations | | |
| Total revenue | \$ 1,224 | \$ — |
| Operating and other expenses | 342 | — |
| Management and other fees | 1,391 | 402 |
| Interest expense | 350 | — |
| Depreciation and amortization | 145 | — |
| Net loss | \$ (1,004) | \$ (402) |
| Company's share of net income (loss) | \$ 86 | \$ (14) |

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

5. Deferred Charges

Deferred charges consist of the following as of December 31, 2002 and 2001:

| | 2002 | 2001 |
|----------------------------------|-----------|-----------|
| Deferred financing costs | \$ 6,150 | \$ 5,338 |
| Deferred leasing and other costs | 13,302 | 13,252 |
| | 19,452 | 18,590 |
| Accumulated amortization | (9,092) | (6,955) |
| | \$ 10,360 | \$ 11,635 |

6. Mortgage Loans

At December 31, 2002, mortgage notes payable aggregated \$202,361 and were collateralized by 25 properties and related tenant leases. Interest rates ranged from 2.9% to 8.1%. Mortgage payments are due in monthly installments of principal and/or interest and mature on various dates through 2011. Certain loans are cross-collateralized and cross-defaulted as part of a group of properties. The loan agreements contain customary representations, covenants and events of default. Certain loan agreements require the Company to comply with certain affirmative and negative covenants, including the maintenance of certain debt service coverage and leverage ratios.

On November 22, 2002, the Company closed on a \$20,000 revolving credit facility with a bank. The facility, which is secured by one of the Company's properties and matures November 22, 2007, requires the monthly payment of interest only at the rate of LIBOR plus 170 basis points subject to a total floor of 3.3%. As of December 31, 2002, no amounts have been drawn under this facility and future draws are subject to meeting certain conditions including a loan-to-value limit and debt service coverage ratio. The Company also pays a 15 basis point fee per annum for the unused portion of the facility on a quarterly basis.

On September 27, 2002, the Company repaid a \$4,049 loan with a life insurance company in connection with the sale of a property on October 11, 2002.

On September 26, 2002, the Company refinanced a maturing \$9,485 loan with a life insurance company. The loan, which is secured by one of the Company's properties, requires monthly payment of interest at the rate of LIBOR plus 173 basis points and principal amortized over 25 years and matures October 1, 2005.

On June 25, 2002, the Company refinanced a maturing \$13,368 loan with a life insurance company, increasing the outstanding principal to \$13,750. The loan, which is secured by one of the Company's properties, requires the monthly payment of interest at a rate of 6.5% and principal amortized over 25 years and matures July 1, 2007.

On June 17, 2002, the Company repaid a \$7,231 loan, which was secured by one of the Company's properties, with a bank.

On May 31, 2002, the Company refinanced a maturing \$9,061 loan with a bank. The loan, which is secured by one of the Company's properties, requires the monthly payment of interest at the rate of LIBOR plus 175 basis points and principal amortized over 25 years and matures June 1, 2007. Subject to other conditions including loan-to-value limit and debt service coverage ratio, the Company may draw an additional \$1,329 under this facility.

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

6. Mortgage Loans, Continued

On April 16, 2002, the Company closed on a \$9,350 loan with a bank. The debt, which is secured by one of the Company's properties and matures May 1, 2007, initially requires the monthly payment of interest at the rate of LIBOR plus 300 basis points and principal amortized over 25 years. Following the completion of certain construction at the property, the rate decreases to LIBOR plus 175 basis points. The Company has drawn \$6,300 under this facility to repay \$6,178 to the previous lender on the property and for loan closing costs. Upon completion of the planned construction at this property and subject to other conditions, including loan-to-value limit and debt service coverage ratio, the Company may draw the remaining \$3,050 available under this facility.

On March 15, 2002, the Company extended its existing loan with a bank through March 15, 2007 and drew down an additional \$1,000. As of December 31, 2002, \$4,942 was outstanding under this loan.

The following table summarizes the Company's mortgage indebtedness as of December 31, 2002 and 2001:

| | December 31, 2002 | December 31, 2001 | Interest Rate at December 31, 2002 | Maturity | Properties Encumbered | Payment Terms |
|--|----------------------|----------------------|---------------------------------------|----------|--------------------------|------------------|
| Mortgage notes payable – variable rate | | | | | | |
| Sun America Life Insurance Company | \$ — | \$ 13,521 | | — | — | — |
| Fleet Bank, N.A. | 8,731 | 8,853 | 3.19% (LIBOR + 1.75%) | 08/01/03 | (1) | (2) |
| Metropolitan Life Insurance Company | 7,577 | 7,700 | 3.69% (LIBOR + 2.00%) | 11/01/03 | (3) | (2) |
| First Union National Bank | 13,388 | 13,512 | 2.89% (LIBOR + 1.45%) | 01/01/05 | (4) | (2) |
| Washington Mutual | 56,950 | 58,149 | 3.25% (LIBOR + 1.75%) | 04/01/05 | (5) | (2) |
| Sun America Life Insurance Company | 9,446 | 9,682 | 3.54% (LIBOR + 1.73%) | 10/01/05 | (6) | (2) |
| Fleet Bank, N.A. | 12,187 | 12,350 | 3.19% (LIBOR + 1.75%) | 01/01/07 | (7) | (2) |
| Washington Mutual | 15,637 | 16,000 | 3.35% (LIBOR + 1.85%) | 01/01/07 | (8) | (2) |
| Fleet Bank, N.A. | 4,942 | 4,051 | 3.17% (LIBOR + 1.75%) | 03/15/07 | (9) | (2) |
| Fleet Bank, N.A. | 6,300 | — | 4.42% (LIBOR + 3.00%) | 05/01/07 | (10) | (16) |
| Fleet Bank, N.A. | 9,108 | 9,106 | 3.56% (LIBOR + 1.75%) | 06/01/07 | (11) | (2) |
| Total variable-rate debt | 144,266 | 152,924 | | | | |
| Mortgage notes payable – fixed rate | | | | | | |
| Huntoon Hastings Capital Corp. | — | 6,194 | | — | — | — |
| Anchor National Life Insurance Company | 3,570 | 3,676 | 7.93% | 01/01/04 | (12) | \$ 33(2) |
| Sun America Life Insurance Company | 13,648 | — | 6.46% | 07/01/07 | (13) | \$ 92(2) |
| Mellon Mortgage Company | — | 7,305 | | — | — | — |
| Metropolitan Life Insurance Company | 24,495 | 24,820 | 8.13% | 11/01/10 | (14) | \$ 197(2) |
| Bank of America, N.A. | 16,382 | 16,525 | 7.55% | 01/01/11 | (15) | \$ 117(2) |
| Total fixed-rate debt | 58,095 | 58,520 | | | | |
| | \$ 202,361 | \$ 211,444 | | | | |

Notes:

| | | | | | |
|-----|---|------|--|------|--|
| (1) | Soundview Marketplace | (7) | Branch Shopping Center Abington Towne Center Methuen Shopping Center | (13) | Merrillville Plaza |
| (2) | Monthly principal and interest | (8) | Walnut Hill Plaza Bloomfield Town Square | (14) | Crescent Plaza East End Centre |
| (3) | Greenridge Plaza | (9) | Town Line Plaza | (15) | GHT Apartments/Colony Apartments |
| (4) | 239 Greenwich Avenue | (10) | Gateway Shopping Center | (17) | Interest only until Shaw's commences paying rent; monthly principal and interest thereafter. |
| (5) | New London Center Ledgewood Mall Route 6 Plaza Bradford Towne Centre Berlin Shopping Center | (11) | Smithtown Shopping Center | | |
| (6) | Village Apartments | (12) | Pittston Plaza | | |

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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6. Mortgage Loans, continued

The scheduled principal repayments of all mortgage indebtedness as of December 31, 2002 are as follows:

| | | |
|------------|----|---------|
| 2003 | \$ | 19,694 |
| 2004 | | 6,968 |
| 2005 | | 78,235 |
| 2006 | | 1,981 |
| 2007 | | 57,777 |
| Thereafter | | 37,706 |
| | | <hr/> |
| | \$ | 202,361 |
| | | <hr/> |

7. Shareholders' Equity and Minority Interests*Common Shares*

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

In February 2002, the Board of Trustees voted to permit Yale University ("Yale") to acquire 2,266,667 additional Common Shares from the Howard Hughes Medical Institute by granting a conditional waiver of the provision in the Company's Declaration of Trust that prohibits ownership positions in excess of 4% of the Company. The waiver was limited to this particular transaction. Following this, Yale owned 8,421,759 Common Shares, or 34% of the Company's outstanding Common Shares. Additionally, as a condition to approving the waiver, Yale agreed to establish a voting trust whereby all shares owned by Yale University in excess of 30% of the Company's outstanding Common Shares, will be voted in the same proportion as all other shares voted, excluding Yale.

As of December 31, 2002, in addition to the Common Shares purchased in connection with the Tender Offer, the Company had repurchased 1,931,682 Common Shares (net of 119,923 Common Shares reissued) at a total cost of \$11,001 under the expanded share repurchase program that allows for the repurchase of up to \$20,000 of the Company's outstanding Common Shares. The repurchased shares are reflected as a reduction of par value and additional paid-in capital.

Minority Interests

Minority interest in Operating Partnership represents the limited partners' interest of 3,162,980 and 5,249,717 units in the Operating Partnership ("Common OP Units") at December 31, 2002 and 2001, respectively, and 2,212 units of preferred limited partnership interests designated as Series A Preferred Units ("Preferred OP Units") issued November 16, 1999 in connection with the acquisition of all the partnership interests of the limited partnership which owns the Pacesetter Park Shopping Center.

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

During 2002, various limited partners converted a total of 699,084 Common OP Units into Common Shares on a one-for-one basis.

Minority interests at December 31, 2002 and 2001 also include an aggregate amount of \$2,380 and \$1,429 respectively, which represent third party interests in three of the properties in which the Company has a majority ownership position.

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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8. Related Party Transactions

The Company currently manages one property in which a shareholder of the Company has an ownership interest for which the Company earns a management fee of 3% of tenant collections. In each of 2001 and 2000, the Company terminated contracts to manage a property owned by related parties that earned fees of 3.25% and 3.5% of tenant collections, respectively. Management fees earned by the Company under these contracts aggregated \$229, \$391, and \$853 for the years ended December 31, 2002, 2001 and 2000 respectively, and are included in other revenues in the accompanying consolidated statements of income.

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

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

Included in the Common OP Units converted to Common Shares during 2002, were 5,000 Common OP Units converted by Mr. Dworman who then transferred them to a charitable foundation in accordance with a pre-existing arrangement.

In connection with the Company's Tender Offer, which was completed in February of 2002, Mr. Dworman tendered and sold 492,271 Common OP Units (after converting these to Common Shares on a one-for-one basis) and 107,729 Common Shares (note 7).

9. Tenant Leases

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

Minimum future rentals to be received under non-cancelable leases for shopping centers and other retail properties as of December 31, 2002 are summarized as follows:

| | | |
|------------|----|----------------|
| 2003 | \$ | 40,975 |
| 2004 | | 38,717 |
| 2005 | | 33,934 |
| 2006 | | 31,205 |
| 2007 | | 27,996 |
| Thereafter | | 178,974 |
| | \$ | <u>351,801</u> |

Minimum future rentals above include a total of \$21,452 for two tenants (with 6 leases), which have filed for bankruptcy protection. None of these leases have been rejected nor affirmed. During the years ended December 31, 2002, 2001 and 2000, no single tenant collectively accounted for more than 10% of the Company's total revenues.

10. Lease Obligations

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

| | | |
|------------|----|---------------|
| 2003 | \$ | 522 |
| 2004 | | 562 |
| 2005 | | 562 |
| 2006 | | 562 |
| 2007 | | 562 |
| Thereafter | | 17,944 |
| | \$ | <u>20,714</u> |

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

11. Share Incentive Plan

During 1999, the Company adopted the 1999 Share Incentive Plan (the "1999 Plan"), which replaced both the 1994 Share Option Plan and the 1994 Non-Employee Trustees' Share Option Plan. The 1999 Plan authorizes the issuance of options equal to up to 8% of the total Common Shares outstanding from time to time on a fully diluted basis. However, not more than 4,000,000 of the Common Shares in the aggregate may be issued pursuant to the exercise of options and no participant may receive more than 5,000,000 Common Shares during the term of the 1999 Plan. Options are granted by the Share Option Plan Committee (the "Committee"), which currently consists of two non-employee Trustees, and will not have an exercise price less than 100% of the fair market value of the Common shares and a term of greater than ten years at the grant date. Vesting of options is at the discretion of the Committee with the exception of options granted to non-employee Trustees, which vest in five equal annual installments beginning on the date of grant. Pursuant to the 1999 Plan, non-employee Trustees receive an automatic grant of 1,000 options following each Annual Meeting of Shareholders. As of December 31, 2002, the Company has issued 2,453,400 options to officers and employees, which are for ten-year terms and vest in three equal annual installments beginning on the grant date. In addition, 19,000 options have been issued to non-employee Trustees.

The 1999 Plan also provides for the granting of Share Appreciation Rights, Restricted Shares and Performance Units/Shares. Share Appreciation Rights provide for the participant to receive, upon exercise, cash and/or Common Shares, at the discretion of the committee, equal to in value to the excess of the option exercise price over the fair market value of the Common Shares at the exercise date. The Committee will determine the award and restrictions placed on Restricted Shares, including the dividends thereon and the term of such restrictions. The Committee also determines the award and vesting of Performance Units and Performance Shares based on the attainment of specified performance objectives of the Company within a specified performance period. For the year ended December 31, 2001 and 2000, the Company has issued 37,110 and 84,063 Restricted Shares, respectively, to employees, which vest equally over three years. No awards of Restricted Shares were granted for the year ended December 31, 2002. During the years ended December 31, 2002, 2001 and 2000, the Company recognized compensation expenses of \$121, \$121 and \$61, respectively, in connection with Restricted Share grants. No awards of Share Appreciation Rights or Performance Units/Shares were granted for the years ended December 31, 2002, 2001 and 2000.

Effective January 1, 2002, the Company adopted the fair value method of recording stock-based compensation contained in SFAS No. 123, "Accounting for Stock-Based Compensation". As such, all vested stock option grants granted after December 31, 2001 will be expensed in the accompanying consolidated financial statements over the vesting period based on the fair value at the date the stock-based compensation was granted. Prior to January 1, 2002, the Company had applied the intrinsic value method permitted under SFAS No. 123, as defined in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations, in accounting for stock-based compensation plans. Accordingly, no compensation expense has been recognized in the accompanying consolidated financial statements for the years ended December 31, 2001 and 2000 related to the issuance of stock options because the exercise price of the Company's employee stock options equaled or exceeded the market price of the underlying stock on the date of grant. Under SFAS No. 148, companies may elect to choose from three alternative transition methods as it relates to the adoption of the fair value basis method of accounting for employee stock options. The Company has elected the prospective method whereby compensation expense will be recognized only for those options issued on or after January 1, 2002. See note 1 – "Recent Accounting Pronouncements" for additional discussion related to SFAS No. 148 and the Company's adoption of the fair value method of recording stock-based compensation pursuant to SFAS No. 123.

The Company has used the Black-Scholes option-pricing model for purposes of estimating the fair value in determining compensation expense for options granted for the year ended December 31, 2002. The Company has also used this model for the pro forma information regarding net income and earnings per share as required by SFAS No. 123 for options issued for the years ended December 31, 2001 and 2000 as if the Company had also accounted for these employee stock options under the fair value method. The fair value for the options issued by the Company was estimated at the date of the grant using the following weighted-average assumptions:

| | Years ended December 31, | | |
|--|--------------------------|-----------|-----------|
| | 2002 | 2001 | 2000 |
| Risk-free interest rate | 3.3% | 5.4% | 4.9% |
| Dividend yield | 7.0% | 8.4% | 7.8% |
| Expected life | 7.0 years | 7.0 years | 7.7 years |
| Expected volatility | 19.1% | 17.7% | 30.0% |
| Fair value at date of grant (per option) | \$0.27 | \$0.27 | \$0.94 |

ACADIA REALTY TRUST AND SUBSIDIARIES
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(In thousands, except per share amounts)

11. Share Incentive Plan, continued

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

| | Years ended December 31, | | |
|-------------------------------------|--------------------------|----------------|----------------|
| | 2002 | 2001 | 2000 |
| Outstanding at beginning of year | 2,593,400 | 2,124,600 | 2,071,600 |
| Granted | 5,000 | 475,000 | 55,000 |
| Option price per share granted | \$ 7.10 | \$ 6.00-\$7.00 | \$ 5.00-\$5.75 |
| Cancelled | — | — | 2,000 |
| Exercisable at end of year | 2,313,436 | 2,418,137 | 2,108,200 |
| Exercised(1) | 126,000 | 6,200 | — |
| Expired | — | — | — |
| Outstanding at end of year | 2,472,400 | 2,593,400 | 2,124,600 |
| Option prices per share outstanding | \$ 4.89-\$7.50 | \$ 4.89-\$7.50 | \$ 4.89-\$7.50 |

- (1) Pursuant to the 1999 Plan, these options, at the Company's election, were exercised on a cashless basis and did not result in the issuance of any additional Common Shares. In connection with such exercises, compensation expense of approximately \$260, \$6 and \$0 was recognized for the years ended December 31, 2002, 2001 and 2000, respectively.

As of December 31, 2002 the outstanding options had a weighted average remaining contractual life of approximately 6.1 years.

12. Employee 401(k) Plan

The Company maintains a 401(k) plan for employees under which the Company currently matches 50% of a plan participant's contribution up to 6% of the employee's annual salary. A plan participant may contribute up to a maximum of 15% of their compensation but not in excess of \$11 for the year ended December 31, 2002. The Company contributed \$115, \$135, and \$143 for the years ended December 31, 2002, 2001 and 2000, respectively.

13. Dividends and Distributions Payable

On December 12, 2002, the Company declared a cash dividend for the quarter ended December 31, 2002 of \$0.13 per Common Share. The dividend was paid on February 3, 2003 to shareholders of record as of December 31, 2002.

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

| | Years ended December 31, | | |
|------------------------|--------------------------|------|------|
| | 2002 | 2001 | 2000 |
| Ordinary income | 44% | 79% | 100% |
| Long-term capital gain | 56% | 21% | — |
| | 100% | 100% | 100% |

14. Financial Instruments*Fair Value of Financial Instruments*

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

ACADIA REALTY TRUST AND SUBSIDIARIES
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14. Financial Instruments, continued*Fair Value of Financial Instruments, continued*

Cash and Cash Equivalents, Cash in Escrow, Rents Receivable, Notes Receivable, Prepaid Expenses, Other Assets, Accounts Payable and Accrued Expenses, Dividends and Distributions Payable, Due to Related Parties and Other Liabilities – The carrying amount of these assets and liabilities approximates fair value due to the short-term nature of such accounts.

Derivative Instruments – The fair value of these instruments is based upon the estimated amounts the Company would receive or pay to terminate the contracts as of December 31, 2002 and 2001 and is determined using interest rate market pricing models.

Mortgage Notes Payable – As of December 31, 2002 and 2001, the Company has determined the estimated fair value of its mortgage notes payable are approximately \$208,083 and \$214,970, respectively, by discounting future cash payments utilizing a discount rate equivalent to the rate at which similar mortgage notes payable would be originated under conditions then existing.

Interest Rate Hedges

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

On December 6, 2002, ASOF completed a forward interest rate lock agreement on \$30,000 of anticipated mortgage debt in connection with the pending acquisition of the Brandywine Town Center (note 19). The Company’s effective pro rata share is 22% of this instrument.

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

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

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

The Company is also a party to two swap agreements with a bank through its 49% interest in Crossroads (note 4). These swap agreements effectively fix the interest rate on the Company’s pro rata share, or \$16,725, of the joint venture mortgage debt.

The following table summarizes the notional values and fair values of the Company’s derivative financial instruments as of December 31, 2002. The notional value does not represent exposure to credit, interest rate or market risks.

| Hedge Type | Notional Value | Rate | Interest Maturity | Fair Value |
|-------------------|----------------|-------|-------------------|------------|
| LIBOR Swap (1) | \$ 11,974 | 5.94% | 6/16/07 | \$ (1,543) |
| LIBOR Swap (1) | 5,000 | 6.48% | 6/16/07 | (759) |
| LIBOR Swap | 30,000 | 4.80% | 4/1/05 | (1,915) |
| LIBOR Swap | 20,000 | 4.53% | 10/1/06 | (1,376) |
| LIBOR Swap | 9,108 | 4.47% | 6/1/07 | (601) |
| LIBOR Swap | 15,806 | 4.32% | 1/1/07 | (944) |
| LIBOR Swap | 12,227 | 4.11% | 1/1/07 | (633) |
| Treasury Lock (2) | 6,666 | 3.22% | 2/4/03 | (140) |
| | | | | \$ (7,911) |

Notes:

(1) Relates to the Company’s investments in Crossroads. These swaps effectively fix the interest rate on the Company’s pro rata share of mortgage debt.

(2) Relates to the Company’s investment in ASOF. The above amount represents the Company’s pro rata share of the notional value.

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14. Financial Instruments, continued*Interest Rate Hedges, continued*

As of December 31, 2002, the derivative instruments were reported at their fair value as derivative instruments of \$5,470 and as a reduction of investments in unconsolidated partnerships of \$2,442. As of December 31, 2002, unrealized losses totaling \$7,735 represented the fair value of the aforementioned derivatives, of which \$6,874 was reflected in accumulated other comprehensive loss and \$861 as a reduction of minority interest in Operating Partnership. For the years ended December 31, 2002 and 2001, the Company recorded an unrealized loss of \$122 and \$54, respectively, due to partial ineffectiveness on one of the swaps. The ineffectiveness resulted from differences between the derivative notional and the principal amount of the hedged variable rate debt.

The Company's interest rate hedges are designated as cash flow hedges and hedge the future cash outflows on mortgage debt. Interest rate swaps that convert variable payments to fixed payments, such as those held by the Company, as well as interest rate caps, floors, collars, and forwards are cash flow hedges. The unrealized gains and losses in the fair value of these hedges are reported on the balance sheet with a corresponding adjustment to either accumulated other comprehensive income or earnings depending on the type of hedging relationship. For cash flow hedges, offsetting gains and losses are reported in accumulated other comprehensive income. Over time, the unrealized gains and losses held in accumulated other comprehensive income will be reclassified to earnings. This reclassification occurs over the same time period in which the hedged items affect earnings. Within the next twelve months, the Company expects to reclassify to earnings as interest expense approximately \$3,500 of the current balance held in accumulated other comprehensive loss.

15. Earnings Per Common Share

Basic earnings per share was determined by dividing the applicable net income to common shareholders for the year by the weighted average number of Common Shares outstanding during each year consistent with SFAS No. 128. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue Common Shares were exercised or converted into Common Shares or resulted in the issuance of Common Shares that then shared in the earnings of the Company. The following table sets forth the computation of basic and diluted earnings per share from continuing operations for the periods indicated. For the years ended December 31, 2001 and 2000 no additional shares were reflected as the impact would be anti-dilutive in such years.

| | Years ended December 31, | | |
|--|--------------------------|----------|----------|
| | 2002 | 2001 | 2000 |
| Numerator: | | | |
| Income from continuing operations – basic earnings per share | \$ 10,560 | \$ 5,296 | \$ 4,394 |
| Effect of dilutive securities: | | | |
| Preferred OP Unit distributions | 199 | — | — |
| Numerator for diluted earnings per share | 10,759 | 5,296 | 4,394 |
| Denominator: | | | |
| Weighted average shares – basic earnings per share | 25,321 | 28,313 | 26,437 |
| Effect of dilutive securities: | | | |
| Employee stock options | 190 | — | — |
| Convertible Preferred OP Units | 295 | — | — |
| Dilutive potential Common Shares | 485 | — | — |
| Denominator for diluted earnings per share | 25,806 | 28,313 | 26,437 |
| Basic earnings per share from continuing operations | \$ 0.42 | \$ 0.19 | \$ 0.16 |
| Diluted earnings per share from continuing operations | \$ 0.42 | \$ 0.19 | \$ 0.16 |

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

ACADIA REALTY TRUST AND SUBSIDIARIES
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16. Summary of Quarterly Financial Information (unaudited)

The quarterly results of operations of the Company, reclassified for discontinued operations, for the years ended December 31, 2002 and 2001 are as follows:

| | March 31, 2002 | June 30, 2002 | September 30, 2002 | December 31, 2002 | Total for Year |
|---|-------------------|------------------|-----------------------|----------------------|-------------------|
| Revenue | \$ 19,526 | \$ 16,023 | \$ 16,208 | \$ 17,590 | \$ 69,347 |
| Income from continuing operations | \$ 5,329 | \$ 1,770 | \$ 1,990 | \$ 1,471 | \$ 10,560 |
| Income (loss) from discontinued operations | \$ 1,137 | \$ 2,052 | \$ (108) | \$ 5,758 | \$ 8,839 |
| Net income | \$ 6,466 | \$ 3,822 | \$ 1,882 | \$ 7,229 | \$ 19,399 |
| Net income per Common Share – basic: | | | | | |
| Income from continuing operations | \$ 0.21 | \$ 0.07 | \$ 0.08 | \$ 0.06 | \$ 0.42 |
| Income from discontinued operations | \$ 0.04 | \$ 0.08 | \$ — | \$ 0.23 | \$ 0.35 |
| Net income | \$ 0.25 | \$ 0.15 | \$ 0.08 | \$ 0.29 | \$ 0.77 |
| Net income per Common Share – diluted: | | | | | |
| Income from continuing operations | \$ 0.21 | \$ 0.07 | \$ 0.08 | \$ 0.06 | \$ 0.42 |
| Income from discontinued operations | \$ 0.04 | \$ 0.08 | \$ — | \$ 0.22 | \$ 0.34 |
| Net income | \$ 0.25 | \$ 0.15 | \$ 0.08 | \$ 0.28 | \$ 0.76 |
| Cash dividends declared per Common Share | \$ 0.13 | \$ 0.13 | \$ 0.13 | \$ 0.13 | \$ 0.52 |
| Weighted average Common Shares outstanding: | | | | | |
| Basic | 26,376,443 | 24,775,053 | 24,974,176 | 25,173,874 | 25,320,631 |
| Diluted | 26,786,454 | 25,252,842 | 24,974,176 | 25,684,405 | 25,806,035 |
| | March 31, 2001 | June 30, 2001 | September 30, 2001 | December 31, 2001 | Total for Year |
| Revenue | \$ 15,698 | \$ 14,809 | \$ 14,920 | \$ 15,855 | \$ 61,282 |
| Income from continuing operations | \$ 892 | \$ 1,167 | \$ 1,388 | \$ 1,849 | \$ 5,296 |
| Income (loss) from discontinued operations | \$ 980 | \$ 6,633 | \$ (10,657) | \$ 7,839 | \$ 4,795 |
| Net income (loss) | \$ 1,583 | \$ 7,800 | \$ (9,269) | \$ 9,688 | \$ 9,802 |
| Net income (loss) per Common Share – basic and diluted: | | | | | |
| Income from continuing operations | \$ 0.03 | \$ 0.04 | \$ 0.04 | \$ 0.07 | \$ 0.19 |
| Income (loss) from discontinued operations | \$ 0.04 | \$ 0.24 | \$ (0.37) | \$ 0.27 | \$ 0.17 |
| Net income (loss) | \$ 0.06 | \$ 0.28 | \$ (0.33) | \$ 0.34 | \$ 0.35 |
| Cash dividends declared per Common Share | \$ 0.12 | \$ 0.12 | \$ 0.12 | \$ 0.12 | \$ 0.48 |
| Weighted average Common Shares outstanding: | | | | | |
| Basic and diluted | 28,091,479 | 28,089,593 | 28,488,712 | 28,575,250 | 28,313,070 |

ACADIA REALTY TRUST AND SUBSIDIARIES
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17. Commitments and Contingencies

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

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

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

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

18. Extraordinary Item – Loss on Early Extinguishment of Debt

The consolidated statement of operations for the year ended December 31, 2001 includes the write-off of \$140 in net deferred financing fees as a result of the repayment of the related mortgage debt.

19. Subsequent Events

In January 2003, ASOF, in which the Company owns a 22% interest and an unaffiliated joint venture party, acquired a one million square foot supermarket portfolio consisting of twenty-five anchor only leases with either Kroger or Safeway supermarkets. The portfolio was acquired through long-term ground leases with terms, including renewal options, averaging in excess of 80 years, which are master leased to a non-affiliated entity. The purchase price of \$47,874 (inclusive of closing and other related acquisition costs) included the assumption of \$34,450 of existing fixed-rate debt which bears interest at a weighted-average rate of 6.6%. The mortgage debt fully amortizes over the next seven years, which is coterminous with the primary lease term of the supermarket leases. ASOF invested \$11,250 of the equity capitalization of which the Company's share was \$2,500.

In January 2003, ASOF acquired a one million square foot portfolio for an initial purchase price of \$89,287, inclusive of closing and other related acquisition costs. The portfolio consists of two shopping centers located in Wilmington, Delaware. A portion of one of the properties is currently unoccupied for which ASOF will pay for on an "earnout" basis only when it is leased. At closing, ASOF assumed \$38,082 of fixed-rate debt which bears interest at a weighted average rate of 6.2% as well as obtained an additional fixed-rate loan of \$30,000 which bears interest at 4.7%. ASOF invested equity of \$19,270 in the acquisition, of which the Company's share was \$4,282.

ACADIA REALTY TRUST
SCHEDULE III-REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2002

| Description | Encumbrances | Land | Buildings & Improvements | Costs capitalized Subsequent to Acquisition | Land | Buildings & Improvements | Total | Accumulated Depreciation | Date of Acquisition (a) Construction(c) |
|--|--------------|----------|--------------------------|---|----------|--------------------------|----------|--------------------------|---|
| Shopping Centers | | | | | | | | | |
| Crescent Plaza Brockton, MA | \$ 8,650 | \$ 1,147 | \$ 7,425 | \$ 543 | \$ 1,147 | \$ 7,968 | \$ 9,115 | \$ 3,670 | 1984(a) |
| New Loudon Centre Latham, NY | (1) | 505 | 4,161 | 10,565 | 505 | 14,726 | 15,231 | 6,285 | 1982(a) |
| Ledgewood Mall Ledgewood, NJ | (1) | 619 | 5,434 | 32,592 | 619 | 38,026 | 38,645 | 20,219 | 1983(a) |
| Mark Plaza Edwardsville, PA | — | — | 4,268 | 4,509 | — | 8,777 | 8,777 | 4,755 | 1968(c) |
| Luzerne Street Plaza Scranton, PA | 1,575 | 35 | 315 | 1,208 | 35 | 1,523 | 1,558 | 976 | 1983(a) |
| Blackman Plaza Wilkes-Barre, PA | — | 120 | — | 1,599 | 120 | 1,599 | 1,719 | 334 | 1968(c) |
| East End Centre Wilkes-Barre, PA | 15,845 | 1,086 | 8,661 | 3,592 | 1,086 | 12,253 | 13,339 | 6,894 | 1986(c) |
| Greenridge Plaza Scranton, PA | 6,002 | 1,335 | 6,314 | 965 | 1,335 | 7,279 | 8,614 | 3,754 | 1986(c) |
| Plaza 422 Lebanon, PA | — | 190 | 3,004 | 517 | 190 | 3,521 | 3,711 | 2,385 | 1972(c) |
| Route 6 Mall Honesdale, PA | (1) | — | — | 12,696 | 1,664 | 11,032 | 12,696 | 3,145 | 1995(c) |
| Pittston Mall Pittston, PA | 3,570 | 1,500 | — | 5,956 | 1,521 | 5,935 | 7,456 | 1,543 | 1995(c) |
| Berlin Shopping Centre Berlin, NJ | (1) | 1,331 | 5,351 | 205 | 1,331 | 5,556 | 6,887 | 1,714 | 1994(a) |
| Bradford Towne Centre Towanda, PA | (1) | — | — | 16,100 | 817 | 15,283 | 16,100 | 4,566 | 1994(c) |
| Abington Towne Center Abington, PA | — | 799 | 3,197 | 1,810 | 799 | 5,008 | 5,807 | 499 | 1998(a) |
| Bloomfield Town Square Bloomfield Hills, MI | 13,682 | 3,443 | 13,774 | 1,252 | 3,443 | 15,026 | 18,469 | 1,726 | 1998(a) |
| Walnut Hill Plaza Woonsocket, RI | 1,955 | 3,122 | 12,488 | 678 | 3,122 | 13,166 | 16,288 | 1,788 | 1998(a) |
| Elmwood Park Plaza Elmwood Park, NJ | — | 3,248 | 12,992 | 13,997 | 3,800 | 26,437 | 30,237 | 1,609 | 1998(a) |
| Merrillville Plaza Hobart, IN | 13,648 | 4,288 | 17,152 | 1,022 | 4,288 | 18,174 | 22,462 | 2,187 | 1998(a) |
| Soundview Marketplace Port Washington, NY | 8,731 | 2,428 | 9,711 | 1,193 | 2,428 | 10,904 | 13,332 | 1,398 | 1998(a) |
| Marketplace of Absecon Absecon, NJ | — | 2,573 | 10,294 | 2,467 | 2,573 | 12,758 | 15,331 | 1,416 | 1998(a) |

ACADIA REALTY TRUST
SCHEDULE III-REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2002

| Description | Encumbrances | Land | Buildings & Improvements | Costs | Land | Buildings & Improvements | Total | Accumulated Depreciation | Date of Acquisition (a) Construction(c) |
|---|-------------------|------------------|--------------------------|---------------------------------------|------------------|--------------------------|-------------------|--------------------------|---|
| | | | | capitalized Subsequent to Acquisition | | | | | |
| Hobson West Plaza Naperville, IL | — | 1,793 | 7,172 | 552 | 1,793 | 7,724 | 9,517 | 999 | 1998(a) |
| Smithtown Shopping Center Smithtown, NY | 9,108 | 3,229 | 12,917 | 993 | 3,229 | 13,910 | 17,139 | 1,945 | 1998(a) |
| Town Line Plaza Rocky Hill, CT | 4,942 | 878 | 3,510 | 6,838 | 909 | 10,318 | 11,227 | 2,144 | 1998(a) |
| Branch Shopping Center Village of the Branch, NY | 12,187 | 3,156 | 12,545 | 400 | 3,156 | 12,945 | 16,101 | 1,418 | 1998(a) |
| The Caldor Shopping Center Methuen, MA | — | 956 | 3,826 | — | 956 | 3,826 | 4,782 | 418 | 1998(a) |
| Gateway Mall Burlington, VT | 6,300 | 1,273 | 5,091 | 136 | 1,273 | 5,227 | 6,500 | 216 | 1999(a) |
| Mad River Station Dayton, OH | — | 2,350 | 9,404 | 200 | 2,350 | 9,604 | 11,954 | 954 | 1999(a) |
| Pacesetter Park Shopping Center Ramapo, NY | — | 1,475 | 5,899 | 413 | 1,475 | 6,312 | 7,787 | 558 | 1999(a) |
| 239 Greenwich Greenwich, CT | 13,388 | 1,817 | 15,846 | 213 | 1,817 | 16,059 | 17,876 | 1,354 | 1999(c) |
| Residential Properties | | | | | | | | | |
| Gate House, Holiday House, Tiger Village Columbia, MO | 10,921 | 2,312 | 9,247 | 1,552 | 2,312 | 10,800 | 13,112 | 1,510 | 1998(a) |
| Village Apartments Winston Salem, NC | 9,446 | 3,429 | 13,716 | 1,583 | 3,429 | 15,299 | 18,728 | 1,983 | 1998(a) |
| Colony Apartments Columbia, MO | 5,461 | 1,118 | 4,470 | 914 | 1,118 | 5,384 | 6,502 | 700 | 1998(a) |
| Undeveloped land | | | | 250 | 250 | | 250 | | |
| Properties under development | — | — | — | 6,629 | — | 6,629 | 6,629 | — | |
| | <u>\$ 202,361</u> | <u>\$ 51,555</u> | <u>\$ 228,184</u> | <u>\$ 134,139</u> | <u>\$ 54,890</u> | <u>\$ 358,988</u> | <u>\$ 413,878</u> | <u>\$ 85,062</u> | |

Acadia Realty Trust
Notes To Schedule III
December 31, 2002

1. This property serves as collateral for the financing with Washington Mutual Bank, FA in the amount of \$56,950 (Note 6).
2. Depreciation and investments in buildings and improvements reflected in the statements of income is calculated over the estimated useful life of the assets as follows:

| | |
|--------------|--------------------------------------|
| Buildings | 30 to 40 years |
| Improvements | Shorter of lease term or useful life |

3. The aggregate gross cost of property included above for Federal income tax purposes was \$367,383 as of December 31, 2002.

4. (a) Reconciliation of Real Estate Properties:

The following table reconciles the real estate properties from January 1, 2000 to December 31, 2002:

| | for the year ended December 31, | | |
|--------------------------------------|---------------------------------|------------|------------|
| | 2002 | 2001 | 2000 |
| Balance at beginning of year | \$ 398,416 | \$ 387,729 | \$ 389,111 |
| Other improvements | 15,794 | 10,687 | 8,493 |
| Sale of property (a) | — | — | (9,864) |
| Fully depreciated assets written off | (332) | — | (11) |
| Balance at end of year | \$ 413,878 | \$ 398,416 | \$ 387,729 |

(b) Reconciliation of Accumulated Depreciation:

The following table reconciles accumulated depreciation from January 1, 2000 to December 31, 2002:

| | for the year ended December 31, | | |
|--------------------------------------|---------------------------------|-----------|-----------|
| | 2002 | 2001 | 2000 |
| Balance at beginning of year | \$ 72,805 | \$ 60,947 | \$ 50,012 |
| Sale of property (a) | | | \$ (453) |
| Fully depreciated assets written off | (332) | — | (11) |
| Depreciation related to real estate | 12,589 | 11,858 | 11,399 |
| Balance at end of year | \$ 85,062 | \$ 72,805 | \$ 60,947 |

(a) This represents the sale of a portion of the main building and related parking lot at the Abington Towne Center.

PROMISSORY NOTE

Date of Note: As of November 22, 2002

Note Amount: \$20,000,000.00

Maturity Date: November 22, 2007

FOR VALUE RECEIVED, the undersigned ("Maker") does hereby covenant and promise to pay to the order of WASHINGTON MUTUAL BANK, FA or its successors or assigns (hereinafter collectively "Payee"), on the Maturity Date, in immediately available funds, at EAB Plaza - 13th Floor, Uniondale, New York 11556, or at such other place as Payee may designate to Maker in writing from time to time (it being understood that all or any portions of the indebtedness evidenced hereby, whether principal or interest, at Payee's election, may be payable at, or for the account of, Payee's lending offices at other locations), in legal tender of the United States, the Note Amount or so much thereof as shall be advanced by Payee pursuant to the Loan Agreement and remain unpaid, together with interest at the higher of: (a) the "LIBOR Based Rate", which shall be the rate per annum (expressed as a percentage) determined by Payee to be equal to the sum of (i) the LIBOR Rate (as hereinafter defined), plus (ii) one hundred seventy (170) basis points, or (b) 3.30% per annum, to be computed on the basis of a three hundred sixty (360) day year on so much of the Note Amount as is from time to time outstanding (the "Principal Amount"), all as hereinafter provided, and with a late payment premium of 4% of any principal or interest payment made more than ten (10) days after the due date thereof which shall be due with any such late payment.

The following additional terms, as used in this Note, shall have the meanings indicated opposite them:

"Additional Costs" -- Any costs, losses or expenses incurred by Payee which it determines are attributable to its making or maintaining the Loan, or its obligation to make any Loan advances, or any reduction in any amount receivable by Payee under the Loan or this Note.

"Euro-Dollar Business Day" -- Any day on which commercial banks are open for domestic and international business (including dealings in U.S. Dollar deposits) in London and New York City.

"Federal Funds Rate" -- For any day, the rate per annum equal to the weighted average of the rates on overnight Federal funds transactions as published by the Federal Reserve Bank of New York for such day or, for any day that is not a banking day in New York City, for the immediately preceding banking day.

"Interest Period" - The monthly period commencing with and including the first day of a calendar month to and including the last day of the calendar month in which such period terminates, and during which interest at the LIBOR Based Rate, determined as provided in this Note, shall be applicable to the Principal Amount in question, provided, however, that the first Interest Period shall commence on the date hereof, and in no event shall any Interest Period extend beyond the Maturity Date, as the same may have been extended pursuant to an exercise of Maker's right, if any, to extend the same as may be provided herein or in the Loan Agreement.

"LIBOR Rate" -- For any day, the rate per annum (rounded upwards to the nearest 1/16 of 1%) determined by Payee in accordance with Payee's customary general practice, at which deposits in United States Dollars in amounts approximately equal to the outstanding principal balance of this Note and with maturities having the same period of time as the Interest Period are offered in immediately available funds in the London interbank market by leading banks in the Euro-Dollar market as of 11:00 a.m. (London time) two (2) Euro-Dollar Business Days prior to the first day of the applicable Interest Period as published by Telerate News Service on Telerate Page 3750, or, if such rate is not available for any reason, then the rate per annum (rounded upwards to the nearest 1/16 of 1%) appearing on Reuters Screen LIBO Page as the London Interbank Offered Rate for deposits in United States Dollars at approximately 11:00 a.m. (London time), on such day; provided, however, if more than one rate is specified on Reuters Screen LIBO Page, then the applicable rate shall be the arithmetic mean of all such rates. If any such day on which such rate is to be determined is not a Euro-Dollar Business Day, then the applicable rate for such day shall be the LIBOR Rate for the immediately-preceding Euro-Dollar Business Day.

"Loan" -- The loan in the amount of up to \$20,000,000.00 to be made to Maker by Payee pursuant to the Loan Agreement and evidenced hereby.

"Loan Agreement" -- The Revolving Loan Agreement of even date herewith between Payee and Maker, pursuant to which the Loan is being made.

"Maturity Date" -- November 22, 2007, as same may be extended pursuant to the terms and conditions hereunder.

"Regulation D" - Regulation D of the Board of Governors of the Federal Reserve System, as from time to time amended or supplemented.

"Regulatory Change" -- With respect to the charging and collecting of interest at the LIBOR Based Rate, any change after the date hereof in United States federal, state or foreign laws or regulations (including Regulation D), or the adoption or making after such date of any interpretations, directives or requests applying to a class of banks including Payee under any United States federal, state or foreign laws or regulations (whether or not having the force of law) by any court or governmental or monetary authority charged with the interpretation or administration thereof, excluding any change the effect of which is reflected in a change in the LIBOR Based Rate.

Interest on the Principal Amount shall bear interest from the date hereof at the LIBOR Based Rate, except as otherwise provided in this Note. Each determination of the LIBOR Rate by Payee pursuant to this Note shall be made by Payee in good faith and shall be conclusive and binding on Maker in the absence of manifest error.

Interest on the Principal Amount (whether computed at the LIBOR Based Rate or the Prime Based Rate) shall be payable monthly on the first day of the first calendar month ("First Payment Date") following the initial advance of Loan proceeds under the Loan Agreement which are evidenced hereby and on the first day of each month thereafter until this Note is repaid in full, as long as there is any Principal Amount outstanding. If Maker shall exercise the Extension Option (as hereinafter defined), then during the Extension Term (as hereinafter defined), Maker shall make monthly payments to be applied toward the reduction of the Principal Amount based on a 25-year amortization schedule. On the Maturity Date (as the same may be extended pursuant to the terms and conditions hereof), the unpaid Principal Amount, together with all accrued and unpaid interest, fees and charges hereunder, shall be due and payable.

Maker shall pay to Payee, promptly upon demand, such amounts as are necessary to compensate Payee for Additional Costs resulting from any Regulatory Change which (i) subjects Payee to any tax, duty or other charge with respect to the Loan or this Note, or changes the basis of taxation of any amounts payable to Payee under the Loan or this Note (other than taxes imposed on the overall net income of Payee or of its applicable lending office by the jurisdiction in which Payee's principal office or such applicable lending office is located), (ii) imposes, modifies or deems applicable any reserve, special deposit or similar requirements relating to any extensions of credit or other assets of, or any deposits with or other liabilities of, Payee, (iii) imposes on Payee or on the London interbank market any other condition affecting the Loan or this Note, or any of such extensions of credit or liabilities or (iv) imposes any capital adequacy requirements on Payee by virtue of the Loan or this Note. Payee will notify Maker of any event occurring after the date hereof which would entitle it to compensation pursuant to this paragraph as promptly as practicable after it obtains knowledge thereof and determines to request such compensation, and will designate a different lending office for those portions of the Loan affected by such event if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in Payee's sole opinion, be disadvantageous to it, provided that Payee shall have no obligation to so designate a lending office located in the United States.

Without limiting the effect of the immediately preceding paragraph, in the event that, by reason of any Regulatory Change, (i) Payee incurs Additional Costs based on or measured by the excess above a specified level of the amount of (1) a category of deposits or other liabilities of Payee which includes deposits by reference to which the LIBOR Rate is determined as provided in this Note and/or (2) a category of extensions of credit or other assets of Payee which includes loans the interest on which is determined on the basis of rates referred to in the definition of "LIBOR Rate" set forth above, (ii) Payee becomes subject to restrictions on the amount of such a category of liabilities or assets which it may hold or (iii) it shall be unlawful or impossible for Payee to make or maintain the Loan (or any portion thereof) at the LIBOR Based Rate, then Payee's obligation to make or maintain the Loan (or portions thereof) at the LIBOR Based Rate shall be suspended and Payee shall give notice thereof to Maker and, upon the giving of such notice, interest payable hereunder shall be converted to the Prime Based Rate. "Prime Based Rate" shall mean the rate per annum (expressed as a percentage determined by Payee to be equal to the sum of (a) the greater of (i) the Federal Funds Rate plus 1/2 of 1% or (ii) the commercial lending rate announced from time to time by Payee as its "prime rate", each change in said rates to be effective as of the date of such change, plus (b) one hundred (100) basis points. If subsequently Payee determines that such Regulatory Change has ceased to be in effect, Payee will so advise Maker and the rate of interest payable hereunder will become the LIBOR Based Rate from the date determined by Payee and advised to Maker.

Determinations by Payee of the existence or effect of any Regulatory Change on its costs of making or maintaining the Loan, or portions thereof, at the LIBOR Based Rate, or on amounts receivable by it in respect thereof, and of the additional amounts required to compensate Payee in respect of Additional Costs, shall be conclusive, provided that such determinations are made on a reasonable basis.

Anything herein to the contrary notwithstanding, if, at the time of or prior to the determination of the LIBOR Based Rate, Payee determines, in its sole and absolute discretion (which determination shall be conclusive) that (i) by reason of circumstances affecting the London interbank market generally, adequate and fair means do not or will not exist for determining the LIBOR Based Rate applicable to any Interest Period or (ii) the LIBOR Rate, as determined by Payee, will not accurately reflect the cost to Payee of making or maintaining the Loan (or any portion thereof) at the LIBOR Based Rate, then Payee shall give Maker prompt notice thereof, and the Principal Amount shall bear interest at the Prime Based Rate. If at any time subsequent to the giving of such notice, Payee determines that because of a change in circumstances the LIBOR Based Rate is again available to Maker hereunder, Payee shall so advise Maker and the rate of interest payable hereunder shall convert from the Prime Based Rate to the LIBOR Based Rate on the date determined by Payee and advised to Maker.

Maker shall pay to Payee, immediately upon request and notwithstanding any contrary provisions contained in the Mortgage (as hereinafter defined) or other Loan Documents, such amounts as shall, in the conclusive judgment of Payee, compensate Payee for any loss, cost or expense (including, without limitation, the costs of breaking any "LIBOR" contract, if applicable, or funding losses determined on the basis of Payee's reinvestment rate and the interest rate herein) incurred by it as a result of (i) any payment or prepayment (under any circumstances whatsoever, whether voluntary or involuntary) of any portion of the Principal Amount bearing interest at the LIBOR Based Rate on a date other than the last day of an applicable Interest Period, (ii) the conversion (for any reason whatsoever, whether voluntary or involuntary) of the rate of interest payable hereunder from the LIBOR Based Rate to the Prime Based Rate with respect to any portion of the Principal Amount then

bearing interest at the LIBOR Based Rate on a date other than the last day of an applicable Interest Period, or (iii) the failure of all or a portion of the advance of Loan proceeds which was to have borne interest at the LIBOR Based Rate to be made, which amounts shall include, without limitation, an amount equal to the excess, if any, of (x) the amount of interest that would have accrued at the LIBOR Based Rate on the amount so prepaid, converted or not advanced, as the case may be, for the period from the date of occurrence to the last day of the applicable Interest Period over (y) the amount of interest (as determined in good faith by Payee) that Payee would have paid to Maker (and other customers) on a Euro-Dollar deposit placed by Payee with leading banks in the London interbank market for an amount comparable to the amount so prepaid, converted or not advanced, as the case may be, for the period from the date of occurrence to the last day of the Interest Period. Notwithstanding anything in this paragraph or elsewhere in this Note to the contrary, Maker shall not be liable to Payee for any loss, cost or expense incurred by Payee as a result of the payment or prepayment of any portion of the Principal Amount arising from the application of insurance proceeds or condemnation awards.

Any amount payable by Maker, under the immediately preceding paragraph shall be paid to Payee within five (5) business days of receipt by Maker of a certificate signed by an officer of Payee setting forth the amount due and the basis for the determination of such amount, which statement shall be conclusive and binding upon Maker, absent manifest error. Failure on the part of Payee to demand payment from Maker for any such amount attributable to any particular period shall not constitute a waiver of Payee's right to demand payment of such amount for any subsequent or prior period. Payee shall use reasonable efforts to deliver to Maker prompt notice of any event described in the immediately preceding paragraph and of the amount to be paid hereunder as a result thereof; provided, however, any failure by Payee to so notify Maker shall not affect Maker's obligation to make the payments to be made hereunder as a result thereof. All amounts which may be come due and payable by Maker in accordance with the provisions hereof shall constitute additional interest hereunder and shall be secured by the Mortgage and the other Loan Documents.

Maker shall have the right to prepay this Note, in whole or in part, upon (a) two (2) business days prior written notice thereof given to Payee, and (b) the payment to Lender of (i) all accrued interest on the amount prepaid (and all late charges and other sums that may be payable hereunder or under the other Loan Documents) to the date so fixed and (c) if any prepayment occurs during the Extension Term, a prepayment charge in an amount equal to all losses, costs and expenses (including without limitation the costs of breaking any "LIBOR" contract, if applicable, or funding losses determined on the basis of Payee's reinvestment rate and the interest rate herein) incurred by payee as a result of any such prepayment. Payee shall provide to Maker a statement explaining the amount of any such loss, cost or expense, which statement shall be conclusive and binding upon Maker absent manifest error.

Any portion of the Principal Amount to which the LIBOR Based Rate is not or cannot, pursuant to the terms hereof, be applicable shall bear interest at the Prime Based Rate.

This Note is secured by, among other things, a Mortgage, Assignment of Leases and Rents and Security agreement of even date herewith made by Maker for the benefit of Payee (the "Mortgage") of premises situated as indicated below, which Mortgage specifies various defaults upon the happening of which all sums owing on this Note may be declared immediately due and payable.

If a default shall occur hereunder or under the Mortgage and such default shall continue after the expiration of any applicable grace period, interest on the Principal Amount shall, at the option of Payee, immediately be converted to the Prime Based Rate. The foregoing provision shall not be construed as a waiver by Payee of its right to pursue any other remedies available to it under the Mortgage or any other instrument evidencing or securing the Loan, nor shall it be construed to limit in any way the application of the "Default Rate" as provided in the Mortgage.

As a material inducement to Payee to fund the Loan to Maker, Maker agrees that if at any time during the term of the Loan the LIBOR Rate shall equal at least 6.55%, Maker shall purchase, at its sole cost and expense, an "interest rate cap" (the "Rate Cap") from Fleet Bank, Payee or other lender and shall enter into an agreement (the "Rate Cap Agreement") in form and substance acceptable to Payee, in its sole discretion, which shall provide, inter alia, for a rate cap of eight and one quarter percent (8.25%) per annum on the LIBOR Based Rate applicable to a one (1) month Interest Period and a notional amount of principal indebtedness for the Mortgaged Property equal to fifty percent (50%) of the Principal Amount and shall have a term expiring on the Maturity Date (as the same may be extended pursuant to the terms hereof); provided, however, the foregoing requirement shall be waived if at the time the LIBOR Rate reached at least 6.55%, forty percent (40%) of the aggregate loan outstandings at Payee is fixed pursuant to existing interest rate cap or swaps agreements. Maker hereby collaterally assigns to Payee all of Maker's right, title and interest in, to and under the Rate Cap and the Rate Cap Agreement as additional security for the Loan, and shall provide Payee with any additional documentation reasonably requested by Payee in order to confirm or perfect such security interest during the term of the Loan, at Maker's sole cost and expense.

Any indebtedness incurred pursuant to the Rate Cap Agreement shall constitute additional interest evidenced by this Note and secured by the Mortgage and the other Loan Documents to the same extent and effect as if the terms and provisions of the Rate Cap Agreement were set forth herein.

Neither the provisions of the preceding three paragraphs nor the purchase of the Rate Cap Agreement by Maker shall be or be deemed to be a waiver or cure of any default or Event of Default hereunder or under any of the other Loan Documents, or constitute any agreement or impose any obligation to extend the Maturity Date or the time for performance of any obligations of Maker hereunder or under the other Loan Documents.

Maker shall have one (1) option (the "Extension Option") to extend the Maturity Date for an additional eighteen (18) months to May 22, 2009 (the "Extended Maturity Date"; such additional 18-month period being sometimes referred to herein as the "Extension Term"), subject to the following terms and conditions:

(A) Maker shall notify Payee in writing of its exercise of the Extension Option not more than one hundred twenty (120) days and not less than (30) days prior to the Maturity Date;

(B) There shall be no Event of Default (as defined in the Mortgage) existing hereunder, under the Mortgage or under any of the other Loan Documents either on the date Maker exercises the Extension Option or on the Maturity Date;

(C) Maker shall pay to Payee, within ten (10) days after the date of exercise of the Extension Option, a nonrefundable extension fee equal to fifteen one-hundredths percent (0.15%) of the outstanding principal balance of the Loan at the time Maker exercises the Extension Option hereunder;

(D) The financial condition of Maker and/or any Guarantor (as defined in the Mortgage) shall not have suffered any material adverse changes subsequent to the date hereof as determined by Payee in its sole discretion;

(E) The condition of the Mortgaged Property shall not have suffered any material adverse changes subsequent to the date hereof as determined by Payee in its sole discretion;

(G) Maker shall execute and deliver to Payee any and all documents, consistent with the terms hereof and the Loan Documents, deemed necessary by Payee and its counsel in connection with the extension of the Maturity Date at Maker's sole cost and expense, including, without limitation, any amendments and/or restatements to this Note and any of the other Loan Documents;

(H) Maker shall have delivered to Payee, at Maker's sole cost and expense, a new appraisal of the Mortgaged Property satisfactory to Payee in its sole discretion verifying that the Loan to Value Ratio (as hereinafter defined) with respect to the Mortgaged Property does not exceed sixty-five percent (65%), as determined by Payee in its sole discretion. As used herein the term "Loan to Value Ratio" shall mean a fraction (1) the numerator of which shall be an amount equal to the then outstanding Principal Amount, and (2) the denominator of which shall be the then appraised value of the Mortgaged Property, as shown on the appraisal delivered to Payee pursuant to this clause (H) above;

(I) Maker shall have delivered to Payee proof acceptable to Payee in its sole discretion verifying that the Mortgaged Property has achieved and will be able to sustain a Debt Service Coverage (as hereinafter defined), as determined by Payee in its sole discretion, equal to or greater than 1.40:1. As used herein the term "Debt Service Coverage" shall mean the ratio of the Net Annual Income (as hereinafter defined) to the annual payments of interest and principal required to be made by Maker under this Note, based upon the then projected outstanding principal amount of this Note on the Maturity Date and an interest rate equal to the greater of six and one-half percent (6.50%) or the interest rate that would be in effect on the first day of the Extension Term. "Net Annual Income" shall mean the gross rentals actually collected, during the twelve month period ending on the last day of the last month of the full calendar quarter that is immediately prior to the date of the extension notice, by Maker or its agents from the tenants leasing space in the improvements located on the Mortgaged Property pursuant to written leases entered into on an arms-length basis, less all expenses incurred by Maker or its agents during such twelve-month period in operating and maintaining the Mortgaged Property, including, without limitation, real estate taxes, water and sewer charges, insurance premiums, management fees, utility costs, and professional fees, but excluding brokerage commissions and the costs of making tenant improvements, and without deduction for depreciation and other non-cash items. Maker shall furnish to Payee statements of revenues and expenses for the Mortgaged Property, which statements shall (x) be in reasonable detail, (y) include a calculation of Net Annual Income and (z) be satisfactory to Payee in all respects;

(J) Maker shall have paid to Payee all costs and expenses incurred by Payee or any of its agents (including, without limitation, reasonable attorney's fees) in connection with the extension of the Maturity Date; and

(L) During the Extension Period, Maker shall pay interest as provided herein except that the interest rate shall be the higher of (a) the LIBOR Based Rate or (b) 3.30% per annum, and as well as principal as provided herein based on a 25-year amortization schedule; and all the terms and conditions set forth in this Note shall remain the same except as otherwise expressly provided in this clause (L) or elsewhere in this Note, and except that Maker shall have no further option to extend the Maturity Date.

This Note may not be changed orally but only by an agreement in writing, signed by an authorized person of the party against whom enforcement of any waiver, change, modification or discharge is sought. All parties to this Note, whether Maker, principal, surety, guarantor or endorser, hereby waive demand, notice and protest. Written notices required to be given hereunder shall be given as provided in the Mortgage.

Should the indebtedness represented by this Note or any part thereof be collected at law or in equity, or in bankruptcy, receivership or any other court proceeding (whether at the trial or appellate level), or should this Note be placed in the hands of attorneys for collection upon default, Maker agrees to pay, in addition to the principal, interest and other sums due and payable hereon, all costs of collecting or attempting to collect this Note, including reasonable attorneys' fees and expenses, actually incurred by Payee.

Anything herein to the contrary notwithstanding, the obligations of Maker under this Note shall be subject to the limitation that payments of interest shall not be required to the extent that receipt of any such payment by Payee would be contrary to provisions of law applicable to Payee limiting the maximum rate of interest which may be charged or collected by Payee.

MAKER HEREBY EXPRESSLY AND UNCONDITIONALLY WAIVES, IN CONNECTION WITH ANY SUIT, ACTION OR PROCEEDING (INCLUDING ANY CLAIMS AND COUNTERCLAIMS RELATED THERETO) BROUGHT BY PAYEE ON THIS NOTE, ANY AND EVERY RIGHT IT MAY HAVE TO A TRIAL BY JURY. NOTHING HEREIN CONTAINED SHALL PREVENT OR PROHIBIT MAKER FROM INSTITUTING OR MAINTAINING A SEPARATE ACTION AGAINST PAYEE WITH RESPECT TO ANY ASSERTED CLAIM.

This Note and the rights and obligations of the parties hereunder shall in all respects be governed by, and construed and enforced in accordance with, the laws of the State of New York (without giving effect to the State of New York's principles of conflicts of law). Maker hereby irrevocably submits to the non-exclusive jurisdiction of any New York State court or Federal court sitting in New York County, New York over any suit, action or proceeding arising out of or relating to this Note, and Maker hereby agrees and consents that, in addition to any methods of service of process provided for under applicable law, all service of process in any such suit, action or proceeding in any New York State court or Federal court sitting in New York County, New York may be made by certified or registered mail, return receipt requested, directed to Maker at the address indicated below, and service so made shall be complete five (5) days after the same shall have been so mailed.

Neither Maker nor any Principal of Maker (as defined in the Mortgage) shall be personally liable for payment of the principal of this Note or interest thereon, and in the event of failure by Maker to pay any portion of such principal or interest, Payee will look, with respect to the then outstanding balance of such principal and interest, solely to the Mortgaged Property and such other collateral as has been, or hereafter shall be, given to secure payment of this Note. The foregoing limitation on liability shall not impair or otherwise affect the validity or enforceability of (a) the debt evidenced by this Note or of any other obligations evidenced by the Loan Documents or (b) the liens, security interests, rights and remedies (including, without limitation, the remedies of foreclosure and/or sale) in favor of, or available to, Payee with respect to the Mortgaged Property or any other property, security, collateral and/or assets (including the proceeds thereof) encumbered, pledged or assigned by the Mortgage or any other security for the Loan. In addition, the foregoing limitation on liability shall not limit the obligations of Maker or any Principal of Maker, or be applicable with respect to: (i) liability under any guaranty(ies) or indemnity(ies) delivered or afforded to Payee; (ii) any fraud, material misrepresentation or breach of trust; (iii) taxes of any kind (whether characterized as transfer, gains or other taxes) payable in connection with the foreclosure sale of the Mortgaged Property, irrespective of who pays such taxes; (iv) application of any proceeds of the Loan to any purpose other than as provided in the Loan Documents; (v) the application of any insurance or

condemnation proceeds or other funds or payments other than strictly in accordance with the Loan Documents; (vi) the misapplication of any security deposits; (vii) rents, sales proceeds, or other sums received after default under the Loan Documents which are not applied to expenses of operating the Mortgaged Property or paid to Payee or a duly appointed receiver of the Mortgaged Property; (viii) any failure to deliver to Payee, after demand therefor, any agreements relating to the operation, management, leasing, use, occupancy or construction of the Mortgaged Property; (ix) any intentional physical waste in respect of the Mortgaged Property; (x) any failure to pay or discharge any real estate tax, other tax, assessment, fine, penalty or lien against the Mortgaged Property to the extent revenue from leases of the Mortgaged Property was available to pay same; (xi) liability to Payee for the reimbursement to Payee, together with interest as provided in the Loan Documents, of all sums advanced or expended by Payee after or in respect of any default under the Loan Documents; (xii) liability as landlord under any lease(s) relating to the Mortgaged Property which Payee is or becomes obligated for by virtue of Payee's succeeding to the interests of Maker; (xiii) liability under any agreement relating to the operation or maintenance of the Mortgaged Property which Payee is or becomes obligated for by virtue of Payee succeeding to the interests of Maker; (xiv) liability to pay for the premiums on and keep in full force and effect insurance in respect of the Mortgaged Property in accordance with the Loan Documents to the extent revenue from leases of the Mortgaged Property was available to pay same; or (xv) liability for Hazardous Substances (as defined in the Mortgage) that may exist upon or be discharged from the Mortgaged Property. Maker and any Principal of Maker shall in any event be and shall remain personally liable for each of the matters to which reference is made in the preceding sentence and Payee may seek, obtain and enforce one or more money judgments in any appropriate proceeding(s) with respect thereto. The limitation on personal liability contained in this paragraph shall become automatically null and void and shall be of no further force or effect, and Maker and each Principal of Maker shall be and remain personally liable for payment of the principal of this Note and interest thereon, in the event that Maker, or anyone acting on behalf of Maker, shall (A) file a petition or answer seeking any relief of any kind under the bankruptcy laws of the United States or if an Insolvency Event (as defined in the Mortgage) shall otherwise occur; (B) assert in writing or in any legal proceedings of any kind that any provisions of any of the Loan Documents are in whole or in part unenforceable, invalid or not legally binding; or (C) fail fully to cooperate with Payee or a receiver in Payee's or such receiver's efforts to collect Rents (as defined in the Mortgage) directly from tenants after a default under the Loan Documents.

[Remainder of page intentionally

IN WITNESS WHEREOF, Maker has executed and delivered this Note on the day and year first above written.

MAKER:

RD ELMWOOD ASSOCIATES, L.P., a Delaware
limited partnership (as Borrower)

By: Acadia Property Holdings, LLC, its general
partner

By: Acadia Realty Limited Partnership, its sole
member

By: Acadia Realty Trust, a Maryland
real estate investment trust, its
general partner

By

Robert Masters
Senior Vice President

Location of Premises: Elmwood Park Shopping Center
58, 80 and 100 Broadway
Elmwood Park, New Jersey

Address of Maker: c/o Acadia Realty Trust
20 Soundview Marketplace
Port Washington, New York 11050

ACKNOWLEDGMENTS

STATE OF)
) ss.:
COUNTY OF)

The foregoing instrument was acknowledged before me this ____ day of November, 2002 by _____, an authorized signatory of Acadia Realty Trust, a Maryland real estate investment trust, the general partner of Acadia Realty Limited Partnership, the sole member of Acadia Property Holdings, LLC which is the general partner of RD Elmwood Associates, L.P., a Delaware limited partnership, on behalf of said entities.

Notary Public

My commission expires _____

=====

REVOLVING LOAN AGREEMENT

dated as of November 22, 2002

between

WASHINGTON MUTUAL BANK, FA

(Lender)

Address of Lender: EAB Plaza - East Tower
Thirteenth Floor
Uniondale, New York 11556-0123

and

RD ELMWOOD ASSOCIATES, L.P.

(Borrower)

Address of Borrower: c/o Acadia Realty Trust
20 Soundview Marketplace
Port Washington, New York 11050

Loan No. 4130963

=====

REVOLVING LOAN AGREEMENT (this "Agreement") dated as of November 22, 2002 by and between RD ELMWOOD ASSOCIATES, L.P., a Delaware limited partnership having an address c/o Acadia Realty Trust, 20 Soundview Marketplace, Port Washington, New York 11050 ("Borrower"), and WASHINGTON MUTUAL BANK, FA, a banking corporation chartered under the laws of the United States, having an office at EAB Plaza, East Tower, Thirteenth Floor, Uniondale, New York 11556-0123 ("Lender").

Borrower desires that Lender extend credit as provided herein, and Lender is prepared to extend such credit on the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual promises and agreements herein contained, Borrower and Lender hereby agree as follows:

ARTICLE I

DEFINITIONS AND RULES OF CONSTRUCTION

Section 1.01. Definitions. The following terms, as used in this Agreement, shall have the following meanings:

"Authorization Letter" -- A letter from Borrower to Lender in the form of EXHIBIT A attached hereto setting forth, among other things, the name of each person authorized to execute Requisitions hereunder on Borrower's behalf.

"Code" -- The Internal Revenue Code of 1986.

"Default" -- Any event or circumstance which, with the giving of notice or the passage of time, or both, would become an Event of Default.

"Default Rate" -- The rate (or, if more than one, the highest of the rates) of interest per annum provided in the Note, plus 5%, but in no event to exceed the maximum rate allowed by law.

"Dollars" and "\$" -- Lawful money of the United States of America.

"Employee Benefit Plan" -- Any employee benefit or other plan established or maintained, or to which contributions have been made, by Borrower or Principal of Mortgagor.

"ERISA" -- The Employee Retirement Income Security Act of 1974, including the rules and regulations promulgated thereunder.

"ERISA Affiliate" -- Any corporation which is a member of the same controlled group of corporations (within the meaning of Section 414(b) of the Code) as Borrower and/or Principal of Mortgagor, or any trade or business which is under common control (within the meaning of Section 414(c) of the Code) with Borrower and/or Principal of Mortgagor, or any organization which is required to be treated as a single employer with Borrower and/or Principal of Mortgagor under Section 414(m) or 414(o) of the Code.

"Event of Default" -- shall have the meaning ascribed to it in the Mortgage.

"Financial Statements" -- Statements of the assets, liabilities (direct or contingent), income, expenses and cash flow of Borrower and Principal of Mortgagor, prepared in accordance with sound accounting principles in the United States of America as in effect from time to time and consistently applied.

"Governmental Authorities" -- The United States of America, any state thereof and any political subdivision, agency, department, commission, board, bureau or instrumentally of any of them, including any local authorities, which exercises jurisdiction over Borrower.

"Initial Advance" -- The first advance of Loan proceeds to be made hereunder.

"Law" -- Any federal state or local law, statute, rule, regulation, ordinance, order, decree, directive, requirement, code, notice of violation or rule of common law, now or hereafter in effect, and in each case as amended, and any judicial or administrative interpretation thereof by a Governmental Authority or otherwise, including any judicial or administrative order, determination, consent decree or judgment.

"Lender's Counsel" - LeBoeuf, Lamb, Greene & MacRae, L.L.P., 125 West 55th Street, New York, New York 10019, Attention: Richard Weidman, Esq.

"Loan" -- The loan in the Loan Amount made by Lender to Borrower under this Agreement.

"Loan Amount" - up to the maximum aggregate amount of \$20,000,000.

"Loan Documents" -- This Agreement, the Note, the Mortgage, the Authorization Letter and any other documents which evidence the Loan.

"Mortgage" -- The Mortgage, Assignment of Leases and Rents and Security Agreement dated the date hereof from Borrower to Lender given to secure the payment and performance of Borrower's obligations hereunder, under the Note and otherwise in connection with the Loan.

"Mortgaged Property" -- shall have the meaning ascribed to it in the Mortgage.

"Multiemployer Plan" -- Any plan defined as such in Section 3(37) of ERISA.

"Note" -- The Promissory Note dated the date hereof, for a principal sum equal to the Loan Amount made by Borrower to Lender to evidence the Loan.

"Pension Plan" -- Any employee pension benefit plan within the meaning of Section 3(2) of ERISA with respect to which Borrower, Principal of Mortgagor or any ERISA Affiliate at any relevant time has liability or an obligation to contribute.

"Principal of Mortgagor" -- shall have the meaning ascribed to it in the Mortgage.

"Requisition" -- A written statement by or on behalf of Borrower, in form and substance satisfactory to Lender, setting forth the amount of the Loan advance requested in each instance and instructions for the payment of the same, and certifying the purpose for which such advance is to be used.

Section 1.02. Rules of Construction. Except as expressly provided otherwise, when used in this Agreement (i) "or" is not exclusive, (ii) "hereunder", "herein", "hereof" and the like refer to this Agreement as a whole, (iii) "Article", "Section", "Schedule" and "Exhibit" refer to Articles, Sections, Schedules and Exhibits of this Agreement, (iv) terms defined in the singular shall have a correlative meaning when used in the plural and vice versa, (v) a reference to a Law includes any amendment, modification or supplement to, or replacement of, such Law and (vi) a reference to a document shall mean such document as the same may be amended, modified or supplemented from time to time in accordance with its terms. The cover page and the Exhibits and Schedules, if any, annexed hereto are incorporated as a part of this Agreement with the same effect as if set forth in the body hereof. Any table of contents and all captions and headings herein are for convenience only and shall not affect the interpretation or construction hereof.

ARTICLE II

THE LOAN

Section 2.01. Generally. Subject to the provisions of this Agreement, and on the basis of the representations, warranties and covenants made herein and in the other Loan Documents, Lender will advance and Borrower will accept the Loan Amount, in periodic disbursements as hereinafter set forth. Except as otherwise provided herein, Lender shall from time to time advance and re-advance to Borrower an amount equal to the excess of the Loan Amount over all previous advances made by Lender which remain unpaid. Within the limits set forth herein, Borrower may borrow and re-borrow from time to time under this Section 2.01, on the 1st or the 15th day of each month (or such other day as the Lender may agree to in its sole and absolute discretion), or if such day is not a business day on the immediately succeeding business day, and Borrower may repay, or prepay from time to time pursuant to the Note, and thereafter re-borrow pursuant to this Section 2.01.

Section 2.02. Purpose. The Loan shall be made for general corporate purposes, including general capital and working capital costs of Borrower. Borrower covenants and agrees that in no event shall proceeds of the Loan, or any part thereof be used, directly or indirectly, for any other purpose, for any illegal purpose or for the purpose, whether immediate, incidental or ultimate, of buying or carrying "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System, or in connection with any hostile acquisition.

Section 2.03. Unused Line Fee. Commencing April 1, 2003, Borrower shall pay to Lender on a quarterly basis (a) an unused line fee at a rate equal to fifteen one-hundredths of one percent (.15%) per annum calculated upon the amount by which the Loan Amount exceeds the average daily principal balance of the outstanding advances of the Loan and Letter of Credit Accommodations during the immediately preceding three (3) months (or part thereof) while this Agreement is in effect (for example, the April 1, 2003 payment, if any, would be in arrears for the period January 1, 2003 through March 31, 2003), which fee shall be payable on the first day of the first month of each calendar year quarter (January 1, April 1, July 1 and October 1) in arrears.

Section 2.04. Letter of Credit Accommodation. Borrower shall have the right to use a portion of the Loan Amount, not to exceed \$5,000,000, in connection with the issuance of a letter of credit by Lender for the account of Borrower (the "Letter of Credit"), subject to terms and conditions required by Lender, and provided that the maturity date of the Letter of Credit is at least thirty (30) days prior the maturity date of the Note. The fee payable by Borrower to Lender for the Letter of Credit shall be three-quarters of one percent (0.75%) per annum. The amount of the Letter of Credit shall be treated as an advance of the Loan Amount for purposes of determining what portion of the Loan Amount remains available to Borrower for borrowing hereunder, but shall otherwise be treated as part of the unused line hereunder and be subject to the unused line fee set forth in Section 2.04 above.

Section 2.05. Procedures for Advances. All advances of Loan proceeds are to be made at Lender's principal office, or at such other place as Lender may designate, by wire transfer to an account of Borrower designated in the applicable Requisition. Borrower shall submit Requisitions to Lender no later than 10:00 am. (New York time) on the date which is two (2) business days prior to the date the advance is requested to be made, it being understood that Lender shall use reasonable efforts to accommodate a funding on the date so requested.

ARTICLE III

CONDITIONS PRECEDENT

Section 3.01. Conditions Precedent to Initial Advance. Lender shall not be obligated to make the Initial Advance until the following conditions shall have been satisfied:

(a) There shall exist no Default or Event of Default;

(b) The representations and warranties made to Lender herein, in the other Loan Documents and in any other document, certificate or statement executed or delivered to Lender in connection with the Loan shall be true and correct on and as of the date of the advance with the same effect as if made on such date;

(c) Lender shall have received and approved each of the following:

(1) Loan Fees. The commitment fees payable under Section 5.04;

(2) Loan Documents. This Agreement and each of the other Loan Documents, duly executed by the parties thereto;

(3) Financial Statements. Current Financial Statements and such other reasonable financial data as Lender shall require;

(4) Counsel Opinion. An opinion of Borrower's counsel to the effects set forth on EXHIBIT B;

(5) Organizational Documents. If Borrower or any general partner of Borrower is a corporation, current copies of the following documents with respect to each:

- (i) a good-standing certificate from the jurisdiction of its incorporation,
- (ii) a resolution, certified by the corporate secretary, of the shareholders or directors of the corporation authorizing the consummation of the transactions contemplated hereby and the execution, delivery and performance of the Loan Documents to be executed, delivered or performed by said corporation, and
- (iii) a certificate of the corporate secretary as to the incumbency of the officers executing any of the documents required hereby,

and, if Borrower or any general partner of Borrower is a partnership, venture, limited liability company or trust:

- (i) the entity's organizational agreement and all amendments and attachments thereto, certified by a general partner, venturer, member or trustee to be true and complete,
- (ii) any certificates filed or required to be filed by the entity in the jurisdiction of its formation in order for it to do business in said jurisdiction, and
- (iii) any consents by partners, venturers, members, trustees or beneficiaries required for the consummation of the transactions contemplated hereby;

(6) Requisition. A Requisition for the Initial

Advance; and

(7) Title Policy. A fully paid title policy insuring the lien of the Mortgage subject to any such exceptions to title as Lender and its counsel shall approve;

(d) Lender shall have determined in its sole discretion that the "Loan to Value Ratio", as defined in the Note, is not greater than 65%;

(e) Lender shall have determined in its sole discretion that the "Debt Service Coverage", as defined in the Note, is equal to or greater than 1.40:1;

(f) There shall have occurred no material adverse change in the condition of the Mortgaged Property; and

(g) All construction required to be performed by Borrower pursuant to that certain Lease dated December 14, 2001 (the "Pathmark Lease"), between Borrower, as landlord, and Pathmark Stores, Inc., as tenant ("Pathmark"), shall have been completed, and Pathmark shall be occupying the premises demised under the Pathmark Lease and be open to the public for business and commenced paying (or become obligated to commence paying) fixed annual rent under the Pathmark Lease; and

(h) The satisfaction of such additional conditions, if any, set forth on EXHIBIT C attached hereto.

Section 3.02. Conditions to Advances After the Initial Advance. Lender's obligation to make advances of proceeds of the Loan after the Initial Advance shall be subject to the satisfaction of the following conditions:

(a) All conditions of Section 3.01 shall have been and, to the extent applicable, remain satisfied as of the date of such advances;

(b) There shall exist no Default or Event of Default;

(c) The representations and warranties made to Lender herein, in the other Loan Documents and in any other document, certificate or statement executed or delivered to Lender in connection with the Loan shall be true and correct on and as of the date of the advance with the same effect as if made on such date;

(d) Lender shall have received a Requisition for the advance;

(e) Lender shall have determined in its sole discretion that the Loan to Value Ratio is not greater than 65%;

(f) Lender shall have determined in its sole discretion that the Debt Service Coverage is equal to or greater than 1.40:1;

(g) There shall have occurred no material adverse change in the condition of the Mortgaged Property; and

(h) Lender shall have received a notice of title continuation or an endorsement to the title insurance policy theretofore delivered, indicating that since the last preceding advance, there has been no change in the state of title and no survey exceptions not theretofore approved by the Lender, which endorsement shall have the effect of increasing the coverage of the policy by an amount equal to the advance then being made if the policy does not by its terms provide for such an increase.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants to Lender that:

Section 4.01. Due Formation Power and Authority. If it or any general partner of Borrower is a corporation, partnership, venture, limited liability company or trust, each such entity is duly organized, validly existing and in good standing under the Laws of the jurisdiction of its formation, and has full power and authority to consummate the transactions contemplated hereby and to execute, deliver and perform this Agreement and any Loan Document to which it is a party.

Section 4.02. Legally Enforceable Agreements. Each Loan Document to which Borrower or Principal of Mortgagor is a party is a legal, valid and binding obligation of such party, enforceable against Borrower in accordance with its terms, except to the extent that such enforcement may be limited by applicable bankruptcy, insolvency and other similar Laws affecting creditors' rights generally.

Section 4.03. Financial Statements. Financial Statements have been heretofore delivered to Lender which are true, correct and current in all respects and which fairly present the respective financial conditions of the subjects thereof as of the respective dates thereof; no material adverse change has occurred in the financial conditions reflected therein since the respective dates thereof.

Section 4.04. Compliance With Laws: Payment of Taxes. Borrower is in compliance with, and the transactions contemplated hereby and the other Loan Documents do not and will not violate any provision of, or require any filing, registration, consent or approval under, any Law presently in effect having applicability to Borrower or Principal of Mortgagor; Borrower has filed all tax returns (federal, state and local) required to be filed and has paid all taxes, assessments and governmental charges and levies due and payable, including interest and penalties.

Section 4.05. Litigation. There are no actions, suits or proceedings pending or threatened against or affecting it or Principal of Mortgagor at law, in equity or before or by any Governmental Authorities except actions, suits or proceedings which have been disclosed to Lender in writing and which are fully covered by insurance or would, if adversely determined, not substantially impair the ability of Borrower or Principal of Mortgagor to pay when due any amounts which may become payable under the Note or to otherwise pay and perform their respective obligations in connection with the Loan; to Borrower's knowledge, neither it nor Principal of Mortgagor is in default with respect to any order, writ, injunction, decree or demand of any court or Governmental Authorities.

Section 4.06. No Conflicts or Defaults. The consummation of the transactions contemplated hereby and the performance hereof and of the other Loan Documents have not resulted and will not result in any breach of, or constitute a default under, any mortgage, deed of trust, lease, bank loan or credit agreement, corporate charter, by-laws, partnership agreement or other instrument to which Borrower or Principal of Mortgagor is a party or by which either of them may be bound or affected.

Section 4.07. Solvency. Borrower and Principal of Mortgagor are, and upon consummation of the transactions contemplated by this Agreement, the other Loan Documents and any other related documents, will be, solvent.

Section 4.08. Governmental Regulation. Borrower is not subject to regulation under the Investment Company Act of 1940 or any Law limiting its ability to incur indebtedness for money borrowed as contemplated hereby.

Section 4.09. ERISA. Neither Borrower nor Principal of Mortgagor nor any other person or entity, including any fiduciary, has engaged in any prohibited transaction (as defined in Section 4975 of the Code or Section 406 of ERISA) which could subject Borrower or Principal of Mortgagor or any person or entity which they have an obligation to indemnify to any tax or penalty imposed under Section 4975 of the Code or Section 502 of ERISA; neither Borrower nor Principal of Mortgagor nor any ERISA Affiliate maintains, contributes to or has any liability with respect to a Multiemployer Plan or any other plans subject to Title IV of ERISA; each Employee Benefit Plan is administered in accordance with its terms and in compliance with all applicable Laws, including any reporting requirements; each Pension Plan intending to qualify under Section 401(a) or 401(k) of the Code does so qualify; there is no lien outstanding or security interest given in connection with a Pension Plan; neither Borrower nor Principal of Mortgagor nor any ERISA Affiliate has any liability with respect to an accumulated funding deficiency (whether or not waived) under Section 412 of the code or Section 302 of ERISA; neither Borrower nor Principal of Mortgagor has any liability for retiree medical or death benefits (contingent or otherwise) other than as required by Section 4980B of the Code; and no part of the funds to be used by Borrower or Principal of Mortgagor in satisfaction of their respective obligations under this Agreement and the other Loan Documents constitute "plan assets" of any "employee benefit plan" within the meaning of ERISA or of any "plan" within the meaning of Section 4975(e)(1) of the Code, as interpreted by the Internal Revenue Service and the United States Department of Labor in rules, regulations, releases or bulletins or as interpreted under applicable case law.

Section 4.10. No Defaults. There exists no Default or Event of Default.

Section 4.11. Accuracy of Information: Full Disclosure. Neither this Agreement nor any documents, financial statements, reports, notices, schedules, certificates, statements or other writings furnished by or on behalf of Borrower or Principal of Mortgagor to Lender in connection with the negotiation of this Agreement or other Loan Documents or the consummation of the transactions contemplated hereby, or required herein or by the other Loan Documents to be furnished by or on behalf of Borrower or Principal of Mortgagor, contains any untrue or misleading statement of a material fact or omits a material fact necessary to make the statements herein or therein not misleading; there is no fact which Borrower has not disclosed to Lender in writing which materially affects adversely nor, so far as Borrower can now foresee, will materially affect adversely the business affairs or financial condition of Borrower or Principal of Mortgagor, or the ability of Borrower or Principal of Mortgagor to perform this Agreement and the other Loan Documents.

Section 4.12. Requisition as Reaffirmation. Each Requisition submitted to Lender, and the receipt of the funds requested thereby, shall constitute an affirmation by Borrower that the representations and warranties contained herein and in the other Loan Documents remain true and correct as of the respective dates of such Requisitions.

Section 4.13. Regulation U. No portion of the Loan shall at any time be used, directly or indirectly, for the purpose of purchasing or carrying margin stock.

ARTICLE V

COVENANTS OF BORROWER

Borrower covenants and agrees with Lender that it will promptly:

Section 5.01. Compliance with Laws: Payment of Taxes. Comply with all Laws applicable to it, such compliance to include, without limitation, paying before the same become delinquent all taxes, assessments and governmental charges imposed on it, and promptly furnish Lender with reports of any official searches made by Governmental Authorities and any claims of violations thereof.

Section 5.02. Continuing Accuracy of Representations and Warranties. Cause all of the representations and warranties made to Lender herein and in the other Loan Documents to be continuously true and correct.

Section 5.03. Payment of Costs: Brokers. Pay all costs and expenses required for the satisfaction of the conditions hereof and indemnify Lender against claims of brokers arising by reason of the execution hereof or the consummation of the transactions contemplated hereby.

Section 5.04. Commitment Fee. Pay to Lender a commitment fee in the amount of \$100,000 on the date hereof. In addition, if the maturity date of the Loan is extended as provided in the Note, Borrower shall pay to Lender an additional commitment fee in the amount of 0.15% of the Loan Amount outstanding on the original (non-extended) maturity date stated in the Note.

Section 5.05. Financial and Other Information. Deliver and will cause Principal of Mortgagor to deliver to Lender with reasonable promptness (i) after the close of their respective fiscal years, but in no event later than 120 days after the end thereof, a financial statement, including a balance sheet, statements of profit, loss, income, cash flow, and contingent liabilities, and setting forth, in comparative form, figures for the preceding fiscal year certified to by an accounting firm reasonably satisfactory to Lender, (ii) after the close of their respective fiscal quarters, but in no event later the 45 days after the end thereof, the aforesaid financial information certified to by Borrower or Principal of Mortgagor, as the case may be, setting forth, in comparative form, figures for the corresponding period in the preceding fiscal year, (iii) complete copies of Borrower's and Principal of Mortgagor's federal and state income tax returns when filed and (iv) such other information with respect to Borrower or Principal of Mortgagor as Lender may reasonably request from time to time. All financial statements of Borrower or Principal of Mortgagor shall be prepared in accordance with sound accounting principles consistently applied and, in the case of Borrower, shall be accompanied by the certificate of a principal financial or accounting officer of Borrower or its general partner, dated within five (5) days of the delivery of such statements to Lender, stating that he or she knows of no Event of Default, nor of any event which after notice or lapse of time or both would constitute an Event of Default, which has occurred and is continuing, or, if any such event or Event of Default has occurred and is continuing, specifying the nature and period of existence thereof and what action Borrower has taken or proposes to take with respect thereto, and, except as otherwise specified, stating that Borrower has fulfilled all of its obligations hereunder and otherwise in respect of the Loan which are required to be fulfilled on or prior to the date of such certificate.

Section 5.06. [Intentionally Omitted.]

Section 5.07. Minimum Net Worth. Principal of Mortgagor shall maintain a net worth of at least \$150,000,000, with liquid assets of not less than \$5,000,000, all as determined by Lender in its sole discretion.

ARTICLE VI

EVENTS OF DEFAULT

Section 6.01. Events of Default. An Event of Default under the Mortgage is an Event of Default hereunder.

Section 6.02. Remedies. If any Event of Default shall occur and be continuing, (i) Borrower shall pay Lender interest on the outstanding principal balance under the Note at the Default Rate and (ii) Lender may (a) declare the outstanding balance of the Note, all interest thereon, and all other amounts payable under this Agreement and other Loan Document to be forthwith due and payable, whereupon such balance, all such interest, and all such amounts shall become and be forthwith due and payable, without presentment, demand, protest, or further notice of any kind, all of which are hereby expressly waived by Borrower and/or (b) exercise any remedies provided in any of the Loan Documents or by Law.

ARTICLE VII

GENERAL. CONDITIONS AND PROVISIONS

Section 7.01. Advance Not Waiver. Any advance by Lender of Loan proceeds hereunder made prior to or without the fulfillment by Borrower of all of the conditions precedent thereto, whether or not known to Lender, shall not constitute a waiver by Lender of the requirement that all conditions, including the non-performed conditions, shall be required with respect to all future advances.

Section 7.02. Authorization to Advance for Interest, Etc. Borrower hereby irrevocably authorizes Lender, following an Event of Default, to disburse proceeds of the Loan to pay interest accrued on the Note as it comes due, or to satisfy any of the conditions hereof, including, without limitation, the payment of the fees and expenses of Lender's Counsel.

Section 7.03. Concerning Irrevocable Authorizations. Any and all advances made at any time by Lender pursuant to the irrevocable authorizations granted by Section 7.02 shall require no further direction, authorization or request for disbursement from Borrower and may be made whether or not there exists a Default or Event of Default. Any and all such disbursements shall be added to the outstanding principal balance evidenced by the Note. The aforesaid authorizations shall (i) not prevent Borrower from paying the interest or from satisfying the conditions and obligations referred to in said Section, out of its own funds, (ii) in no event be construed so as to relieve Borrower or others from their obligations to pay interest as and when due under the Note, or to satisfy such conditions and obligations and (iii) in no event obligate Lender to disburse proceeds of the Loan for any such purposes.

Section 7.04. Ratification of Requisition by Acceptance of Advance. Borrower agrees that, by its acceptance of any advance of Loan proceeds hereunder, it shall be bound in all respects by the Requisition submitted on its behalf in connection therewith with the same force and effect as if Borrower had itself executed and submitted the Requisition is executed and/or submitted by an authorized person

Section 7.05. No Third-Party Beneficiaries. This Agreement is solely for the benefit of Lender and Borrower. All conditions of the obligations of Lender to make advances hereunder are imposed solely and exclusively for the benefit of Lender and may be freely waived or modified in whole or in part by Lender at any time if in its sole discretion it deems it advisable to do so, and no person other than Borrower (provided, however, that all conditions have been satisfied) shall have standing to require Lender to make any Loan advances or to be a beneficiary of this Agreement or any advances to be made hereunder.

Section 7.06. Documentation Etc. Satisfactory. All documentation and proceedings deemed by Lender or Lender's Counsel to be necessary or required in connection herewith and the documents relating hereto shall be subject to the prior reasonable approval of, and reasonably satisfactory to, both of them as to form and substance. In addition, the persons or parties responsible for the execution and delivery of, and signatories to, all of such documentation shall be reasonably acceptable to, and subject to the reasonable approval of, Lender and Lender's Counsel. Lender or Lender's Counsel shall receive copies, certified if requested by either of them, of all documents which they may require in connection with the transactions contemplated hereby.

Section 7.07. Lender's Determination Conclusive. Lender shall, at all times, be free to independently establish to its satisfaction and in its absolute discretion, to be reasonably exercised, the existence or nonexistence of any fact or facts the existence or nonexistence of which is a condition hereof.

Section 7.08. Notices. Except as expressly provided otherwise, all notices, demands, consents, approvals and statements required or permitted hereunder shall be in writing and shall be deemed to have been sufficiently given or served for all purposes when presented personally, three (3) days after mailing by registered or certified mail, postage prepaid, or one (1) day after delivery to a nationally recognized overnight courier service providing evidence of the date of delivery, if to Borrower at its address stated on the cover page hereof and if to Lender, at its address stated on the cover page hereof to the attention of its Commercial Real Estate Department, or at such other address of which a party shall have notified the party giving such notice in writing in accordance with the foregoing requirements.

Section 7.09. Entire Agreement; Amendments and Waivers. This Agreement and the other Loan Documents contain the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior oral or written agreements or statements relating to such subject matter. None of the terms and provisions hereof or of the other Loan Documents may be changed, waived, discharged or terminated, nor may any material departure from the provisions hereof or thereof be consented to, except by an instrument in writing signed by the party against whom enforcement of the change, waiver, discharge, termination or consent is sought. Any such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. Without limiting the foregoing, acceptance by Lender of any sum required to be paid pursuant hereto or any other Loan Document, after its due date, or in an amount less than the sum then due, shall not constitute a waiver by Lender of its right to require prompt payment when due of all other such sums or to declare a default or to exercise such other rights provided herein or in the other Loan Documents for such late or reduced payment.

Section 7.10. [Intentionally Omitted.]

Section 7.11. Successors and Assigns. Except as herein provided, this Agreement shall be binding upon and inure to the benefit of Borrower and Lender and their respective heirs, personal representatives, successors and assigns. Notwithstanding the foregoing, Borrower, without the prior written consent of Lender in each instance, may not assign, transfer or set over to another, in whole or in part, all or any part of its benefits, rights, duties and obligations hereunder, including, but not limited to, performance of and compliance with conditions hereof and the right to receive the proceeds of current or future advances of the Loan.

Section 7.12. Severability. The provisions hereof are intended to be severable. Any provisions hereof, or the application thereof to any person, entity or circumstance, which, for any reason, in whole or in part, is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof (or the remaining portions of such provision) or the application thereof to any other person, entity or circumstance, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision (or portion thereof) or the application thereof to any person, entity or circumstance in any other jurisdiction.

Section 7.13. Non-Waiver; Remedies Cumulative. No failure or delay on Lender's part in exercising any right, remedy, power or privilege (hereinafter in this Section, each a "Remedy") hereunder or under any of the other Loan Documents shall operate as a waiver of any such Remedy or shall be deemed to constitute Lender's acquiescence in any default by Borrower or Principal of Mortgagor under any of said documents. A waiver by Lender of any Remedy hereunder or under any of the other Loan Documents on any one occasion shall not be construed as a bar to any other or future exercise thereof or of any other Remedy. The Remedies provided in said documents are cumulative, may be exercised singly or concurrently and are not exclusive of any Remedies provided therein or by law.

Section 7.14. Certain Waivers. Borrower hereby irrevocably and unconditionally waives (i) promptness and diligence; (ii) notice of any actions taken by Lender hereunder or under any other Loan Document or any other agreement or instrument relating hereto except to the extent otherwise provided herein, (iii) all other notices, demands and protests, and all other formalities of every kind in connection with the enforcement of Borrower's obligations hereunder and under the other Loan Documents, the omission of or delay in which, but for the provisions of this Section, might constitute grounds for relieving Borrower of any of its obligations hereunder or under the other Loan Documents, (iv) any requirement that Lender protect, secure, perfect or insure any lien on any collateral hereafter given for the Loan or exhaust any right or take any action against Borrower, Principal of Mortgagor or any other person or entity or against any collateral hereafter given for the Loan, (v) any right or claim of right to cause a marshalling of Borrower assets and (vi) all rights of subrogation or contribution, whether arising by contract or operation of law or otherwise by reason of payment by Borrower pursuant hereto or to the other Loan

Documents. BORROWER FURTHER HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES, IN CONNECTION WITH ANY SUIT, ACTION OR PROCEEDING BROUGHT BY OR ON BEHALF OF LENDER WITH RESPECT TO THIS AGREEMENT, THE NOTE OR OTHERWISE IN RESPECT OF THE LOAN, ANY AND EVERY RIGHT BORROWER MAY HAVE TO (W) INJUNCTIVE RELIEF, (X) A TRIAL BY JURY, (Y) INTERPOSE ANY COUNTERCLAIM THEREIN, OTHER THAN A COMPULSORY COUNTERCLAIM AND (Z) HAVE THE SAME CONSOLIDATED WITH ANY OTHER OR SEPARATE SUIT, ACTION OR PROCEEDING. NOTHING CONTAINED IN THE IMMEDIATELY PRECEDING SENTENCE SHALL PREVENT OR PROHIBIT BORROWER FROM INSTITUTING OR MAINTAINING A SEPARATE ACTION AGAINST LENDER WITH RESPECT TO ANY ASSERTED CLAIM.

Section 7.15. Expenses: Indemnification. The Loan shall be made without cost to Lender. Borrower covenants and agrees to pay all costs, expenses and charges (including, without limitation, all fees and charges of Lender's Counsel) incurred by Lender in connection with (i) the preparation for and consummation of the transactions contemplated hereby or for the performance hereof and of the other Loan Documents, and for any services which may be required in addition to those normally and reasonably contemplated hereby and (ii) the enforcement hereof or of any or all of the other Loan Documents. If Borrower fails to pay promptly any costs, charges or expense required to be paid by it as aforesaid, and Lender pays such costs, charges or expenses, Borrower shall reimburse Lender on demand for the amounts so paid, together with interest thereon at the Default Rate. Borrower further agrees to indemnify Lender and its directors, officers, employees and agents from, and hold each of them harmless against, (x) any and all losses arising out of or by reason of any investigation or litigation or other proceedings (including any threatened investigation or litigation or other proceedings) relating to any actual or proposed use by Borrower of the proceeds of the Loan, including, without limitation, the fees and disbursements of counsel incurred in connection with any such investigation, litigation or other proceedings and (y) any and all claims, actions, suits, proceedings, costs, expenses, losses, damages and liabilities of any kind, including in tort, penalties and interest, arising out of or by reason of any matter relating, directly or indirectly, to the Loan (but excluding any such losses, liabilities, claims, damages or expenses incurred solely by reason of the gross negligence or willful misconduct of the party to be indemnified). The obligations of Borrower under this Section shall survive the repayment of all amounts due under or in connection with any of the Loan Documents and the termination of the Loan.

Section 7.16. Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and any party hereto may execute this Agreement by signing any such counterpart.

Section 7.17. Transfers of Interests in Loan. Borrower recognizes that Lender may sell and transfer interests in the Loan, this Agreement and the other Loan Documents to one or more participants or assignees and that all documentation, Financial Statements and other data, or copies thereof, relevant to Borrower, Principal of Mortgagor or the Loan, and to any advances hereunder, may be exhibited to and retained by any such participant or assignee or prospective participant or assignee for its files.

Section 7.18. Governing Law: Jurisdiction. This Agreement and the rights and obligations of the parties hereunder shall in all respects be governed by, and construed and enforced in accordance with, the Laws of the State of New York (without giving effect to New York's principles of conflicts of law). Borrower hereby irrevocably submits to the non-exclusive jurisdiction of any New York State or Federal court sitting in The City of New York over any suit, action or proceeding arising out of or relating to this Agreement, and Borrower hereby agrees and consents that, in addition to any methods of service of process provided for under applicable law, all service of process in any such suit, action or proceeding in any New York State or Federal court sitting in The City of New York may be made by personal service or by certified or registered mail, return receipt requested, directed to Borrower at the address indicated on the cover page hereof, and service so made shall be complete five (5) days after the same shall have been so mailed.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the day and year first above written, the execution hereof by Borrower constituting (a) a certification by the party or parties executing on its behalf that the representations and warranties made in Article IV are true and correct as of the date hereof and that each of them duly holds and is incumbent in the position indicated under his or her name and (b) the undertaking of said party or parties that each Requisition, whether or not personally made by any or all of them, shall constitute the personal affirmation on the part of each of them that at the time thereof said representations and warranties are true and correct.

WASHINGTON MUTUAL BANK, FA

By: _____
Arthur D. Bellini
First Vice President

RD ELMWOOD ASSOCIATES, L.P., a Delaware limited partnership

By: Acadia Property Holdings, LLC, its general partner

By: Acadia Realty Limited Partnership, its sole member

By: Acadia Realty Trust, a Maryland real estate investment trust, its general partner

By: _____
Robert Masters
Senior Vice President

EXHIBIT A

Authorization Letter

November __, 2002

Washington Mutual Bank, FA
EAB Plaza, 13th Floor
Uniondale, New York 11556-0123

Re: Revolving Loan Agreement, dated as of the date
hereof between you and us (the "Loan Agreement")

Dear Sir/Madam:

In connection with the Loan Agreement, we hereby designate any of the following persons to give to you instructions, including notices required pursuant to the Loan Agreement, orally, by telephone or teleprocess, or in writing:

[_____]

Instructions may be honored on the oral, telephonic, teleprocess or written instructions of anyone purporting to be any one of the above designated persons even if the instructions are for the benefit of the person delivering them. Promptly upon request, we will furnish you with written confirmation of each such instruction signed by any person designated above (including any telecopy which appears to bear the signature of any person designated above) on the same day that the instruction is provided to you, but your responsibility with respect to any instruction shall not be affected by your failure to receive such confirmation or by its contents.

Without limiting the foregoing, we hereby unconditionally authorize any one of the above-designated persons to execute and submit "Requisitions" or requests for advances under the Loan Agreement with the identical force and effect in all respects as if executed and submitted by us.

You shall be fully protected in, and shall incur no liability to us for, acting upon any instructions which you in good faith believe to have been given by any person designated above, and in no event shall you be liable for special, consequential or punitive damages. In addition, we agree to hold you and your agents harmless from any and all liability, loss and expense arising directly or indirectly out of instructions that we provide to you in connection with the Loan Agreement except for liability, loss or expense occasioned by your gross negligence or willful misconduct.

Upon notice to us, you may, at your option, refuse to execute any instruction, or part thereof, without incurring any responsibility for any loss, liability or expense arising out of such refusal if you in good faith believe that the person delivering the instruction is not one of the persons designated above or if the instruction is not accompanied by an authentication method that we have agreed to in writing.

We will promptly notify you in writing of any change in the persons designated above and, until you have actually received such written notice and have had a reasonable opportunity to act upon it, you are authorized to act upon instructions, even though the person delivering them may no longer be authorized.

RD ELMWOOD ASSOCIATES, L.P., a Delaware limited partnership

By: Acadia Property Holdings, LLC, its general partner

By: Acadia Realty Limited Partnership, its sole member

By: Acadia Realty Trust, a Maryland real estate investment trust, its general partner

By: _____
Name:
Title:

EXHIBIT B

Required Contents of Borrower's Counsel Option

(1) The Loan Documents have each been duly authorized, executed and delivered by the parties thereto (other than Lender) and, under the laws of the jurisdiction in which the Premises are located (were such laws to apply), are valid and binding instruments enforceable against such parties in accordance with their respective terms, except to the extent that such enforcement may be limited by bankruptcy, insolvency, reorganization and other laws of general application to the enforcement of creditors' rights.

(1) If Borrower, the mortgagor or grantor under the Mortgage (if different from Borrower), Guarantor or any general partner of any of them is a corporation, partnership, venture, limited liability company or trust, each such entity is duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation, and has full power and authority to consummate the transactions contemplated by the Loan Documents and to execute, deliver and perform all Loan Documents to which it is apply.

(2) There are no actions, suits or proceedings pending or threatened against or affecting Borrower or Guarantor at law, in equity or before or by any Governmental Authorities except actions, suits or proceedings which have been disclosed to Lender in writing and which are fully covered by insurance or would, if adversely determined, not substantially impair the ability of Borrower or Guarantor to pay when due any amounts which may become payable under the Note or Guaranty or to otherwise pay and perform their respective obligations in connection with the Loan; neither Borrower nor Guarantor is in default with respect to any order, writ, injunction, decree or demand of any court or Governmental Authorities.

(3) The consummation of the transactions contemplated by and the performance of the Loan Documents have not resulted and will not result in any breach of, or constitute a default under, any mortgage, deed of trust, lease, bank loan or credit agreement, corporate charter, by-laws, partnership agreement or other instrument to which Borrower or Guarantor is a party or by which either of them may be bound or affected.

(4) To such other effects as Lender or its counsel may reasonably require.

EXHIBIT C

Additional Conditions to Initial Advance

1. Borrower shall develop and provide to Lender, an Operations and Maintenance Plan, in form and substance acceptable to Lender, to address the approximately 4,000 square feet of non-friable asbestos floor tile in the basement area of the Property, as more particularly described in the Phase I Environmental Site Assessment report dated October 7, 2002 by Cashin Associates, P.C.

2. Borrower shall provide executed Tenant Estoppel Certificates, in form and substance reasonably satisfactory to Lender, from all tenants occupying 4,000 square feet or more at the Property.

3. Borrower shall provide executed Subordination, Non-disturbance and Attornment Agreements, in form and substance reasonably satisfactory to Lender (or in such form and substance as may be required by the terms of the tenant's lease), from the following tenants of the Property:

Kay-Bee Toy & Hobby Shops, Inc.
United Retail Incorporated
Walgreen Eastern Co., Inc.
Pathmark Stores, Inc.
Valley National Bank
Payless ShoeSource, Inc.
Dots, Inc.

RD ELMWOOD ASSOCIATES, L.P.,

Mortgagor,

and

WASHINGTON MUTUAL BANK, FA,

Mortgagee

MORTGAGE, ASSIGNMENT OF LEASES
AND RENTS AND SECURITY AGREEMENT

Dated as of November 22, 2002

=====
This instrument affects real and personal property situated in the State of New
Jersey, County of Bergen, Borough of Elmwood Park in Lots 3 & 4 of Block 201,
and Lot 2 of Block 301, and known by the street address of 58, 80 and 100
Broadway, Elmwood Park, New Jersey.
=====

RECORD AND RETURN TO:

LeBoeuf, Lamb, Greene & MacRae, L.L.P.
125 West 55th Street
New York, New York 10019
Att'n: Richard Weidman, Esq.

Title Company: Land Title Agency, Inc.,
as Agent of Commonwealth Land Title Insurance Company
Title No.: 02-LT-0967

THIS MORTGAGE, ASSIGNMENT OF LEASES AND RENTS AND SECURITY AGREEMENT, made as of November 22, 2002, from RD ELMWOOD ASSOCIATES, L.P., a Delaware limited partnership, having an address at c/o Acadia Realty Trust, 20 Soundview Marketplace, Port Washington, New York 11050 ("Mortgagor"), to WASHINGTON MUTUAL BANK, FA, a banking corporation chartered under the laws of the United States, having an address at EAB Plaza, Thirteenth Floor, Uniondale, New York 11556-0123 (together with its successors in such capacity, "Mortgagee"),

W I T N E S S E T H T H A T:

WHEREAS, Mortgagor is on the date of this Mortgage the owner of fee title to one or more parcels of land and the improvements thereon located at Elmwood Park Shopping Center, 58, 80 and 100 Broadway, Borough of Elmwood Park, County of Bergen, and State of New Jersey, more particularly described in Schedule A annexed hereto and made part hereof;

WHEREAS, concurrently with the execution and delivery of this Mortgage, Assignment of Leases and Security Agreement (this "Mortgage"), Mortgagor will borrow from Mortgagee up to \$20,000,000 or so much thereof as shall be advanced to Mortgagor pursuant to the Revolving Loan Agreement identified below, which borrowing will be secured by this Mortgage;

WHEREAS, Borrower has executed and delivered its Promissory Note, dated the date hereof, in the amount of up to \$20,000,000 to Mortgagee, which note obligates Mortgagor to pay the Mortgage Amount, or so much thereof as may be advanced from time to time in accordance with the terms of the Loan Agreement (said Promissory Note, as the same may hereafter be amended, modified, extended, severed, assigned, renewed, replaced or restated, and including any substitute or replacement notes, is hereinafter referred to individually and collectively as the "Note"); and

WHEREAS, in order to secure the payment of the Note, Mortgagor has duly authorized the execution and delivery of this Mortgage.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants herein contained,

TO SECURE (a) the full, faithful and punctual (i) payment by Borrower of all sums payable under the Note or any other Loan Document (as hereinafter defined) up to the Mortgage Amount and (ii) performance of and compliance with each and every term, condition, agreement, undertaking, covenant and provision to be performed or complied with by Mortgagor pursuant to the Loan Documents, and (b) the truth, accuracy and completeness of all representations and warranties made by Mortgagor to Mortgagee in the Loan Documents or otherwise in connection with the Loan, Mortgagor hereby creates in favor of Mortgagee a security interest in, and gives, grants, bargains, sells, warrants, aliens, remises, releases, conveys, assigns, transfers, mortgages, hypothecates, deposits, pledges, sets over and confirms unto Mortgagee, its successors and assigns, WITH MORTGAGE COVENANTS and the other covenants and agreements set forth herein, all of Mortgagor's estate, right, title, interest, claim and demand (whether at law or in equity, in possession or expectancy) in, to and under the following described property (collectively, the "Mortgaged Property"), whether now owned or held or hereafter acquired by Mortgagor:

(i) the premises described in Schedule A, including all easements, rights, privileges and appurtenances that in any way belong or appertain to such premises, and all estate, right, title, interest, claim or demand whatsoever of Mortgagor therein and in the streets and ways adjacent thereto, whether in law or in equity, in possession or expectancy, now or hereafter acquired, together with any and all options held by Mortgagor to purchase, lease, or sublease or otherwise acquire such premises or any portion thereof or interest therein, and any greater estate in such premises now owned or hereafter acquired by Mortgagor (collectively, the "Premises");

(ii) all structures, buildings or other improvements now or hereafter located upon the Premises or on any part thereof, including all plant, equipment, apparatus, machinery and fixtures forming part of said structures, buildings and other improvements (all, collectively, the "Improvements");

(iii) all fixtures, fittings, furniture, furnishings, appliances, apparatus, equipment, machinery and other articles of personal property (including without limitation all building service equipment and building materials and supplies), other than those owned by lessees, now or at any time hereafter attached to, placed upon, or used or to be used in any way in connection with the use, enjoyment, occupancy or operation of the Premises or the Improvements (all, collectively, the "Chattels");

(iv) all leases, subleases, tenancies, subtenancies and rental and occupancy agreements for the use and occupancy of all or any portion of the Mortgaged Property which are now in existence or which may exist at any time during the period that this Mortgage is in effect, together with any modifications, amendments, renewals or extensions of any of the foregoing, whether or not written and, if written, whether or not recorded (all of which present and future leases, subleases, tenancies, subtenancies and rental and occupancy agreements, as modified, amended, renewed or extended, are hereinafter referred to, each as a "Lease" and, collectively, as the "Leases"), and all estate, right, title, interest, claim and demand of Mortgagor under the Leases, including, without limitation, any cash, letters of credit or securities deposited by lessees or others to secure their performance, the rents and all other sums payable thereunder and the right to receive and collect the rents, revenues, receipts, income, earnings, issues, accounts receivable and profits derived from the Mortgaged Property (collectively, the "Rents") (subject, however, to any license to collect the Rents granted by Mortgagee to Mortgagor herein or in a separate assignment of leases and rents, and all guarantees of the performance of lessees and other obligors under such leases and other agreements and instruments;

(v) all Authorizations (as hereinafter defined), agreements, franchises, applications, and other authorizations relating to the use, occupation, development, subdivision or operation of the Mortgaged Property or any business or activity conducted by or on behalf of Mortgagor on the Mortgaged Property, including, without limitation, all trade names and other names under or by which the Mortgaged Property or any of the Improvements may at any time be operated or known and all rights to conduct business under any such names or any variant thereof, and all trademarks, good will, operating agreements, contract rights, service rights, accounts receivable, books and records and general intangibles (as such term is defined in the Uniform Commercial Code in effect in the state where the Premises are situated (as same may hereafter be amended from time to time, the "Uniform Commercial Code")) now owned or hereafter acquired, in any way relating to the Mortgaged Property or any part thereof;

(vi) all shares of stock or other evidence of ownership of any part of the Mortgaged Property that is owned by Mortgagor in common with others and all rights of Mortgagor in any owners' or members' association or similar group having responsibility for managing or operating any part of the Mortgaged Property;

(vii) all present and future insurance policies now or hereafter in effect insuring the Mortgaged Property or any portion thereof or any Rents derived therefrom, and any unearned premiums therefor accrued or to be accrued and all proceeds payable thereunder, together with all moneys now or hereafter on deposit for the payment of premiums in respect of such policies and Impositions (as defined in Section 1.7(a)), and all refunds of real estate taxes and assessments;

(viii) all proceeds of the conversion, voluntary or involuntary, of any of the foregoing into cash or liquidated claims, including, without limitation, proceeds of insurance and condemnation awards, judgments, awards of damages and settlements made as a result or in lieu of any condemnation, together with all claims, demands, causes of action and recoveries for any loss or diminution in value of any of the foregoing;

(ix) all warranties, guarantees, plans and specifications, shop and working drawings, soil tests and other environmental site tests and all other documents and materials (of any and every kind and nature) now or hereafter existing in respect of the Mortgaged Property;

(x) all betterments, renewals, extensions and replacements of, all substitutions for, and all additions, accessions and appurtenances to, the Mortgaged Property, hereafter acquired by or released to Mortgagor or constructed, assembled or placed by or for Mortgagor at, on or beneath the Premises or attached to the Premises or the Mortgaged Property, as more particularly provided in Section 1.6 of this Mortgage;

(xi) all rights of Mortgagor under promissory notes, letters of credit, electronic chattel paper, proceeds from accounts, payment intangibles, and general intangibles related to the Mortgaged Property, as the terms "accounts", "general intangibles", and "payment intangibles" are defined in the applicable Uniform Commercial Code Article 9, as the same may be modified or amended from time to time;

(xii) all claims (of any and every kind and nature) relating to the foregoing components of the Mortgaged Property;

(xiii) all other assets of Mortgagor related in any way to the Mortgaged Property, subject to certain limitations that may be set forth in the security agreements; and

(xiv) all proceeds of the conversion, voluntary or involuntary, of any of the foregoing into cash or liquidated claims, including, without limitation, proceeds of insurance and condemnation awards, judgments, awards of damages and settlements made as a result or in lieu of any condemnation, together with all claims, demands, causes of action and recoveries for any loss or diminution in value of any of the foregoing.

TO HAVE AND TO HOLD unto Mortgagee, its successors and assigns forever. Mortgagor further agrees as follows:

CERTAIN DEFINITIONS

Unless the context otherwise specifies or requires, each term specified below shall have the meaning ascribed to it below.

"Authorizations" (each, an "Authorization") means all permits, certificates, approvals, consents, licenses and authorizations (including, without limitation, Environmental Authorizations) required to be obtained from Governmental Authorities (as hereinafter defined) in order that the Mortgaged Property shall be owned, used, operated and maintained, and that Mortgagor's business thereat shall be conducted, in accordance with pertinent Requirements (as hereinafter defined).

"Default Rate" means the rate (or, if more than one, the highest of the rates) of interest per annum provided in the Note plus 5%, but in no event to exceed the maximum rate allowed by law.

"Environmental Authorizations" means all Authorizations that pertain to health, Hazardous Substances (as hereinafter defined) or environmental or ecological conditions at, on, under or about the Mortgaged Property.

"Environmental Conditions" (each, an "Environmental Condition") means all conditions relating to Hazardous Substances present at or emanating from the Mortgaged Property, including, without limitation, the past, present or future Release (as hereinafter defined) of Hazardous Substances and their presence in the environment. This term also includes the residual contamination of equipment and/or facilities and off-site treatment, recycling, reclamation, transportation, storage, handling or disposal of Hazardous Substances from the Mortgaged Property.

"Environmental Laws" (each, an "Environmental Law") means all Requirements pertaining to health, Hazardous Substances or environmental or ecological conditions at, on, under or about the Mortgaged Property.

"Event of Default" is defined in Section 2.1.

"Governmental Authority" (collectively, "Governmental Authorities" means the United States of America, the state and city, town or other municipality in which the Premises are situated, any agency, court, department, commission, board, bureau, instrumentality or political subdivision of any of the foregoing, and any arbitration panel or tribunal, in each instance now existing or hereafter created, having or claiming jurisdiction over Mortgagor, the Mortgaged Property or the use, occupancy, operation or condition of the Mortgaged Property or any portion thereof.

"Guarantor(s)" means Acadia Realty Limited Partnership, a Delaware limited partnership.

"Hazardous Substances" (each, a "Hazardous Substance") means (i) asbestos and asbestos-containing materials, radon, polychlorinated biphenyls, formaldehyde, flammable explosives, radioactive materials, petroleum and products containing or derived from petroleum, underground storage tanks and other underground storage facilities (i.e., any tank or facility and related piping system of which ten percent (10%) or more by volume is underground), (ii) any and all materials, substances, pollutants, contaminants and wastes subject to, or defined as "hazardous substances", "hazardous waste", "hazardous material", "hazardous air pollutant", or "petroleum products" under, any Environmental Law, and (iii) any and all other hazardous or toxic materials, substances, pollutants, contaminants and wastes.

"Loan" means Mortgagee's loan made to Mortgagor the same day as this Mortgage, in an amount equal to the maximum principal amount of the Note.

"Loan Agreement" means that certain Revolving Loan Agreement, dated as of the date hereof, between Mortgagor, as borrower, and Mortgagee, as lender, as the same may hereafter be amended, modified or supplemented from time to time.

"Loan Documents" (each, a "Loan Document") means, collectively, the Loan Agreement, this Mortgage; the Note; any guaranty(ies) executed in connection with the Loan (including, without limitation, the Indemnity Agreement); and any and all other instruments delivered (whether now or hereafter and whether by Mortgagor or any other person) to the holder of the Note in connection with this Mortgage and the Loan.

"Loan Maturity Date" means the Maturity Date of the Note.

"Note" means the Promissory Note dated the same day as this Mortgage executed by Mortgagor in favor of Mortgagee in the amount of up to Twenty Million Dollars (\$20,000,000), together with any and all amendments, extensions, renewals, modifications, refinancings and increases in the amount of, and substitutions for, same.

"Notices" (each, a "Notice") means: (i) citizen or governmental notices of intent to sue under an Environmental Law or common law cause of action; (ii) requests for information under the authority of an Environmental Law; (iii) notices of administrative actions or orders seeking penalties, fines, or remedial activity under any Environmental Law; (iv) any "potentially responsible party" letters under the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. ss.ss. 6902 et seq. ("CERCLA"); (v) judicial complaints; (vi) notices of administrative or judicial enforcement actions related to any Environmental Law; (vii) notices of violation related to any Environmental Law received by any Guarantor, or (viii) any notice of formal or informal investigation by any agency, or any consent order, whether proposed or final.

"Prepayment Charge" means the Prepayment Charge provided for in the Note, if any.

"Principal(s) of Mortgagor" means Acadia Realty Limited Partnership, a Delaware limited partnership.

"Requirements" (each, a "Requirement") means all laws, statutes, regulations, ordinances, codes, rules, rulings, directives, determinations, judgments, decrees, orders, injunctions, arbitral decisions, Authorizations, Environmental Laws and other requirements of every Governmental Authority now or hereafter in effect (including any of the foregoing that heretofore have been promulgated but which are not yet in effect), in each instance as modified, amended, renewed and/or extended, which are applicable to Mortgagor, to the Mortgaged Property or any portion thereof, to the use, manner of use, occupancy, possession, condition, operation, maintenance, alteration, repair, replacement, or restoration of the Mortgaged Property or any portion thereof or to the conduct of Mortgagor's business at the Mortgaged Property.

"To the best of Mortgagor's knowledge" means, with respect to any representation, warranty or certification contained in this Mortgage as to which such phrase is expressly applied, that, after due inquiry, Mortgagor knows of no fact(s) and has received no communication(s), oral or written, which would cause a reasonably prudent person in the position of Mortgagor to refrain from making the representation, warranty or certification in question.

Article I

Mortgagor's Covenants -----

Mortgagor covenants and agrees for the benefit of Mortgagee as follows:

1.1. Title. This Mortgage is and shall remain a valid and enforceable first lien on the Mortgaged Property, subject solely to the exceptions referred to in Section 3.1. At Mortgagor's sole cost and expense, Mortgagor shall defend and fully protect and preserve such title and the validity and priority of the lien of this Mortgage against the claims of all other persons and entities.

1.2. Security Agreement. This Mortgage shall constitute a security agreement with respect to such components of the Mortgaged Property as to which a security interest may attach under the Uniform Commercial Code and, with respect to such of the Chattels as at any time may be fixtures, a fixture filing under the Uniform Commercial Code. The Mortgaged Property consists of both real and personal property. The filing of UCC-1 financing statements ("UCC-1s") in the records customarily pertaining to personal property shall not be construed as in any way derogating from the intention of the parties hereto that all Chattels and other property used in connection with the production of Rents or which are referred to in this Mortgage are, and at all times and for all purposes and in all proceedings, both legal and equitable, shall be, regarded as real estate whether or not (a) any such item is physically attached to the Premises or any of the Improvements, (b) serial numbers are used for the better identification of certain of the Chattels capable of being thus identified in a recital contained herein or (c) any such item is referred to in any UCC-1 so filed at any time. Similarly, the mention in the UCC-1s of (x) the rights in the proceeds of any fire and/or hazard insurance policy, (y) any award in condemnation or eminent domain proceedings for a taking or for loss of value, or (z) the debtor's interest as lessor in any present or future Lease or rights to income growing out of the use or occupancy of the Mortgaged Property, whether pursuant to a Lease or otherwise, shall never be construed as in any way derogating from, or altering, any of the rights of Mortgagee set forth in this Mortgage or impugning the priority of Mortgagee's lien granted hereby or by any other recorded instrument, but such mention in the UCC-1s is declared to be for the protection of Mortgagee in the event any court or judge shall at any time hold with respect to (x), (y) or (z) above that notice of Mortgagee's priority of interest, to be effective against a particular class of persons, must be filed in the Uniform Commercial Code records. The addresses of Mortgagor (Debtor) and Mortgagee (Secured Party) are set forth on page 1 of this Mortgage. This Mortgage is to be filed for record with the recorder of deeds of the county or counties in which the Premises are situated. Mortgagor is the record owner of the Mortgaged Property.

1.3. Recordation; Certain Costs and Expenses.

(a) Recording and Filing. Upon the execution and delivery of this Mortgage, and thereafter from time to time, whether or not Mortgagee so demands, Mortgagor, at Mortgagor's sole cost and expense, shall cause this Mortgage and any other instrument creating or evidencing Mortgagee's lien upon, or security interest in, the Mortgaged Property and each Document of Further Assurance (as defined in Section 1.26) to be filed, registered or recorded, as the case may be, in such manner and in such places as may be required by any Requirement in order to publish notice of, and fully to protect and preserve, the liens and security interests created by and granted pursuant to this Mortgage with respect to the Mortgaged Property.

(b) Fees and Costs of Mortgage, Related Documents. Mortgagor shall punctually pay in strict compliance with applicable Requirements (i) all filing, registration or recording fees with respect to, and all other expenses incident to, the execution, acknowledgment and filing, registration or recording of this Mortgage, any amendment, extension, renewal or modification hereof, any mortgage supplemental hereto, any other security instrument with respect to the Mortgaged Property, any Document of Further Assurance, and any other Loan Document, and (ii) all stamp taxes and other taxes, duties, imposts, assessments and charges imposed by Governmental Authorities arising out of or in connection with the execution, delivery, filing, registration, or recording of any of the foregoing.

1.4. Obligation to Pay. Mortgagor shall punctually pay in strict compliance with the Loan Documents (a) the principal, interest, Prepayment Charge and all other sums evidenced by the Note and (b) all other moneys, indebtedness, obligations and liabilities (of any and every kind or nature) now or hereafter owing (whether to Mortgagee, any Governmental Authority or any other third party) pursuant to any one or more of the Loan Documents. All of the foregoing shall be deemed to be indebtedness secured by this Mortgage and shall be paid without any abatement, credit, reduction, deduction, claim, counterclaim, set-off or offset whatsoever, and free and clear of all defenses.

1.5. Compliance with Requirements.

(a) Legal Requirements. Mortgagor shall fully, faithfully and punctually comply (and shall cause all lessees and other persons and entities that occupy or enter upon the Mortgaged Property at all times so to comply) with all applicable Requirements, including, without limitation, Requirements that, if violated, would cause the Mortgaged Property or a part thereof to be subject to forfeiture. Mortgagor, if a corporation, partnership, trust or other legal entity, shall do all things necessary to preserve and keep in full force and effect in all jurisdictions where the same presently are in force and effect Mortgagor's existence, franchises, rights and privileges.

(b) Insurance Policy Requirements. Mortgagor shall fully, faithfully and punctually comply (and shall cause all lessees and other persons and entities that occupy or enter upon the Mortgaged Property so to comply) with all provisions of all insurance policies covering or applicable to any portion of the Mortgaged Property, all requirements of the issuer of any such policies and all orders, rules, regulations, directives, codes and other requirements of the National Board of Fire Underwriters (or any successor body or other body performing similar functions) applicable to Mortgagor, to the Mortgaged Property or to the use, manner of use, occupancy, possession, operation, maintenance, alteration or repair of the Mortgaged Property or any portion thereof, except that Mortgagor shall not effect any such compliance that necessitates structural changes to any of the Improvements without the prior written consent of Mortgagee.

(c) Senior Liens. If this Mortgage is a second or more junior mortgage on the Mortgaged Property, then: (i) Mortgagor shall fully, faithfully and punctually perform and comply with each and every term, covenant, and condition of any more senior mortgage (a "Senior Mortgage") and never permit the same to go into default; (ii) the occurrence of any circumstance or event that would permit the holder of any Senior Mortgage to exercise any remedy under such Senior Mortgage shall automatically and immediately (upon the expiration of any applicable grace period provided for under the Senior Mortgage) and without notice from Mortgagee constitute an Event of Default under this Mortgage; (iii) Mortgagor shall not make any agreement with the holder of any Senior Mortgage that shall in any way modify, change, alter or extend any of the terms or conditions set forth in such Senior Mortgage or in any instrument executed in connection therewith, nor shall Mortgagor request or accept any future advances under such Senior Mortgage or any such other instrument, without Mortgagee's express written consent; and (iv) so long as the Senior Mortgage has not been discharged, notwithstanding anything to the contrary in this Mortgage, the relative priorities of this Mortgage and the Senior Mortgage(s) shall be governed by otherwise applicable law.

1.6. Scope of Security. All right, title and interest of Mortgagor in and to all betterments, renewals, extensions and replacements of, all substitutions for, and all additions, accessions and appurtenances to, the Mortgaged Property, hereafter acquired by, or released to, Mortgagor or constructed, assembled or placed by or for Mortgagor at, on or beneath the Premises or attached to the Improvements, and all conversions of any of the foregoing, immediately upon such acquisition, release, construction, assembling, placement or conversion, as the case may be, without any further mortgage, conveyance, assignment or other act of Mortgagor, shall become subject to the liens and security interests created by or pursuant to this Mortgage as fully and completely, and with the same effect, as if now owned by Mortgagor and specifically described herein. Mortgagor shall, however, execute and deliver to Mortgagee any and all such further assurances, mortgages, conveyances or assignments thereof as Mortgagee may reasonably require for the purpose of expressly and specifically subjecting the same to the lien of this Mortgage.

1.7. Payment of Impositions for Mortgaged Property.

(a) Taxes, Charges, Etc. Except to the extent that Mortgagee exercises the right specified in Section 1.11, Mortgagor shall, at least ten days before the applicable due date, pay and discharge all taxes and other charges of every kind and nature imposed upon or assessed against Mortgagor or the Mortgaged Property or any portion thereof or upon the Rents derived therefrom or arising in respect of the occupancy, use, possession or transfer thereof, including, without limitation, real estate, school, personal property, income, gross receipts and franchise taxes; water, water meter and sewer rents, rates and charges; service charges with respect to police protection, fire protection, street and highway construction, maintenance and lighting, sanitation and water supply; assessments and levies; permit, inspection and license fees; and all other public and private charges, general and special, ordinary and extraordinary, foreseen and unforeseen, together with all interest, fines and penalties applicable thereto (each of the foregoing, an "Imposition" and, collectively, "Impositions"). Mortgagor shall, upon Mortgagee's request, promptly deliver to Mortgagee documentation reasonably satisfactory to Mortgagee evidencing such payments.

(b) Liens and Claims. Mortgagor shall promptly pay all lawful claims and demands of mechanics, materialmen, laborers and others that, if not timely paid, might result in, or permit the creation of, a lien, other encumbrance or charge on the Mortgaged Property or any part thereof, or on the Rents derived therefrom, or lead to the interruption or suspension of any business of Mortgagor. Mortgagor shall, upon Mortgagee's request, promptly deliver to Mortgagee evidence reasonably satisfactory to Mortgagee of any such payment. Mortgagor shall not create or permit to be created any mortgage, lien, other encumbrance or charge on the Mortgaged Property or any part thereof or on the interest of Mortgagor or Mortgagee other than this Mortgage and promptly shall cause any such mortgage, lien, other encumbrance or charge to be discharged, bonded or otherwise secured to Mortgagee's satisfaction.

(c) Mortgagor's Right to Contest. Mortgagor, in good faith and at Mortgagor's sole cost and expense and after Mortgagee shall have received written notice thereof from Mortgagor, may contest the amount or the validity of any Imposition by appropriate legal proceedings, provided that (i) Mortgagor shall prosecute such proceedings diligently; (ii) no Event of Default shall exist during the pendency of any such proceedings; (iii) such proceedings shall operate to suspend the collection of any such Imposition or other realization thereon and neither the Mortgaged Property nor any part thereof nor interest therein nor any of the Rents derived therefrom would, by reason of such suspension, be forfeited or lost, or subjected to any lien, other encumbrance or charge and neither Mortgagor nor Mortgagee would, by reason thereof, be subject to civil or criminal liability; (iv) during such contest Mortgagor shall, at the option of Mortgagee, provide security satisfactory to Mortgagee assuring the payment of the contested Imposition and of any additional charge, fine, penalty or expense arising from or incurred as a result of such contest and any costs or expenses incurred or to be incurred by Mortgagee in connection with or as a consequence of Mortgagor's contest; and (v) if at any time nonpayment of any Imposition would result in the delivery of a tax deed or similar instrument to the Mortgaged Property or any portion thereof or any forfeiture with respect to the Mortgaged Property, then Mortgagor shall pay such Imposition (together with all applicable fines, penalties and other governmental charges and any interest or costs with respect thereto) in time to prevent the delivery of such deed or instrument or the effectuation of such forfeiture.

1.8. Indemnity by Mortgagor. Mortgagor shall defend and indemnify Mortgagee and all directors, officers, shareholders, employees, attorneys and agents of Mortgagee (collectively, the "Indemnified Parties") against, and save the Indemnified Parties harmless from, and shall reimburse the Indemnified Parties with respect to, any and all claims, demands, actions, causes of action, injuries, orders, losses, liabilities (statutory or otherwise), obligations, damages (including, without limitation, consequential damages), fines, penalties, taxes, costs and expenses (including, without limitation, reasonable attorneys' fees and expenses) incurred by, imposed upon or asserted against the Indemnified Parties or any one or more of them by reason of, or in connection with, (a) Mortgagee's interest in any Loan Document or the Mortgaged Property, (b) any misrepresentation or other incorrect statement or certification by Mortgagor or any Guarantor contained in this Mortgage or any other Loan Document, (c) any failure by Mortgagor to comply with any of the

terms, conditions or other provisions set forth in this Mortgage or any other Loan Document or in any recorded instrument that affects the Mortgaged Property, (d) any acts or omissions of Mortgagee in connection with the exercise by Mortgagee of any right, power or remedy available to Mortgagee under this Mortgage or any other Loan Document, (e) any use, non-use, possession, occupancy, alteration, repair, condition (whether patent or latent), operation, maintenance or management of the Mortgaged Property or any portion thereof, or (f) any accident, injury (including death at any time resulting therefrom) or damage to any person or property occurring in, on or about the Mortgaged Property or any portion thereof, whether resulting from any act or omission of Mortgagor or any agent, employee, contractor, lessee, sublessee, licensee or invitee of Mortgagor or otherwise. Mortgagor shall pay, and save Mortgagee harmless from, any taxes, impositions, charges, assessments or levies except income and franchise taxes imposed on Mortgagee by reason of Mortgagee's ownership of the Note or this Mortgage or any other Loan Document or by reason of a sale or other transfer of the Mortgaged Property or any portion thereof. All amounts payable to Mortgagee under this Section 1.8 shall be payable upon demand by Mortgagee, together with interest at the Default Rate from the date of such demand until the date of receipt by Mortgagee of full payment, and shall be secured by this Mortgage. Mortgagor's obligations under this Section 1.8 shall survive payment in full of the Note and the other Loan Documents and any discharge, release or satisfaction of this Mortgage, any complete or partial foreclosure of this Mortgage and/or the delivery of one or more deeds in lieu of any such foreclosure.

1.9. Insurance and Casualty.

(a) Casualty Insurance. Mortgagor shall keep the Improvements and Chattels insured for the benefit of Mortgagee for one hundred percent (100%) of full replacement cost in so-called "all-risk" form (which may contain an exception or exclusion for terrorism, unless coverage for terrorism is both required by Mortgagee and available at commercially reasonable costs). The applicable policies shall include (i) coverage against loss or damage by fire, flood, earthquake, underground hazards, collapse and explosion and such other hazards as may be specified at any time by Mortgagee, (ii) replacement cost and agreed amount endorsements or the equivalent thereof (with no reduction for depreciation), an endorsement covering the costs of demolition and the increased costs of construction attributable to the enforcement of laws, building codes and/or ordinances, and (iii) "time element" coverage, which shall ensure payment to Mortgagee of all moneys due Mortgagee under the Loan Documents and "extra expense" (i.e., soft costs) coverage.

(b) Other Insurance. Mortgagor shall also maintain (i) policies that provide boiler and machinery comprehensive coverage for all mechanical and electrical equipment at the Premises insuring against breakdown or explosion of such equipment on a replacement cost value basis; such policies shall provide the coverage specified in clause (iii) of the preceding paragraph (a); (ii) business interruption or loss of rental income insurance for a period of not less than one year in connection with all policies of property and boiler and machinery insurance; (iii) commercial general liability insurance (including contractual liability) covering the Premises and Mortgagor's operations in an amount not less than One Million Dollars (\$1,000,000) per occurrence and Two Million Dollars (\$2,000,000) in the aggregate per location; (iv) commercial automobile liability insurance with a limit of not less than One Million Dollars (\$1,000,000) combined single limit and endorsed to cover owned, hired and

non-owned automobiles; (v) worker's compensation insurance covering all of Mortgagor's employees situated at the Premises in accordance with statutory requirements of the State of New York and including an endorsement for employer's liability coverage; and (vi) umbrella liability insurance in excess of the foregoing liability coverage with a limit of not less than Five Million Dollars (\$5,000,000) or such higher limits as Mortgagee may specify. The foregoing commercial general liability and umbrella liability policies shall also contain a so-called "products-completed operations endorsement." If any part of the Premises is at any time used for the sale or dispensing of beer, wine or any other alcoholic beverages, so-called "Dram Shop" or "Liquor Law Liability Insurance" against claims brought by, or liability arising directly or indirectly to, persons or property on account of such sale or dispensing of beer, wine or other alcoholic beverages shall also be furnished (including coverage against loss of means of support), all in such amounts as Mortgagee may specify. To the extent applicable, special coverages must also be furnished for other operations of Mortgagor or any tenants at the Premises, including garage operations, asbestos removal and such other operations as may be designated by Mortgagee from time to time. In addition, if any underground fuel storage tank is situated at the Premises, then Mortgagor shall maintain, in such amounts as Mortgagee may specify, "Environmental Impairment Liability Insurance" covering the cost of clean up and/or removal (on or off the Premises) associated with a spill or a leak emanating from such tank.

(c) No Separate Insurance. Mortgagor shall not procure separate insurance concurrent in form or contributing in the event of loss with that required to be maintained under this Section 1.9.

(d) Flood Insurance. If the Mortgaged Property is located in an area that has been, or at any time is, identified by the Secretary of Housing and Urban Development as a flood hazard area, Mortgagor shall keep the Improvements and Chattels insured against loss by flood in such amount as Mortgagee shall require. All proceeds of any such insurance shall be payable to Mortgagee and may be applied as set forth in Section 1.9(h) below.

(e) Policy Requirements. All insurance required or permitted to be maintained pursuant to this Section 1.9 shall (i) be maintained at the sole cost and expense of Mortgagor; (ii) be written in such forms and by such companies as are satisfactory to Mortgagee (each such company, in any event, shall be authorized to do business in the state where the Premises are situated and shall have an Alfred M. Best Company, Inc. rating of "A-:X" or higher); (iii) contain the standard New York State Mortgagee Clause or an equivalent satisfactory to Mortgagee or, with respect to any insurance as to which the foregoing shall not be applicable, provide for Mortgagee to be named as an additional insured; (iv) name Mortgagee as the loss payee; (v) include waivers by all insurers of all rights of subrogation against any named or additional insured, the indebtedness secured hereby and the Mortgaged Property; (vi) except as otherwise agreed to in writing by Mortgagee, provide for no deductible in excess of \$50,000 per loss; and (vii) provide that no cancellation (including,

without limitation, for nonpayment of premiums), reduction in amount or material change in coverage shall be effective until at least thirty (30) days after receipt by Mortgagee of written notice thereof; (viii) provide that no act or omission or negligence of Mortgagor or any other named insured or violation of warranties, declarations or conditions by Mortgagor or any other named insured shall affect or limit the obligation of the insurer to pay the amount of any loss sustained; and (ix) contain such other provisions as Mortgagee may require. Mortgagor shall deliver the original policies of insurance to Mortgagee, but Mortgagee shall under no circumstance be deemed to have knowledge of the contents of such policies by reason of its custody thereof. Mortgagor shall deliver to Mortgagee new or renewal policies to replace expiring policies at least thirty (30) days before their respective expiration dates. Each such new or renewal policy shall bear a notation by the insurer or its authorized agent evidencing payment of the required premium. If any policy shall be cancelled by the insurer, become void by reason of any act(s) or omission(s) of Mortgagor or any other person or entity or by reason of the impairment of the capital of the insurer thereunder, or if for any reason in Mortgagee's sole discretion said policy shall become unsatisfactory to Mortgagee, Mortgagor shall immediately procure new or additional insurance satisfactory to Mortgagee. Mortgagee's approval of any insurance procured by Mortgagor shall not be construed, or relied upon by Mortgagor, as a representation of the solvency of any insurer or the sufficiency of any amount of insurance. If Mortgagor shall fail in a timely manner either to keep in force any insurance required under this Mortgage or to deliver to Mortgagee any policy required hereunder, Mortgagee shall have the right, but shall not be obligated, to remedy any such failure by the expenditure of moneys or otherwise, in which event the provisions of Section 1.10 below shall be applicable.

(f) Unearned Premiums. Mortgagor hereby irrevocably and unconditionally assigns to Mortgagee the unearned premiums on all insurance policies furnished hereunder and consents to the cancellation of such policies (and the refund of all unearned premiums to Mortgagee) if Mortgagee purchases the Mortgaged Property at foreclosure sale. Any such unearned premiums shall be applied against sums due to Mortgagee under the Note or this Mortgage.

(g) Effect of Foreclosure. Upon a foreclosure of this Mortgage or other transfer of title to the Mortgaged Property in full or partial payment of the Loan, all right, title, and interest of Mortgagor in and to any insurance policies then in force shall pass to the purchaser or grantee or other person designated by the holder of the Note, and Mortgagor hereby irrevocably and unconditionally appoints Mortgagee as Mortgagor's true and lawful attorney-in-fact, coupled with an interest, in Mortgagor's name and stead, with full power of substitution, to assign and transfer all such policies and the proceeds thereof to such purchaser, grantee or other person.

(h) Casualty; Application of Insurance Proceeds. Mortgagor shall give Mortgagee immediate notice of any damage or destruction affecting the Mortgaged Property. Promptly thereafter Mortgagor shall make proof of loss and diligently undertake (if necessary, by means of legal proceedings) to obtain payment of the proceeds under applicable insurance policies, except that Mortgagee shall have the right to join Mortgagor in adjusting any loss in excess of Two Hundred Fifty Thousand Dollars (\$250,000). All insurance proceeds shall

be paid directly to Mortgagee, and all insurance companies are hereby irrevocably and unconditionally directed by Mortgagor to make payment for any covered loss to Mortgagee. Whether or not repairs or restoration shall have been made, Mortgagee shall have the right to apply such proceeds (i) first to reimbursing Mortgagee for all costs incurred by it in the collection of such proceeds, (ii) second to the prepayment of the principal of the Note, in whole or in part (to installments in inverse order of maturity), all accrued and unpaid interest thereon and Prepayment Charge, and (iii) third to the payment of such other obligations and/or liabilities of Mortgagor under the Loan Documents as Mortgagee shall determine. The balance, if any, of such proceeds shall be paid to whoever may be legally entitled to the same.

(i) Application of Insurance Proceeds. Notwithstanding anything to the contrary set forth in the preceding Section 1.9(h), if the Mortgaged Property is damaged or destroyed and Mortgagee reasonably determines that all of the conditions specified in this Section 1.9(i) have been satisfied, then Mortgagee shall apply the proceeds of insurance (i) first to reimbursing itself for all costs incurred by it in the collection of such proceeds and (ii) second to reimbursing Mortgagor for such actual costs as shall have been incurred by Mortgagor in restoring the Mortgaged Property and shall be approved by Mortgagee. Insurance proceeds shall be applied to such restoration solely if (A) Mortgagee reasonably determines that: (i) the Mortgaged Property is capable of being suitably restored in accordance with applicable Requirements to the value, condition, character and general utility existing prior to such damage or destruction, and, in any event, to a value at least 1.35 times the amount then outstanding under the Note; (ii) sufficient funds are unconditionally available (from proceeds of insurance and/or from funds of Mortgagor) to enable Mortgagor promptly to commence, and thereafter diligently to prosecute to completion, such restoration; (iii) Mortgagor is not in default or in breach of any obligations under any Loan Document, no uncured Event of Default exists under any Loan Document and no facts or circumstances exist that would constitute an Event of Default with the passage of time or the giving of notice or both; and (iv) neither the validity, enforceability nor priority of the lien of this Mortgage shall be adversely affected; (B) Mortgagor has entered into a written agreement, satisfactory in form and substance to Mortgagee, containing such conditions to disbursements as are employed at the time by Mortgagee for construction loans; (C) Mortgagor has delivered to Mortgagee such security as Mortgagee might have reasonably required to assure completion of restoration in accordance with the standards specified above; and (D) Mortgagor has complied with such further reasonable requirements as Mortgagee might have specified.

1.10. Advances, Etc., by Mortgagee. If Mortgagor fails fully, faithfully or punctually to perform or comply with any obligation set forth in or to be performed or complied with pursuant to any Loan Document, then Mortgagee shall have the right, but shall not be obligated, to perform or comply with the same and make such advances therefor as, in Mortgagee's opinion, may be necessary or appropriate, all for the account and at the expense of Mortgagor. To the extent of all sums so advanced (including, without limitation, attorneys' fees and disbursements), Mortgagee shall have a lien upon the Mortgaged Property which shall be secured by this Mortgage. Mortgagor shall repay on demand all

sums so advanced on Mortgagor's behalf with interest computed at the Default Rate on each such sum from the date advanced by Mortgagee until the date Mortgagee has received repayment thereof. Mortgagee's exercise of its rights under this Section 1.10 shall not be deemed to cure any circumstance that would otherwise constitute an Event of Default or to impair any of Mortgagee's other rights or remedies with respect thereto, and the obligations of Mortgagor under this Section 1.10 shall pertain irrespective of whether the failure of Mortgagor referred to in the initial sentence of this Section results in the existence of an Event of Default. Mortgagor shall permit Mortgagee and its agents and representatives to enter the Mortgaged Property at all reasonable times for the purposes of (a) inspecting the same, (b) determining whether Mortgagor is in compliance with all of Mortgagor's obligations under this Mortgage, (c) performing or complying with, in Mortgagee's sole election, any one or more of Mortgagor's obligations under the Loan Documents and (d) undertaking such other acts as are consistent with the provisions of this Mortgage. No such entry shall make Mortgagee a "mortgagee in possession," nor shall Mortgagee be liable for inconvenience, annoyance, disturbance, loss of business or other damage arising out of, or in connection with, actions taken by Mortgagee in good faith under this Section 1.10.

1.11. Escrow Requirements. Notwithstanding anything to the contrary set forth in any Loan Document, Mortgagor shall pay to Mortgagee, at the time of each payment of a monthly installment of interest or principal under the Note, a sum equal to one-twelfth of the estimated annual amount of all real estate taxes and similar Impositions, and, at Mortgagee's option following a default in the payment thereof, a sum equal to one-twelfth of the annual amount of any other Impositions or any other recurring charges with respect to the Mortgaged Property (such as insurance premiums), so that at least one month before the due date of each such charge Mortgagee shall hold sufficient funds to pay each such charge in full. The determination of the amount so payable and of the fractional part thereof to be deposited with Mortgagee, so that the aggregate of such deposits shall be sufficient for this purpose, shall be made by Mortgagee. Such amounts shall be held by Mortgagee, but not in trust and without interest, and applied to the payment of such charges in such order or priority as Mortgagee shall determine, on or before the respective dates on which the same or any of them would become delinquent. If at any time before the date payment of any such charge is due, Mortgagee determines that the amounts then on deposit therefor shall be insufficient for the payment of such obligation in full, then Mortgagor, within ten days after demand, shall deposit the amount of the deficiency with Mortgagee. This Section 1.11 does not affect any right or remedy of Mortgagee under any provisions of this Mortgage or of any statute or rule of law to pay any such amount and to add the amount so paid, together with interest at the Default Rate, to the indebtedness secured by this Mortgage, as more fully described in Section 1.10. Upon the occurrence of an Event of Default, Mortgagee may, at its option and without notice to Mortgagor, apply any funds held pursuant to this Section in payment of any of the obligations described above or to any unpaid principal or interest under the Note in such order as Mortgagee may determine.

1.12. Financial Reporting.

(a) Mortgagor's Books and Records. Mortgagor shall keep proper books and records of account in accordance with the applicable provisions of the Loan Agreement.

(b) Financial Statements. Mortgagor shall deliver to Mortgagee, and shall cause the Guarantor(s), if any, to deliver to Mortgagee, such financial statements and balance sheets as are required pursuant to the applicable provisions of the Loan Agreement.

1.13. Maintenance and Operation of Mortgaged Property.

Mortgagor shall not commit any waste on the Mortgaged Property or make any change in the use of the Mortgaged Property that would in Mortgagee's judgment in any way increase the likelihood of fire or other hazard, increase any insurance rates for the Mortgaged Property, or reduce the value or utility of the Mortgaged Property. Mortgagor shall, at all times, maintain the Mortgaged Property in good and efficient operating order and condition and shall promptly make, from time to time, all necessary or desirable repairs, renewals, replacements, additions and improvements thereto, whether structural or nonstructural, exterior or interior, ordinary or extraordinary, foreseen or unforeseen. Mortgagor shall promptly comply with all requirements necessary to preserve and extend any and all rights, licenses, permits, privileges, franchises and concessions that apply to the Mortgaged Property or have been (or subsequently are) granted to or contracted for by Mortgagor in connection with any existing or proposed use of the Mortgaged Property. The Improvements shall not be removed, demolished or substantially altered without the prior written consent of Mortgagee. (If, however, Article VI recites that this Mortgage is a construction mortgage or a building loan mortgage, then Mortgagor's strict compliance with the Building Loan Agreement shall not constitute a violation of the preceding sentence.) No Chattels shall be removed without Mortgagee's prior written consent, unless Mortgagor immediately makes appropriate replacements free of superior title, liens and claims and of a quality and value at least equal to that of the Chattels so removed. Mortgagor shall cause all lessees and other persons and entities occupying the Mortgaged Property to comply with the obligations imposed upon Mortgagor in this Section 1.13.

1.14. Condemnation. Mortgagor, immediately upon obtaining knowledge of the institution of any proceeding for either (a) the condemnation of the Mortgaged Property or any portion thereof, or (b) the change of grade or widening of streets affecting or abutting the Premises shall notify Mortgagee of the pendency of such proceeding. Mortgagee may participate in any such proceeding, in its own name and/or as Mortgagor's attorney-in-fact, as hereinbelow provided (with Mortgagee being represented in either case by attorneys selected by Mortgagee, whose fees and expenses Mortgagor shall pay upon demand), and, upon Mortgagee's request, Mortgagor shall deliver to Mortgagee instruments which shall facilitate such participation. Mortgagor hereby irrevocably and unconditionally (x) assigns to Mortgagee all of

Mortgagor's right, title and interest in and to any award or other compensation payable pursuant to or in connection with any such proceeding and agrees to pay (and directs all Governmental Authorities to pay) to Mortgagee any such award or other compensation, and (y) appoints Mortgagee as Mortgagor's true and lawful attorney-in-fact, coupled with an interest, in Mortgagor's name and stead, with full power of substitution to commence, appear in and prosecute any such proceeding, to settle or compromise any claim in connection therewith, to collect and receive such award or other compensation and to take such other actions as Mortgagee may determine are necessary or desirable. Mortgagee shall be under no obligation to question the amount of any such award or other compensation and may accept the same in the amount in which the same shall be paid. The proceeds of any award or other compensation so received (including any award for change of grade or widening of streets affecting or abutting the Premises) shall be applied (i) first to reimbursing Mortgagee for all costs incurred by it in any such proceeding, (ii) second to the prepayment of the principal of the Note, in whole or in part (to installments in inverse order of maturity), all accrued and unpaid interest thereon at the rate of interest provided therein and in the Loan Agreement, including any applicable Prepayment Charge, and (iii) third to the payment of such other obligations and/or liabilities of Mortgagor under the Loan Documents as Mortgagee shall determine. The balance, if any, of such proceeds shall be payable to whoever may be legally entitled to the same. Unless and until Mortgagee has actually received moneys with respect to the subject matter of this Section 1.14 and applied such moneys to reduction of the indebtedness secured by this Mortgage, Mortgagor shall continue to make all payments provided for in the Loan Documents strictly in accordance with the provisions thereof. Notwithstanding the provisions of the immediately preceding paragraph, provided no default exists hereunder, Mortgagee agrees to apply any such condemnation award proceeds received by it to the reimbursement of Mortgagor's costs of restoring the Improvements. Advances of condemnation award proceeds shall be made to Mortgagor from time to time in the same manner and subject to the same conditions as advances of building loan proceeds are made under the Loan Agreement, or if this Mortgage is not a building loan mortgage, in accordance with Mortgagee's standard construction lending practices, terms and conditions; amounts not required for such purposes shall be applied, at Mortgagee's option, to the prepayment of the Note and to interest accrued and unpaid thereon (at the rate of interest provided therein regardless of the rate of interest payable on the award by the condemning authority) in such order and proportions as Mortgagee may elect. In no event shall Mortgagee be required to advance such proceeds to Mortgagor unless Mortgagee shall have (i) received satisfactory evidence that the funding/expiration dates of the commitment, if any, for the permanent financing of the Improvements have been extended for such period of time as is reasonably necessary to complete said restoration and (ii) reasonably determined that the restoration of the Improvements to an economically viable architectural whole can be completed by the then Maturity Date of the Note at a cost which does not exceed the amount of available condemnation award proceeds or, in the event that such proceeds are reasonably determined by Mortgagee to be inadequate, Mortgagee shall have received from Mortgagor a cash deposit equal to the excess of said estimated cost of restoration over the amount of said available proceeds. If the conditions for the advance of condemnation award proceeds for restoration set forth in clauses (i) and (ii) above are not satisfied within sixty (60) days of Mortgagee's receipt thereof or if the actual restoration shall not have been commenced within such period, Mortgagee shall have the option at any time thereafter to apply such condemnation award proceeds to the payment of the Note and to interest accrued and unpaid thereon (at the rate of interest provided therein regardless of the rate of interest payable on the award by the condemning authority) in such order and proportions as Mortgagee may elect.

1.15. Leasing of Mortgaged Property.

(a) Existing Leases. Mortgagor represents and warrants to Mortgagee that, as to each existing Lease, (i) the Lease has been duly executed by the lessor and lessee thereunder, is in full force and effect and is valid, binding and enforceable against each of said parties in accordance with its terms; (ii) the copy of the Lease heretofore delivered to Mortgagee by Mortgagor is a true, correct and complete copy of the entire Lease; (iii) neither the lessor nor the lessee has failed to comply with any obligation imposed upon such party thereunder; (iv) neither the Lease nor any Rents payable thereunder have heretofore been sold, assigned, transferred or set over by any instrument now in force, nor, unless indicated to the contrary herein, is the Lease other than a direct lease from Mortgagor to a lessee; (v) Mortgagor is entitled to receive and enjoy all Rents payable under the Lease; (vi) no installment of Rents has been paid more than thirty (30) days prior to the due date for such installment; (vii) the lessee does not have and has not claimed any defense, abatement, deduction, offset, claim or counterclaim affecting the payment of Rents or compliance with the lessee's other obligations thereunder, and all Rents provided for in the Lease are currently being collected free thereof and without any violation of any law or other governmental regulation or requirement; (viii) the Lease contains no option to buy or right of first refusal with respect to an offer to sell the Mortgaged Property or any part thereof; (ix) Mortgagor has the sole and unconditional right and power to sell, assign, transfer and set over the Lease to Mortgagee and to confer upon Mortgagee the rights, interests, power and authority herein granted and conferred; and (x) the Lease is, by its express terms, unconditionally subject and subordinate to the lien of this Mortgage.

(b) Covenants by Mortgagor. Mortgagor covenants that, with respect to each Lease, it will not, without Mortgagee's prior written consent: (i) accept prepayment of any installment of Rents payable thereunder other than prepayment of one month's Rents; (ii) amend or modify the Lease so as to reduce the unexpired term thereof, decrease the amount of Rents payable thereunder or otherwise diminish any obligation imposed therein upon the lessee; (iii) unless the lessee has failed to comply with a material obligation imposed upon it in the Lease, terminate, accept surrender of or permit cancellation of the Lease if the unexpired term thereof is one year or longer; (iv) modify, amend, extend, renew, terminate or accept the surrender of the Lease if ten percent (10%) or more of the rentable area of the Premises is demised thereunder (any such Lease, a "Major Lease"); (v) pledge, mortgage, assign or otherwise transfer the Lease or any interest of Mortgagor therein or all or any portion of the Rents payable by the lessee thereunder as security for any obligation; (vi) subordinate the Lease to any mortgage (other than this Mortgage) or other encumbrance; (vii) sell, assign, transfer or set over the Lease or any interest therein or Rents thereunder, except in connection with a conveyance of the Premises and then only if expressly made subject to this Mortgage and if permitted by the express terms of the Mortgage; (viii) consent to, waive or permit to continue any violation of any obligation imposed upon the lessee under the Lease; or (ix) consent to or

permit the modification, amendment, termination or surrender of any guaranty of the Lease. In addition, Mortgagor covenants that it will not, without Mortgagee's prior written consent, (A) enter into a Major Lease; execute, consent to or permit an assignment of a Major Lease; or consent to or permit the subletting, in whole or in part, of any space leased pursuant to a Major Lease (Mortgagee's consent with respect to the transactions referred to in this clause (A) not to be unreasonably withheld or delayed); or (B) enter into any Lease (x) except for actual occupancy by the lessee of all of the space demised thereunder, (y) unless the Lease, by its express terms, (1) is unconditionally subject and subordinate to the lien of this Mortgage and provides that, in the event Mortgagee or its designee or nominee succeeds to the interest of Mortgagor under such Lease, the lessee thereunder shall, at the option of Mortgagee or such designee or nominee, promptly attorn to Mortgagee or such successor in interest and recognize such party as lessor under the Lease and confirm such attornment and recognition in writing, and (2) requires the lessee upon demand to duly execute, acknowledge and deliver to Mortgagee a certificate (an "Estoppel Certificate") with respect to the status of such Lease and such matters relating to the status of such Lease as any mortgagee may reasonably require, or (z) pursuant to which the lessee or any other person or entity shall have an option, right of first refusal or other right with respect to the acquisition by it of the Premises or any part thereof.

(c) Additional Covenants by Mortgagor. Mortgagor covenants that, with respect to each Lease, it will: (i) fully, faithfully and punctually comply with all of the obligations imposed upon the lessor thereunder; (ii) within five days after request therefor by Mortgagee, (A) deliver to Mortgagee copies of executed originals of all Leases and other instruments affecting the Mortgaged Property and (B) request an Estoppel Certificate from any lessee designated by Mortgagee; (iii) give prompt notice to Mortgagee of the failure by either the lessor or the lessee to comply with any obligation imposed upon such party under the Lease, with a copy of any notice of default or other communication with respect thereto given by either the lessor or the lessee to the other; and (iv) enforce compliance by the lessee with all obligations imposed upon it therein.

To the extent that any part of the Premises is located in the State of New York, reference is hereby made to Section 291-f of the Real Property Law of the State of New York for the purpose of obtaining for Mortgagee the benefits of said Section in connection with this Mortgage.

(d) List of Lessees. Mortgagor shall furnish to Mortgagee, within fifteen days after Mortgagee's request, a written statement containing the names and social security or taxpayer identification numbers of all lessees of the Mortgaged Property or any portion thereof, the terms of their respective Leases, the space occupied and the rentals payable and security deposited thereunder.

(e) Effect of Event of Default. Notwithstanding anything to the contrary in this Mortgage, during the pendency of any uncured Event of Default, Mortgagor shall not enter into any Lease, relocate any existing lessee, or make or permit any modification, amendment, extension or assignment of an existing Lease or the subletting, in whole or in part, of any space leased pursuant to an existing Lease without Mortgagee's prior written consent.

1.16. Casualty to Mortgaged Property. In the event of any damage or destruction affecting the Mortgaged Property (other than damage or destruction that, in Mortgagee's good faith judgment, renders the Mortgaged Property unsuitable for restoration), Mortgagor shall promptly commence and thereafter diligently prosecute to completion, at the sole cost and expense of Mortgagor, in accordance with all applicable Requirements and in a good and workmanlike manner the replacement, repair or restoration of the Mortgaged Property as nearly as practicable to the value, condition, character and general utility thereof immediately prior to such damage or destruction, whether or not the insurance proceeds paid in respect of such damage or destruction shall be made available to Mortgagor or, if made available, shall be sufficient for such purpose. The lien of this Mortgage shall continue to apply to the Mortgaged Property as replaced, repaired or restored.

1.17. Interest after Default. If an Event of Default shall occur under this Mortgage, then all interest required to be paid by Mortgagor with respect to the entire principal of the Note then outstanding and other components of the indebtedness secured by the Loan Documents (including, without limitation, expenses referred to in Article II of this Mortgage) shall be computed at the Default Rate from and after the occurrence of the default that is the basis of such Event of Default until the date that payment of such indebtedness in its entirety is received by Mortgagee in accordance with the Loan Agreement.

1.18. Due on Transfer. Mortgagor shall not without the prior written consent of Mortgagee (a) sell, assign, lease, convey, mortgage, pledge, hypothecate, make the subject of any security interest, exchange, subdivide or permit to be divided into multiple condominium units, or in any other manner whatever transfer or encumber all or part of, or any interest in, or any of the Rents derived from, or control of, the Mortgaged Property, or suffer or permit any of the foregoing to occur, whether by operation of law or otherwise; or (b) agree in writing (whether on a conditional or unconditional basis) to do any of the foregoing; or (c) effectuate or permit a reduction in the ownership interests of Acadia Realty Trust in Mortgagor below 51%; or (d) effectuate or permit a closing of any public or private offering of ownership interests in Mortgagor; or (e) effectuate or permit a transfer of the controlling interest in Mortgagor, other than to an entity owned and controlled by Acadia Realty Trust. Other than as set forth in the immediately preceding sentence, "transfer of the controlling interest in Mortgagor" includes: (i) the sale, assignment, issuance, redemption, diminution or pledge, whether through a single transaction or a series of transactions, of the direct or indirect controlling ownership interest of Mortgagor; (ii) the modification of any organizational documents of Mortgagor or of any entity that directly or indirectly controls Mortgagor if the effect of such modification is to transfer ownership or control of such entity; and (iii) the dissolution or termination, whether by operation of law or otherwise, of Mortgagor or of any entity that directly or indirectly controls Mortgagor. Nothing in this Section 1.18 shall, however, prohibit (y) Leases that comply with this Mortgage and all other applicable Loan Documents, or (z) if Mortgagor is a cooperative apartment corporation, the transfer and mortgaging from time to time of Lease(s) to individual apartment units and the appurtenant shares.

1.19. Costs of Litigation and Certain Proceedings. If any action or proceeding of any kind (including, without limitation, any bankruptcy, insolvency, arrangement, reorganization or other debtor relief proceeding or any action arising under or in respect of any Lease) is commenced, or if there occurs any other event or is created any circumstance that Mortgagee determines might affect Mortgagor's or Mortgagee's interest in the Mortgaged Property, or the validity, enforceability or priority of the lien of this Mortgage, or Mortgagee's rights or remedies under any of the Loan Documents, then Mortgagee may, without notice (Mortgagor expressly waiving any such notice) and at Mortgagee's option, make such appearances, disburse such sums and take any such other actions (including, without limitation, the commencement and prosecution of any action against Mortgagor to enforce the terms of any Loan Document) as Mortgagee deems necessary or desirable. If Mortgagee takes any action referred to in the preceding sentence, then Mortgagor shall, upon demand by Mortgagee, pay all reasonable fees and costs incurred by Mortgagee in connection therewith (including, without limitation, attorneys' fees and expenses). Mortgagee's right to receive any payment provided for hereinabove shall be deemed to have accrued upon the commencement of the applicable action or proceeding and shall be enforceable by Mortgagee whether or not same is prosecuted to judgment. At Mortgagee's direction, any payment(s) that Mortgagor is obligated to make pursuant to this Section 1.19 shall be made to third parties rather than to Mortgagee.

1.20. Late Charge. If all or any portion of any payment required to be made to Mortgagee (whether pursuant to the Note, the Loan Agreement or any other Loan Document) is not received on or before the tenth (10th) day after the date such payment is due (without reference to any grace period provided for in the Loan Documents), a late charge of four percent (4%) of the amount so overdue shall immediately be due to Mortgagee. At the option of Mortgagee, the charges specified in this section may be deducted from the funds held by Mortgagee pursuant to Section 1.11.

1.21. Trust Fund. If the Mortgaged Property is situated in New York State, this Mortgage is made subject to the trust fund provisions of Section 13 of the New York Lien Law, and Mortgagor covenants that it shall receive all moneys and advances secured hereby and shall hold the right to receive such advances as a trust fund to be applied first for the purpose of paying costs of improvement before using any part of the same for any other purpose.

1.22. Charges for Tax Searches, Etc. Mortgagor shall pay the reasonable fees and costs (including attorneys' fees and expenses) incurred by Mortgagee in obtaining tax searches and tax bills and of processing, or otherwise dealing with, ownership transfers, insurance payments, releases, modifications, prepayments, extensions, consents, assignments, reduction certificates, satisfactions and other matters. At the option of Mortgagee, charges for these items may be deducted from the funds held by Mortgagee pursuant to Section 1.11.

1.23. Prepayment. The Note may not be prepaid in whole or in part except in accordance with the provisions of the Note and the Loan Agreement.

1.24. Restrictions Affecting Mortgaged Property. Mortgagor shall not (a) initiate, join in, execute or consent to any change in any covenant, condition, restriction, declaration, zoning ordinance, or other public or private restriction limiting, defining or otherwise controlling construction on, or use(s) of, all or any part of the Mortgaged Property (collectively, "Restrictions"), (b) suffer or permit any building or other improvement situated on land that is not part of the Mortgaged Property to rely on the Premises in order to comply with any Requirement or (c) impair the integrity of the Mortgaged Property as a zoning lot separate and apart from all other premises. Mortgagor shall at all times strictly comply with all Restrictions.

1.25. Hazardous Substances.

(a) Compliance With Environmental Laws. Mortgagor shall at all times promptly comply, and shall cause all lessees and other persons and entities which occupy or enter upon the Mortgaged Property at all times promptly to comply, with all Environmental Laws insofar as same apply to the Mortgaged Property. Without limiting the generality of the foregoing, (i) Mortgagor shall cause all Environmental Authorizations to be maintained in full force and effect, (ii) Mortgagor shall not cause, suffer or permit (or suffer or permit any lessee or any other person or entity to cause, suffer or permit) any Hazardous Substance to be used, received, handled, generated, manufactured, produced, processed, treated, stored, released, placed, spilled, discharged, disposed of or dispersed at, on under or about the Mortgaged Property except pursuant to and in accordance with Environmental Laws, and (iii) if, other than in accordance with the provisions of the immediately preceding clause (ii), any Hazardous Substance(s) shall at any time be present at, on or under the Mortgaged Property, Mortgagor, whether or not so directed by Mortgagee, shall undertake the appropriate Remedial Work (as defined below) or take such other action as shall be necessary in order to cause said Hazardous Substance(s) promptly to be removed therefrom.

(b) Liens. If any lien shall be filed against, or imposed upon, the Mortgaged Property with respect to non-compliance with any Environmental Law, Mortgagor promptly shall (i) give Mortgagee notice thereof and (ii) cause such lien to be discharged or bonded or otherwise secured to Mortgagee's satisfaction.

(c) Notice to Mortgagee. If Mortgagor shall (i) obtain knowledge of any fact or circumstance which might render inaccurate any representation or warranty contained in Section 3.14 below, Mortgagor shall promptly give Mortgagee notice thereof, or (ii) receive any summons, citation, directive, order, Notice or other communication from any Governmental Authority relating to the application of any Environmental Law to the Mortgaged Property, Mortgagor shall promptly send a copy of same to Mortgagee. In addition, if any Environmental Law requires that an Environmental Condition be reported (as, for example, when a Release of Hazardous Substances occurs), Mortgagor shall promptly make such report in accordance with such Environmental Law and simultaneously provide Mortgagee with all information contained therein, "Release" shall have the definition set forth in Section 101(22) of the Environmental Response, Compensation and Liability Act, 42 U.S.C. ss. 6902 et seq.

(d) Representations, Etc. Mortgagor shall not take or omit to take (or suffer or permit any lessee or other person or entity occupying the Mortgaged Property to take or omit to take) any action which, if taken or omitted to be taken, would render inaccurate any representation or warranty contained in Section 3.14.

(e) Remedial Work. If Mortgagee, acting in its sole and absolute discretion,

(i) determines that any investigation, site monitoring, environmental audit and risk assessment, containment, clean-up, encapsulation, removal, restoration or other remedial work of any kind (any of the foregoing, "Remedial Work") is necessary or desirable in connection with (A) the known or suspected presence at, on, under or about the Mortgaged Property of any Hazardous Substance(s) or (B) the requirements of any Environmental Law or the suspected violation of any Environmental Law, or

(ii) determines that the condition of the Mortgaged Property or the validity, priority or enforceability of the lien of this Mortgage has been or may be impaired or in any way adversely affected by reason of (A) any failure to comply with any Environmental Law as the same pertains to the Mortgaged Property, (B) any other failure by Mortgagor fully to comply with any obligation imposed upon Mortgagor in this Section 1.25, or (C) the inaccuracy of any representation or warranty contained in Section 3.14, then, in any such event, Mortgagor shall, promptly after written demand by Mortgagee for performance thereof, either (I) commence to perform and thereafter diligently prosecute to completion the Remedial Work, or (II) take such other action as Mortgagee may specify. All Remedial Work shall be performed by contractors employed by Mortgagor and in accordance with plans that first shall have been approved by an independent consultant employed by Mortgagee but paid by Mortgagor.

For the purpose of making a determination pursuant to this Section 1.25(e), (i) Mortgagor shall provide, upon twenty-four (24) hours advance notice, access to Mortgagee and its agents and employees to the Mortgaged Property and all applicable books and records (including, without limitation, those which pertain to Authorizations), and (ii) Mortgagee shall be entitled, from time to time, in addition to all of Mortgagee's other rights and remedies under this Mortgage, to cause an environmental audit and risk assessment of the Mortgaged Property to be conducted by an independent engineering firm or other environmental audit manager designated by Mortgagee. In the event Mortgagor fails timely to commence or diligently to prosecute to completion any Remedial Work or other action required to be undertaken pursuant to this Section 1.25, Mortgagee may, but shall not be required to (and without any liability or obligation by Mortgagee to Mortgagor with respect thereto), arrange for same to be performed. All costs and expenses incurred pursuant to, or with respect to the subject matter of, this Section 1.25 shall be borne by Mortgagor, and all moneys paid by Mortgagee and all costs and expenses incurred by Mortgagee in connection with this Section 1.25, together with interest thereon computed at the Default Rate, shall be repaid to Mortgagee in accordance with the provisions of Section 1.10 above.

(f) Indemnification. Mortgagor shall defend and indemnify the Indemnified Parties against, and shall save the Indemnified Parties harmless from, and shall reimburse the Indemnified Parties with respect to, any and all Liabilities and Expenses (as hereinafter defined) incurred by, imposed upon or asserted against the Indemnified Parties or any one or more of them by reason of, or in connection with:

(i) the presence, existence, use, handling, generation, manufacture, production, processing, treatment, storage, release, placement, spill, discharge, disposal or dispersal of any Hazardous Substance(s) on, at or under the Mortgaged Property, or any threatened occurrence of any of the foregoing, or any Remedial Work or other action taken by Mortgagee or any of the Indemnified Parties with respect to any of the foregoing pursuant to this Section 1.25; or

(ii) the inaccuracy of any representation or warranty made by Mortgagor in Section 3.14 below; or

(iii) the failure of Mortgagor or anyone else to comply with any Environmental Law(s) as same pertain to the Mortgaged Property or any provision of the Loan Documents that pertains to the subject matter of this Section 1.25.

For the purposes of this Section 1.25, "Liabilities and Expenses" shall mean (i) all claims, demands, actions, causes of action, injuries, orders, losses, liabilities (statutory or otherwise), obligations, damages (including, without limitation, consequential damages), fines, penalties, costs and expenses in any manner arising out of or relating to the subject matter of this Section 1.25 (including, without limitation, any of the foregoing relating to loss of life, injury to persons, property or business, or damage to natural resources), and (ii) any and all moneys payable to Mortgagee pursuant to this Section 1.25; as used herein, "costs and expenses" shall, without limitation, include all fees charged by and expenses of attorneys, accountants, engineers, contractors, environmental specialists and other professional consultants and advisors with respect to the subject matter of this Section 1.25 and the enforcement or attempted enforcement of Mortgagee's rights under the Loan Documents with respect to said subject matter (whether incurred in connection with litigation or bankruptcy proceedings or negotiations with Mortgagor, lienors or other parties in interest (such as receivers and trustees) or otherwise). Liabilities and Expenses shall not be limited to the amount of the Loan. All amounts payable to Mortgagee under this Section 1.25(f) shall be payable upon demand by Mortgagee, together with interest at the Default Rate from the date of such demand until the date of receipt by Mortgagee of full payment, and shall be secured by this Mortgage. Mortgagor's obligations under this Section 1.25(f) shall survive payment in full of the Note and the other Loan Documents and any discharge, release or satisfaction of this Mortgage, any complete or partial foreclosure of this Mortgage and/or the delivery of one or more deeds in lieu of any such foreclosure.

(g) Release. Mortgagor releases and discharges the Indemnified Parties from, and relinquishes and waives, any and all claims, actions, causes of action, demands and suits which Mortgagor now or hereafter may or shall have against the Indemnified Parties or any one or more of them with respect to the subject matter of this Section 1.25.

1.26. Further Assurances. Mortgagor shall, at Mortgagor's sole cost and expense, promptly deliver to Mortgagee all Documents of Further Assurance and undertake such further acts as Mortgagee shall from time to time request in order to (a) confirm the lien of this Mortgage and the mortgaging to Mortgagee of the Mortgaged Property (including, without limitation, all betterments, renewals, extensions and replacements of, all substitutions for, and all additions, accessions and appurtenances to any portion of the Mortgaged Property), (b) confirm the security interests herein granted to Mortgagee in portions of the Mortgaged Property and (c) satisfy any Requirement that restricts, establishes conditions to, burdens, limits or otherwise affects Mortgagee's exercise of Mortgagee's rights and remedies under, or with respect to the subject matter of, this Mortgage. "Documents of Further Assurance" shall include, without limitation, deeds, mortgages, security agreements, UCC-1s, UCC continuation statements, assignments, title insurance updates, affidavits, certificates, opinions of counsel, estoppel letters, insurance certificates and consent letters. If Mortgagee certifies to Mortgagor that the Note has been misplaced, lost or mutilated and that Mortgagee has not endorsed, assigned or otherwise transferred the Note, Mortgagor shall deliver to Mortgagee an original duplicate note in the same form as the Note, Mortgagee hereby agreeing to indemnify Mortgagor against any loss or expense incurred by Mortgagor as a consequence of Mortgagor's having delivered such duplicate note. All documentation to be delivered by Mortgagor pursuant to this Section 1.26 shall be in form and substance reasonably satisfactory to Mortgagee.

1.27. Notice to Mortgagee. Mortgagor shall give notice to Mortgagee promptly upon the occurrence of (a) any Event of Default or any fact, event or circumstance that after notice or passage of time or both would constitute an Event of Default; (b) any litigation, proceeding or investigation commenced by, or that involves, any Governmental Authority that might result in the impairment of Mortgagee's security for the Loan or any other fact, event or circumstance that might result in the impairment of such security; and (c) any material adverse change in the operations or financial or other condition of the Mortgaged Property or any portion thereof.

1.28. Set-Off. Mortgagor, to further secure Mortgagor's full, faithful and punctual compliance with the obligations imposed upon it in the Loan Documents, hereby (i) pledges and grants to Mortgagee, and grants to Mortgagee a security interest in and to, any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by Mortgagee to or for the credit or account of Mortgagor (collectively, "Deposits") and (ii) irrevocably authorizes and directs Mortgagee at any time and from time to time upon the occurrence of an Event of Default, without notice to Mortgagor (any such notice being expressly waived by Mortgagor) and to the fullest extent permitted by law, to set off and apply any Deposits against any and all obligations of Mortgagor now or hereafter existing under the Loan Documents, irrespective of whether or not Mortgagee shall have made any demand under the Loan Documents and although such obligations may be contingent or unmatured. From and after the date of the occurrence of any Event of Default, Mortgagee shall have dominion and control over such Deposits and shall have the sole ability to make withdrawals with respect to such Deposits. The rights of Mortgagee under this section are in addition to such other rights and remedies (including, without limitation, other rights of set-off) as may be available to Mortgagee under the Loan Documents, at law or in equity.

1.29. Obligations Secured. Whenever in this Mortgage or any other Loan Document it is stated that Mortgagor shall be obligated to pay or repay any moneys to Mortgagee or to any third party or to reimburse Mortgagee in respect of costs and expenses incurred by Mortgagee or anyone employed by, or acting on behalf of, Mortgagee, then any such payment, repayment or reimbursement obligation shall be deemed to be part of the indebtedness that is secured by this Mortgage.

Article II

Events of Default and Remedies

2.1. Definition of Event of Default. For all purposes of the Loan Documents, the occurrence of any one or more of the following shall constitute an Event of Default:

(a) Nonpayment of Note. If Mortgagor fails to make any payment required under the Note or the Loan Agreement when and as the same shall become due and payable, and such failure continues for ten (10) days, provided, however, that said ten (10)-day grace period shall not apply to the payment of any moneys required to be paid by Mortgagor upon the Maturity Date (or sooner, if applicable, by reason of acceleration); or

(b) Liens. If any proceeding is commenced to foreclose a lien upon the Mortgaged Property or any portion thereof or if any other action is taken to enforce any such lien and, within twenty days (20) after the commencement of such proceeding or taking of such action, said lien is not discharged of record by payment, deposit, bond, order of a court of competent jurisdiction or otherwise; or

(c) Action by Governmental Authority. If any Governmental Authority imposes a fine or penalty with respect to Mortgagor's failure to pay an Imposition in a timely manner or if, following Mortgagor's election to contest the amount or validity of any Imposition, Mortgagor fails to duly perform or comply with any provision set forth in Section 1.7(c); or

(d) Failure to Comply with Section 1.9. If Mortgagor fails fully, faithfully or punctually to perform or comply with any obligation on the part of Mortgagor to be performed or complied with pursuant to Section 1.9; or

(e) Failure to Give Notice. If Mortgagor fails to give Mortgagee, when and as required, any notice required to be given to Mortgagee by Mortgagor pursuant to this Mortgage or within ten (10) days of Mortgagor's becoming aware of the need to provide such notice if no grace period for the giving of such notice is otherwise provided for in this Mortgage; or

(f) Nonpayment of Certain Charges. If Mortgagor fails to make any payment required by Section 1.4 (other than a payment to which paragraph (a) applies), 1.7(a) or 1.11, and such failure continues for twenty (20) days; or

(g) Default in Performance of Certain Obligations. If Mortgagor fails fully, faithfully or punctually to perform or comply with any obligation on the part of Mortgagor to be performed or complied with pursuant to Section 1.2, 1.3, 1.8, 1.10, 1.12, 1.13, 1.20 or 1.22, and such failure continues for thirty (30) days after Mortgagee has given Mortgagor written notice thereof; or

(h) Other Failure to Perform. If Mortgagor fails fully, faithfully or punctually perform or comply with any other obligation on the part of Mortgagor to be performed or complied with pursuant to any Loan Document including, without limitation, the Note and the Loan Agreement (except as described in the preceding paragraphs (a) through (g)) and such failure continues for the lesser of (i) thirty (30) days after Mortgagee has given Mortgagor written notice thereof (unless such default cannot with due diligence be cured within thirty (30) days but can be cured within a reasonable period, in which case no Event of Default shall be deemed to exist so long as Mortgagor shall have commenced to cure the default within thirty (30) days after receipt of notice, and thereafter diligently and continuously prosecutes such cure to completion) or (ii) such period of time, if any, as is set forth with respect to such failure in any other Loan Document; or

(i) Misrepresentation, Etc. If any warranty, representation or other statement made (i) by or on behalf of Mortgagor or by any Principal of Mortgagor in, pursuant to, or in connection with any Loan Document including, without limitation, the Note and the Loan Agreement, or (ii) in connection with any other loan made by Mortgagee to Mortgagor or any Principal of Mortgagor or any borrower of which a Principal of Mortgagor is a principal, or (iii) by or on behalf of any Guarantor in or pursuant to any guaranty delivered to Mortgagee in connection with the Loan is materially incorrect; or

(j) Nonpayment of Debts. If Mortgagor shall be generally not paying Mortgagor's debts as they become due; or

(k) Voluntary Adverse Financial Events. If Mortgagor (i) shall make an assignment for the benefit of creditors, or (ii) shall institute any proceeding seeking (A) relief on its behalf as debtor, or (B) adjudication of Mortgagor as a bankrupt or insolvent, or (C) reorganization, arrangement, adjustment, winding up, liquidation, dissolution or composition of Mortgagor or Mortgagor's debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or (D) appointment of a receiver, trustee, conservator, custodian or other similar official for Mortgagor or the Mortgaged Property or any part thereof or of any other substantial part of Mortgagor's property, or (iii) shall consent by answer or otherwise to the institution of any such proceeding against Mortgagor, or (iv) shall (if a corporation or other entity having directors or shareholders) take by itself, or by its directors or shareholders, any action for the purpose of any of the foregoing; or

(l) Involuntary Adverse Financial Events. If any proceeding is instituted against Mortgagor seeking (i) to have an order for relief entered against Mortgagor as debtor or to adjudicate Mortgagor a bankrupt or insolvent, or (ii) reorganization, arrangement, adjustment, winding-up, liquidation, dissolution or composition of Mortgagor or Mortgagor's debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or (iii) appointment of a receiver, trustee, conservator, custodian or other similar official for Mortgagor or the Mortgaged Property or any portion thereof or any other substantial part of Mortgagor's property, that either (A) results, without Mortgagor's consent or acquiescence, in any such entry of an order for relief, adjudication of bankruptcy or insolvency or issuance or entry of any other order having a similar effect or (B) remains undismissed for ninety (90) days; or

(m) Appointment of Trustee, Etc. If a trustee, receiver, conservator, custodian or other similar official is appointed, without the consent or acquiescence of Mortgagor, for Mortgagor or the Mortgaged Property or any portion thereof or any other substantial part of Mortgagor's property, which appointment is not vacated within ninety (90) days; or

(n) Changes in Mortgage Taxation. If subsequent to the date of this Mortgage the law of the state in which the Premises are situated is changed to Mortgagee's detriment by statutory enactment, judicial decision, regulation or otherwise, so as (i) to deduct from the value of land for the purpose of taxation (for state, county, municipal or other purpose) any lien or charge thereon, or (ii) to change the taxation of deeds of trust, mortgages or debts secured by land or the manner of collecting any such taxation; or

(o) Final Judgment. If a final judgment is entered against Mortgagor, and, within sixty days after its entry, such judgment has not been discharged or execution thereof stayed pending appeal, or if, within sixty days after the expiration of any such stay, such judgment has not been discharged; or

(p) Certain Taxes. If it is or becomes illegal for Mortgagor to pay any tax required to be paid by Mortgagor pursuant to Section 1.07 or if Mortgagor's payment of such tax would violate any Requirement; or

(q) Prohibited Transfer. If a transaction prohibited by Section 1.18 occurs without the prior written consent of Mortgagee; or

(r) Other Instruments. If Mortgagor fails to perform, comply with or discharge any agreement, obligation or undertaking created or agreed to by Mortgagor in any Loan Document and any applicable cure periods expire; if any Principal of Mortgagor or Guarantor fails to perform, comply with or discharge any agreement, obligation or undertaking created or agreed to by such Principal of Mortgagor or Guarantor in any Loan Document and any applicable cure periods expire; or if any event or circumstance described in clause 1.7(c)(iii) occurs; or

(s) Leases. If Mortgagor leases all or any part of the Mortgaged Property in violation of Section 1.15 of this Mortgage or effectuates any change with respect to a Lease in violation of said section; or

(t) Management of Mortgaged Property. If the Mortgaged Property ceases to be managed by Mortgagor or such other person or entity as may be approved by Mortgagee in writing; or

(u) Guarantor. If any act, circumstance or event described in paragraphs (k) through (n) or (p) is taken by or occurs with respect to any Guarantor or the property of any such person or entity (each of the foregoing, an "Insolvency Event"); or

(v) Other Mortgages. If any fact or circumstance occurs that would permit the holder of any other mortgage encumbering the Mortgaged Property or any part thereof to foreclose or exercise any other remedy(ies) available under such other mortgage. If such other mortgage provides for a grace period and opportunity to cure, an Event of Default shall not be deemed to have occurred under this paragraph (w) unless and until such grace period has expired. Concurrently with the expiration of such grace period, an Event of Default shall be deemed to have occurred under this Mortgage, and Mortgagor shall have no right under this Mortgage to receive notice of or any opportunity to cure such Event of Default. Nothing in this paragraph (w) shall limit in any way Mortgagor's obligations under this Mortgage or Mortgagee's rights and remedies under this Mortgage; or

(w) Secondary Financing. If Mortgagor enters into any junior financing arrangement with any Person with the Mortgaged Property as collateral therefor, without the prior written consent of Mortgagee, which consent may be withheld at Mortgagee's sole option.

(x) Cross Default. If an Event of Default occurs under any other mortgage securing the Note.

2.2. Effect of Event of Default. Upon and after the occurrence of an Event of Default, Mortgagee shall be entitled to all of the rights and remedies set forth below. In those instances in which Mortgagee is entitled to take action with respect to the subject matter of this Article II, such action may be taken by Mortgagee personally or on Mortgagor's behalf by its agents or attorneys and, in any such instance, with or without entry upon the Mortgaged Property. All expenses incurred and advances made by Mortgagee or by any such agents or attorneys in taking any such action shall be deemed to be for the account of Mortgagor and shall be repaid to Mortgagee together with interest thereon computed at the Default Rate from the date each such expense is incurred or advance is made until the date Mortgagee has received repayment in its entirety thereof.

(a) Automatic Acceleration of Note. If the Event of Default is one described in paragraphs (l), (m) or (n) of Section 2.1, then the entire principal of the Note then outstanding, all accrued and unpaid interest thereon, Prepayment Charge and all other indebtedness secured by this Mortgage shall automatically become immediately due and payable.

(b) Optional Acceleration of Note. If the Event of Default is one described in any paragraph of Section 2.1 other than those paragraphs of Section 2.1 referred to in the preceding paragraph (a), then Mortgagee, by written notice to Mortgagor, may declare the entire principal of the Note then outstanding, all accrued and unpaid interest thereon, Prepayment Charge and all other indebtedness secured hereby to be due and payable immediately. Upon any such declaration the same shall become immediately due and payable, notwithstanding anything to the contrary in any Loan Document.

(c) Entry upon Mortgaged Property. Without notice to Mortgagor or anyone else, Mortgagee may (i) enter into and upon the Mortgaged Property and take possession thereof by force, summary proceeding, ejectment or otherwise and exclude therefrom Mortgagor, Mortgagor's employees and agents and all other persons, (ii) hold, use, operate, manage, maintain and control the Mortgaged Property and conduct the business thereof on such terms as Mortgagee shall deem proper, (iii) collect and receive all Rents including, without limitation, those past due (instituting, at Mortgagee's election, proceedings in furtherance of such collection), (iv) apply the Rents as hereinafter provided, (v) amend, modify and terminate then existing Leases of the Mortgaged Property or any portion thereof and, in the name of Mortgagor, enter into Leases of all or any portion of the Mortgaged Property, (vi) complete the construction of the Improvements, and in the course of such completion make such changes in the contemplated Improvements as Mortgagee may deem desirable, (vii) make all necessary or proper repairs, renewals and replacements and such alterations, additions, improvements and betterments as Mortgagee may deem advisable, and (viii) generally do everything as fully and effectually as if Mortgagee were the absolute owner of the Mortgaged Property. Mortgagee shall apply the Rents (A) first, to paying the costs and expenses incurred by Mortgagee in taking actions pursuant to this paragraph (including, without limitation, cost and expenses incurred in furtherance of the rights, remedies and powers specifically set forth above and those incurred in order to insure the Mortgaged Property, pay Impositions and pay reasonable compensation for the services of Mortgagee and its employees, attorneys and agents), and (B) second, to payment of the principal of the Note then outstanding, all accrued but unpaid interest thereon, at the rate of interest provided therein and in the Loan Agreement, including

any applicable Prepayment Charge, and all other indebtedness secured by this Mortgage or by any other Loan Document. Mortgagor hereby consents to the exercise by Mortgagee of the rights, remedies and powers conferred upon Mortgagee in this paragraph, provided, however, that (x) Mortgagee shall under no circumstances have any obligation to undertake any act or do anything pursuant to this paragraph and (y) no entry in or upon the Mortgaged Property or taking possession thereof or any other action or omission of Mortgagee hereunder shall make Mortgagee a "mortgagee in possession" (unless Mortgagee expressly elects such status in writing) or create any liability on the part of Mortgagee to Mortgagor or to any lessee or other party holding under or claiming through Mortgagor (whether for trespass, eviction, inconvenience, annoyance, disturbance, loss of business or otherwise) except if attributable to the willful misconduct or bad faith of Mortgagee. In furtherance of all of the foregoing, Mortgagor hereby irrevocably and unconditionally appoints Mortgagee as Mortgagor's true and lawful attorney-in-fact, coupled with an interest, in Mortgagor's name and stead, with full power of substitution to act pursuant to the provisions of this paragraph.

(d) Sale of Mortgaged Property. Mortgagee may sell the Mortgaged Property and all estate, right, title and interest, claim and demand therein, and right of redemption thereof, at one or more sales as an entity or in parcels, in such manner, at such time and place, for such price and upon such other terms and after such notice thereof as Mortgagee may in its sole discretion determine, or as may be required by law. Mortgagee may from time to time adjourn any such sale by announcement at the time and place appointed for such sale, as same may previously have been adjourned.

(e) Foreclosure. Mortgagee may institute proceedings for the complete or partial foreclosure of this Mortgage. To the extent the obligations secured hereby are also secured by a mortgage or mortgages on property other than the Mortgaged Property (the "Additional Security"), Mortgagor hereby expressly waives any right to require that Mortgagee exercise remedies with respect to the Additional Security before instituting any proceeding for the complete or partial foreclosure hereunder and Mortgagor shall be free to exercise any and all remedies available hereunder with respect to the Mortgaged Property or under any other mortgage or security agreement with respect to the Additional Security in such order and with respect to such amounts as Mortgagee shall elect in Mortgagee's sole and absolute discretion.

(f) Rights as Secured Party. Mortgagee may exercise such rights and remedies, whether at law, in equity or by statute (including, without limitation, the Uniform Commercial Code), as are available to Mortgagee as a secured party under this Mortgage with respect to the Chattels, including, without limitation, the right to take possession of the Chattels, to maintain and preserve the same and to cause any of the Chattels to be sold at any one or more public or private sales as permitted by applicable law. Any person, including both Mortgagee and Mortgagor, shall be eligible to purchase any portion or all of the Chattels thus offered for sale. Any and all expenses incurred by Mortgagee in connection with taking possession of the Chattels and maintaining and preserving the same and otherwise preparing for sale, as well as in the conduct of the sale, such as the fees and expenses of Mortgagee's attorneys, shall be deemed to be for the account of Mortgagor and shall be repaid to Mortgagee. Mortgagor, upon Mortgagee's demand, shall assemble the Chattels and make them available to Mortgagee at such place(s) as Mortgagee may designate. Mortgagee shall give Mortgagor at least five days' prior written notice of the time and place of any public sale or other disposition of the Chattels or of the time at or after which Mortgagee intends to make any private sale or other disposition (any such notice for all purposes to be deemed reasonable notice to Mortgagor).

(g) Statutory Power of Sale. Mortgagee may exercise the STATUTORY POWER OF SALE.

(h) Other Remedies. Supplementing the foregoing provisions of this Section 2.2, Mortgagee may take such other steps as Mortgagee may elect to protect and enforce its rights, whether by action, suit or proceeding in equity or at law for the specific performance of any covenant, condition or agreement set forth in the Note, this Mortgage or in any other Loan Document, or in aid of the execution of any power herein granted to Mortgagee, or for any foreclosure hereunder, or for the enforcement of any other appropriate legal or equitable right or remedy.

2.3. Foreclosure Sale Implementation.

(a) Deeds, Etc. To effectuate any sale(s) made under or by virtue of this Article II, whether made under the power of sale herein granted or under or by virtue of judicial proceedings or of a judgment or decree of foreclosure and sale (any such sale, an "Article II Sale"), Mortgagor, Mortgagee, or an officer of any court empowered to do so shall execute and deliver (i) to the accepted purchaser or purchasers assigning and transferring all estate, right, title, interest, claim and demand in and to the property and rights sold and (ii) to the appropriate Governmental Authority any affidavit(s) or other instrument(s) required pursuant to any Requirement(s). In furtherance of such purpose, Mortgagor hereby irrevocably and unconditionally appoints Mortgagee as Mortgagor's true and lawful attorney-in-fact, coupled with an interest, in Mortgagor's name and stead, with full power of substitution, to execute and deliver such instrument(s). Mortgagor hereby ratifies and confirms all that Mortgagee, in its capacity as said attorney-in-fact, or such substitute(s) shall lawfully do pursuant to this Section 2.3(a). Notwithstanding the foregoing, Mortgagor, if so requested by Mortgagee or any purchaser, shall ratify and confirm any such sale or sales by executing and delivering to Mortgagee or to such purchaser all such instruments as may be designated by the requesting party. Any such sale or sales shall operate to divest all the estate, right, title, interest, claim and demand whatsoever, whether at law or in equity, of Mortgagor in and to the property and rights so sold, and shall be a perpetual bar, both at law and in equity, against Mortgagor and against any and all persons claiming or who may claim by, from, through or under Mortgagor.

(b) Acceleration upon Sale. In the event of any Article II Sale, then, notwithstanding anything to the contrary set forth in any Loan Document, the entire principal of the Note then outstanding, all accrued and unpaid interest thereon, at the rate of interest provided therein and in the Loan Agreement, including any applicable Prepayment Charge, and all other indebtedness secured by this Mortgage shall immediately become due and payable.

(c) Application of Proceeds. The proceeds of any Article II Sale, together with any other sums that Mortgagee may then hold under any provision of this Mortgage, shall be applied in the following order of priority:

(i) Sale Costs, Etc. To the payment of the costs and expenses incurred in connection with such sale, including, without limitation, the costs and expenses (A) incurred by Mortgagee prior thereto in taking possession of, and maintaining and preserving, the Mortgaged Property or any portion thereof and paying Impositions with respect thereto (other than Impositions subject to which the Mortgaged Property might have been sold), (B) of any judicial proceedings wherein or pursuant to which such sale might have been made, (C) of any receiver(s) appointed with respect to the Mortgaged Property or any portion thereof, (D) incurred in order to comply with Requirements applicable to such sale and (E) of paying reasonable compensation to Mortgagee, its employees, agents and attorneys.

(ii) Principal, Prepayment Charge and Interest. To the payment of the entire principal of the Note then outstanding, all accrued and unpaid interest thereon (whether accruing prior or subsequent to the date of default) at the rate of interest provided therein and in the Loan Agreement, including any applicable Prepayment Charge.

(iii) Other Sums Due. To the payment of any other sums required to be paid by Mortgagor pursuant to any provision of any Loan Document.

(iv) Application of Surplus. To the payment of the surplus, if any, to whosoever may be lawfully entitled to receive the same.

(d) Bids by Mortgagee. At any Article II Sale, Mortgagee may bid for and acquire the Mortgaged Property or any part thereof and in lieu of paying cash therefor may make settlement for the purchase price by crediting upon the indebtedness of Mortgagor secured by this Mortgage the net sales price after deducting therefrom the costs and expenses of the sale and all other costs or expenses attributable to Mortgagor's default under this Mortgage and Mortgagee's exercise of its rights, powers and remedies under this Mortgage.

2.4. Collection of Debt.

(a) Payments Due upon Acceleration. In the event that the indebtedness secured by this Mortgage shall become due and payable in accordance with the provisions of this Mortgage and Mortgagor shall fail forthwith to pay such amounts to Mortgagee, Mortgagee shall be entitled and empowered to institute actions or proceedings at law or in equity for the collection of the sums so due and unpaid, and may prosecute any such actions or proceedings to judgment or final decree, and may enforce any such judgment or final decree against Mortgagor and collect, out of the Mortgaged Property and other property of Mortgagor wherever situated, in any manner provided by law, moneys adjudged or decreed to be payable.

(b) Effect of Foreclosure, Etc. Mortgagee shall be entitled to recover judgment as aforesaid either before or after or during the pendency of any proceedings for the enforcement of the provisions of this Mortgage; and the right of Mortgagee to recover such judgment shall not be affected by any entry or sale hereunder, or by the exercise of any other right, power or remedy for the enforcement of the provisions of this Mortgage or the foreclosure of the lien hereof; and in the event of a sale of the Mortgaged Property and of the application of the proceeds of sale, as in this Mortgage provided, to the payment of the debt hereby secured, Mortgagee shall be entitled to enforce payment of, and to receive all amounts then remaining due and unpaid upon, the Note and to enforce payment of all other charges, payments and costs due under this Mortgage, and shall be entitled to recover judgment for any portion of the debt remaining unpaid, with interest at the maximum rate permitted by law. If any case shall be commenced against Mortgagor under any applicable insolvency, bankruptcy or any similar law now or hereafter or any proceedings for Mortgagor's reorganization or involving the liquidation of Mortgagor's assets, then Mortgagee shall be entitled to prove the whole amount of principal, Prepayment Charge and interest due upon the Note to the full amount thereof, and all other payments, charges and costs due under this Mortgage (including, without limitation, the fees and expenses of Mortgagee's attorneys in connection with such proceedings), without deducting therefrom any proceeds obtained from the sale of the whole or any part of the Mortgaged Property, provided, however, that in no case shall Mortgagee receive a greater amount than such principal, Prepayment Charge and interest and such other payments, charges and costs from the aggregate amount of the proceeds of the sale of the Mortgaged Property and the distribution from the estate of Mortgagor.

(c) Effect of Judgment. No recovery of any judgment by Mortgagee and no levy of any execution under any judgment upon the Mortgaged Property or any part thereof or upon any other property of Mortgagor shall affect in any manner or to any extent the lien of this Mortgage upon the Mortgaged Property or any part thereof or any liens, rights, powers or remedies of Mortgagee hereunder, but such liens, rights, powers and remedies of Mortgagee shall continue unimpaired as before.

(d) Application of Sums Collected. Any moneys thus collected by Mortgagee under this Section 2.4 shall be applied by Mortgagee in accordance with the provisions of paragraph (c) of Section 2.3.

(e) Legal Proceedings. Mortgagor unconditionally and irrevocably agrees that any action or proceeding against Mortgagor with respect to the Loan or for the recognition or enforcement of any judgment rendered in any such action or proceeding may be brought in the United States Courts for any District in which the Mortgaged Property is situated or in the courts of the State in which the Mortgaged Property is situated, as Mortgagee may elect, and by executing and delivering this Mortgage, Mortgagor unconditionally and irrevocably accepts and submits to the non-exclusive jurisdiction of each of the aforesaid courts in persona generally with respect to any such action or proceeding for itself and in respect of its properties. Mortgagor further agrees that final judgment against it in any action or proceeding shall be conclusive and may be enforced in any other jurisdiction, by suit on the judgment, a certified or exemplified copy of which shall be conclusive evidence of the fact and of the amount of Mortgagor's indebtedness.

MORTGAGOR AND MORTGAGEE WAIVE THE RIGHT TO A JURY TRIAL IN CONNECTION WITH ANY ACTION, SUIT OR PROCEEDING (INCLUDING ANY AND ALL COUNTERCLAIMS THERETO) THAT DIRECTLY OR INDIRECTLY RELATES TO THE SUBJECT MATTER OF THIS MORTGAGE. MORTGAGOR HEREBY EXPRESSLY AND UNCONDITIONALLY WAIVES, IN CONNECTION WITH ANY SUIT, ACTION OR PROCEEDING BROUGHT ON THIS MORTGAGE BY THE MORTGAGEE ANY AND EVERY RIGHT IT MAY HAVE TO (I) INTERPOSE ANY COUNTERCLAIM THEREIN (OTHER THAN COMPULSORY COUNTERCLAIMS) AND (II) HAVE THE SAME CONSOLIDATED WITH ANY OTHER OR SEPARATE SUIT, ACTION OR PROCEEDING. NOTHING HEREIN CONTAINED SHALL PREVENT OR PROHIBIT MORTGAGOR FROM INSTITUTING OR MAINTAINING A SEPARATE ACTION AGAINST MORTGAGEE WITH RESPECT TO ANY ASSERTED CLAIM.

2.5. Appointment of Receiver. After the occurrence of any Event of Default and during its continuance, whether incidental to any proceedings to foreclose this Mortgage or to enforce the specific performance hereof or to any other judicial proceeding to enforce any right of Mortgagee, or otherwise, Mortgagee shall be entitled, as a matter of right, without the giving of notice to any other party and without regard to the adequacy or inadequacy of any security for the Mortgage indebtedness, either before or after declaring the unpaid principal of the Note to be due and payable, to the appointment of a receiver or receivers of the Mortgaged Property and of all the Rents thereof. Mortgagor hereby irrevocably and unconditionally consents to the appointment of such receiver or receivers (and to the exercise by such receiver or receivers of such powers as may be requested by Mortgagee of the court that is empowered to make such appointment), waives any and all defenses to such appointment and agrees not to oppose Mortgagor's application therefor.

2.6. Possession by Mortgagee. Notwithstanding the appointment of any receiver, liquidator or trustee of Mortgagor, or of any of Mortgagor's property, or of the Mortgaged Property or any part thereof, Mortgagee shall be entitled to retain possession and control of all property now or hereafter held under this Mortgage.

2.7. Remedies Cumulative. No right or remedy of Mortgagee is intended to be exclusive of any other right or remedy specified herein, in any other Loan Document or available to Mortgagee at law or in equity. All such rights and remedies shall be cumulative and concurrent and, at Mortgagee's option, may be pursued singularly, successively or together and may be exercised as often as occasion therefor shall arise. No delay or failure of Mortgagee to exercise any right, power or remedy hereunder or under any other Loan Document shall impair any such right, power or remedy or shall be construed to be a waiver thereof or of any Event of Default, and Mortgagor shall not thereby be relieved of its obligations. Mortgagee shall be deemed to have waived any such right, power or remedy only if such waiver is expressly set forth in a written instrument duly executed by an authorized representative of Mortgagee. No waiver of any breach shall constitute a waiver of any other then existing or subsequent breach.

2.8. Right to Withdraw Proceeding, Etc. Any action, suit or proceeding brought by Mortgagee pursuant to any of the terms of this Mortgage or otherwise and any claim made by Mortgagee hereunder may be compromised, settled, withdrawn, abandoned or otherwise dealt with by Mortgagee without any notice to, agreement or approval of, or consent by, Mortgagor and without any liability of Mortgagee to Mortgagor.

2.9. Waiver. To the fullest extent permitted by law and with full awareness of the consequences thereof, Mortgagor hereby unconditionally and irrevocably (a) waives and relinquishes the benefit of, and releases all rights of Mortgagor under, all laws now or hereafter in force providing for any appraisal or valuation before sale of the Mortgaged Property or any portion thereof, any stay of execution or extension of the time for the enforcement of the collection of the indebtedness secured by this Mortgage, any extension of a period of redemption from any sale in furtherance of the collection of said indebtedness, and any marshalling of the assets of Mortgagor (including, without limitation, the Mortgaged Property), and (b) agrees that Mortgagor shall not at any time insist upon, plead, claim or take the benefit or advantage of any law now or hereafter in force providing for any of the foregoing. In addition, to the fullest extent permitted by law and with full awareness of the consequences thereof, Mortgagor hereby waives and relinquishes the right to assert any defense based upon laws applicable to sureties and guarantors.

2.10. Use and Occupancy of Mortgaged Property. During the continuance of any Event of Default and pending the exercise by Mortgagee of its right to exclude Mortgagor from all or any part of the Mortgaged Property, Mortgagor agrees to pay to Mortgagee the fair and reasonable rental value for the use and occupancy of the Mortgaged Property or any part thereof that is in Mortgagor's possession for such period and, upon default of any such payment, shall vacate and surrender possession of the Mortgaged Property to Mortgagee or to a receiver, if any, and in default thereof Mortgagor may be evicted by summary action or proceeding for the recovery of possession of premises for nonpayment of rent.

2.11. Mortgagee's Attorneys' Fees. Mortgagor shall upon demand pay any and all costs, expenses, and attorneys' fees incurred by Mortgagee in connection with (a) enforcing, or attempting to enforce, Mortgagee's rights under the Loan Documents; (b) obtaining legal advice regarding Mortgagee's available legal alternatives and rights under the Loan Documents; and (c) representation of Mortgagee's interest in any action or proceeding that relates to the Loan, Mortgagor or the Mortgaged Property.

2.12. Effect of Mortgagor's Tender. If, after the occurrence of an Event of Default but before the sale of the Mortgaged Property, Mortgagor tenders to Mortgagee payment of the amount necessary to pay all sums then due hereunder, then such tender shall constitute a voluntary prepayment of the Note, and Mortgagor shall pay Mortgagee, together with all other sums then due, Prepayment Charge computed in accordance with the Note.

2.13. Mortgagee's Failure to Allow Cure Period.

Notwithstanding anything to the contrary in any Loan Document, wherever it is stated in this Mortgage that an Event of Default shall be deemed to have occurred only after Mortgagee has given notice (a "Cure Notice") of specified circumstances (an "Unmatured Default") and a specified period of time (the "Cure Period") has passed, if Mortgagee fails to give the required Cure Notice and commences foreclosure proceedings under this Mortgage, then, (a) if, within the Cure Period, as measured from the commencement of the foreclosure proceedings, Mortgagor cures the applicable Unmatured Default, then Mortgagee shall discontinue such foreclosure proceedings and reinstate the Loan on the same terms and conditions, as if the Note had never been accelerated; (b) such discontinuance of foreclosure proceedings shall constitute Mortgagor's sole remedy for Mortgagee's failure to have given the required Cure Notice, and Mortgagee shall have no liability to Mortgagor with respect thereto; and (c) Mortgagee's failure to give the Cure Notice shall not invalidate, nullify, or constitute a defense in any foreclosure proceedings that are otherwise properly commenced.

Article III

Representations and Warranties

Mortgagor represents and warrants to Mortgagee that, as of the date of the delivery of this Mortgage and as of each date as of which Mortgagor is required to make any payment under the Note:

3.1. Title, Etc. Mortgagor has good and marketable title to an indefeasible fee estate in the Mortgaged Property, subject to no lien, charge or encumbrance except (a) matters listed as typewritten exceptions to title in Schedule B of Mortgagee's title policy issued by Land Title Agency, Inc. as agent for Commonwealth Land Title Insurance Company pursuant to title order number 02-LT-0967, insuring the lien of this Mortgage; and (b) Leases that comply with this Mortgage. Upon recordation, this Mortgage shall impose upon such of the Mortgaged Property as constitutes real estate a first priority lien. Mortgagor owns the Chattels and all other Mortgaged Property free and clear of liens and claims other than those set forth in said typewritten exceptions.

3.2. Compliance with Requirements, Etc. Mortgagor is in full compliance with all Requirements and Restrictions. Neither the Mortgaged Property nor any part thereof was acquired with the proceeds from any transaction or activity that would cause the Mortgaged Property or any such part to be subject to forfeiture under any Requirement or Restriction. Furthermore, Mortgagor has not been responsible for, and has no knowledge of, any action or omission by any person or entity that would cause the Mortgaged Property or any such part to be subject to forfeiture.

3.3. Rent Roll. Mortgagor has heretofore delivered to Mortgagee a rent roll listing the Rents payable under all Leases. All Rents shown in the rent roll are legal and enforceable Rents and are in compliance with all applicable Requirements.

3.4. Easements, Etc. Mortgagor has all easements, including those for use, maintenance, and access (by pedestrians, automobiles and trucks) necessary, appropriate, or convenient for the full and proper operation, repair, maintenance, occupancy and use of every portion of the Mortgaged Property. The Mortgaged Property is adequately served by all utilities necessary, appropriate, or convenient for the full and proper operation, repair, maintenance, occupancy and use of every portion of the Mortgaged Property.

3.5. No Misrepresentations. Neither this Mortgage, any other Loan Document, nor any other document or certificate furnished to Mortgagee or to Mortgagee's attorneys in connection with the transactions contemplated hereby or thereby contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained therein or herein not misleading. All certifications, recitals, representations and warranties contained in the Loan Documents are true and correct.

3.6. Governmental Approvals. All Authorizations necessary or appropriate to permit the use and occupancy of the Mortgaged Property and which are required to be obtained from any Governmental Authority have been duly obtained and are in full force and effect.

3.7. Approvals of Loan Documents. No consent, approval or authorization of, or registration, declaration or filing with, any Governmental Authority is required in connection with the valid execution, delivery and performance of the Loan Documents or the carrying out of any of the transactions contemplated thereby.

3.8. Other Beneficiaries. The representations and warranties contained in the Loan Documents shall inure to the benefit of any purchaser at a foreclosure sale or other grantee named in a deed delivered in respect of the Mortgaged Property.

3.9. Federal Law. The proceeds of the Loan are not being and will not be used, directly or indirectly, for the purpose of "purchasing" or "carrying" any "margin stock" in contravention of Regulation U or X promulgated by the Board of Governors of the Federal Reserve System. Mortgagor is incurring the Loan for business purposes only, and not for personal, family or household purposes. Neither the Premises nor any part thereof constitutes or is intended to constitute the personal residence of Mortgagor or any Principal of Mortgagor at any time while the portion of the Premises so used is encumbered by this Mortgage. Mortgagor is a United States person, and is not a foreign person, as defined in the Foreign Investment in Real Property Tax Act.

3.10. Hazardous Substances. Without limiting the generality of any other representation or warranty contained in this Mortgage, the Mortgaged Property and the existing uses thereof comply and, to the best of Mortgagor's knowledge, at all times have complied in all respects with all Environmental Laws in effect on the date of this Mortgage; all Environmental Authorizations have been duly issued or granted and are in full force and effect; and Mortgagor is not, and at no time since Mortgagor acquired ownership or possession of the Mortgaged Property or any portion thereof has Mortgagor been, in violation of any Environmental Law with respect to the Mortgaged Property. Without limiting the generality of the foregoing:

(a) No Hazardous Substances are being, or are intended or threatened to be, and, to the best of Mortgagor's knowledge, no Hazardous Substances have ever been, used, received, handled, generated, manufactured, produced, processed, treated, stored, released, placed, spilled, discharged, disposed of or dispersed at, or otherwise caused to become situated, at, on, under or about the Mortgaged Property, and no portion of the Mortgaged Property has been used at any time as a landfill or as a waste treatment, storage or disposal facility;

(b) None of the Improvements contains (and, to the best of Mortgagor's knowledge, none of the Improvements which at any time were a part of, or were situated at, on or under the Mortgaged Property contained) any Hazardous Substances;

(c) No underground storage tanks or other underground storage facilities are, or, to the best of Mortgagor's knowledge, have ever been, situated on or under the Mortgaged Property;

(d) To the best of Mortgagor's knowledge, (i) the ambient air quality at the Mortgaged Property complies with the requirements of all Environmental Laws and (ii) the present levels of radon, formaldehyde, asbestos and all other Hazardous Substances, to the extent any such Hazardous Substances exist at, on, under or about the Mortgaged Property, are within the limits prescribed by all Environmental Laws;

(e) Neither the Mortgaged Property nor, to the best of Mortgagor's knowledge, any land which adjoins any portion of the Mortgaged Property, contains or is affected by any dam, well, reservoir, inland wetland, watercourse or water discharge; and

(f) Mortgagor has not received or had served upon it any summons, citation, directive, order, Notice or other communication, oral or written, which (i) claims or alleges any failure to comply with any Environmental Law with respect to the Mortgaged Property or (ii) contains any statement(s) or fact(s) which, if true, would signify that any representation, warranty or statement contained in this Mortgage is other than complete and correct. With respect to the ownership, use, operation or maintenance of the Mortgaged Property or the conduct of Mortgagor's business thereat, (y) no writ, injunction, decree, order or judgment is outstanding and (z) no suit, claim, action, proceeding or investigation has been instituted or filed with respect to any Environmental Law (and, to the best of Mortgagor's knowledge, no basis for any of the foregoing exists). No lien has been filed against or imposed upon any of the Mortgaged Property with respect to any Environmental Law.

Each of the representations and warranties contained in this Section 3.14 shall be deemed made by Mortgagor with respect to all other land, together with the buildings, structures, equipment and other improvements thereon, in whole or in part owned, leased, operated or occupied by Mortgagor.

3.11. Split Tax Lots. The tax lot or lots that contain the Mortgaged Property include no real property other than the Mortgaged Property and constitute one or more discrete, salable parcels.

Article IV

Miscellaneous

4.1. Partial Invalidity. If any provision(s) of any Loan Document are held to be invalid, illegal or unenforceable in any respect, then such invalidity, illegality or unenforceability shall not affect any other provision of such instrument(s) and such instrument(s) shall instead be construed as if it or they had never contained such invalid, illegal or unenforceable provision.

4.2. Notices. All notices hereunder shall be in writing and shall be deemed sufficiently given or served for all purposes when delivered personally or sent by mail to any party hereto at such party's address above stated (in the case of Mortgagee, attention, Commercial Lending Department, EAB Plaza, Thirteenth Floor, Uniondale, New York 11556-0123), or at such other address of which such party shall have notified the other party in writing. Any notice given by an attorney representing or purporting to represent Mortgagee shall constitute notice by Mortgagee if such attorney is in fact authorized to act on behalf of Mortgagee. Upon receipt of any notice from an attorney purporting to act for Mortgagee, Mortgagor shall have the right, by notice to Mortgagee in compliance with this Mortgage, to require Mortgagee to deliver prompt written proof of the attorney's authority. Such a request, if promptly complied with by Mortgagee, shall not delay or suspend the effectiveness of Mortgagee's notice to Mortgagor.

4.3. Waiver of Notice. Whenever in this Mortgage the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person or persons entitled to receive such notice.

4.4. Successors and Assigns. All the grants, covenants, terms, provisions and conditions of this Mortgage shall run with the land, shall apply to and bind the successors and assigns of Mortgagor (and Mortgagor's heirs, if Mortgagor is an individual) and all subsequent owners, encumbrancers and tenants of the Mortgaged Property and shall inure to the benefit of the successors and assigns of Mortgagee and all subsequent holders of this Mortgage. Nothing in this Section 4.4 limits the prohibitions of Section 1.18. Mortgagee may freely assign any or all of Mortgagee's rights and obligations under the Loan Documents, including without limitation by granting "participations" to other parties.

4.5. Usury Savings. Nothing in any Loan Document shall require the payment or permit the collection by Mortgagee of interest in an amount exceeding the maximum amount permitted under applicable law in commercial mortgage loan transactions between parties of the character of the parties hereto (the "Maximum Interest Amount"). Mortgagor shall not be obligated to pay to Mortgagee any interest in excess of the Maximum Interest Amount, and the amount of interest payable to Mortgagee under the Loan Documents shall under no circumstance be deemed to exceed the Maximum Interest Amount. To the extent that any payment made to Mortgagee under the Loan Documents would cause the amount of interest charged to exceed the Maximum Interest Amount, such payment shall be deemed a prepayment of principal as to which no Prepayment Charge or notice shall be required, notwithstanding anything to the contrary in any Loan Document, or, if the amount of excess interest exceeds the unpaid principal balance of the Note, such excess shall be refunded to Mortgagor.

4.6. Counterparts. This Mortgage may be executed in any number of counterparts. Each such counterpart shall for all purposes be deemed an original. All such counterparts shall together constitute but one and the same mortgage.

4.7. Governing Law. This Mortgage shall be construed and enforced in accordance with, and shall be governed by, the laws of the state in which the Premises are situated.

4.8. Written Amendments. This Mortgage may be amended, discharged or terminated only by a written instrument executed by Mortgagee and Mortgagor.

4.9. Actions, Approvals and Determinations. Wherever in this Mortgage it is provided that (a) as a condition precedent to Mortgagor's undertaking certain action, Mortgagor shall be required to obtain Mortgagee's consent or approval or (b) Mortgagee shall have the right to make a determination (including, without limitation, a determination as to whether a matter is satisfactory to Mortgagee), or if Mortgagor shall request that Mortgagee take any action, then, unless expressly provided to the contrary in the applicable provision of this Mortgage, the decision whether to grant such consent or approval or to take the requested action, or the determination in question, shall be in the sole and exclusive discretion of Mortgagee and shall be final and conclusive. Wherever in this Mortgage it is stated that any consent or approval shall not be unreasonably withheld or that a determination to be made by Mortgagee shall be subject to a specified standard, then, if a court of competent jurisdiction determines, without right to further appeal, that the consent or approval has been unreasonably withheld or that such specified standard has been met, the consent or approval shall be deemed granted or the standard shall be deemed met, as the case may be, and Mortgagee, at the request of Mortgagor, shall deliver to Mortgagor written confirmation thereof. The obtaining of such consent or approval or determination that such standard has been met shall be Mortgagor's sole and exclusive remedy with respect to the subject matter of this section, and under no circumstance shall Mortgagee, Mortgagee's counsel or anyone else acting or purporting to act on Mortgagee's behalf having any liability (whether in damages or otherwise) with respect thereto. In any instance in which Mortgagor requests, or any Loan Document provides, that Mortgagee shall consider granting its consent or approval or making a determination or taking some other action, Mortgagor shall, upon demand, pay all costs, expenses and attorneys' fees incurred by Mortgagee in connection therewith.

4.10. Receipt of Copy. Mortgagee has delivered to Mortgagor, without charge, a true and correct copy of this Mortgage. Mortgagor acknowledges receipt of same.

4.11. Modifications, Releases, Etc. From time to time, Mortgagee may, at Mortgagee's option, without notice to or consent by Mortgagor, any Principal of Mortgagor, any Guarantor, any junior lienholder, or any other person, without liability and despite Mortgagor's breach under any of the Loan Documents, do any of the following: (a) release from the lien of this Mortgage any or all of the Mortgaged Property; (b) take or release other or additional security; (c) consent to any map, plat, restrictions, or easement affecting the Mortgaged Property; (d) join in any extension or subordination agreement; (e) alter, substitute or release any property securing the Loan; or (f) agree in writing with Mortgagor to modify the interest rate, amortization period, payment amount, or any other provision of the Note or the Loan Agreement. No action described in the preceding sentence shall affect the lien or priority of lien of this Mortgage, Mortgagor's obligations under the Loan Documents (except as Mortgagee agrees in writing), or the obligations of any Guarantor or Principal of Mortgagor. Mortgagor shall pay Mortgagee a reasonable service charge, together with such title insurance premiums, attorneys' fees and other costs as Mortgagee may incur in connection with any such action. Mortgagee shall be under no obligation whatever to take any such actions.

Mortgagor and Mortgagee shall, upon their mutual agreement to do so, execute such documents as may be necessary in order to effectuate the modification of this Mortgage, including the execution of substitute mortgages, so as to create two or more liens on the Mortgaged Property in such amounts as may be mutually agreed upon but in no event to exceed, in the aggregate, the amount set forth in Section 6.2 herein; in such event, Mortgagor covenants and agrees to pay the reasonable fees and expenses of Mortgagee and its counsel in connection with any such modification.

4.12. Construction. The Loan Documents shall be construed without regard to section headings, which are provided for convenience only and shall not be deemed to modify, or be used to interpret, the provisions of this Mortgage. References to a section are references to a section within this Mortgage unless otherwise expressly stated or necessarily implied by the context. The Loan Documents shall be construed without regard to any presumption or other rule requiring construction against the party which caused the Loan Documents to be drafted and, if the Premises are situated in New York State, without regard to New York Real Property Law Section 254. Nothing herein is intended or shall be deemed to create a joint venture or partnership between Mortgagor and Mortgagee or any relationship other than that of mortgagor and mortgagee.

4.13. Non-Merger. Unless expressly provided otherwise, in the event that ownership of this Mortgage and title to the fee and/or leasehold estates in the Premises encumbered hereby shall become vested in the same person or entity, this Mortgage shall not merge in said title but shall continue to be and remain a valid and subsisting lien on said estates in the Premises for the amount secured hereby.

Article V

Transfer Taxes

In the event of any transfer ("Transfer") of the Mortgaged Property, or any part thereof, including any sale by reason of foreclosure of this Mortgage or any prior or subordinate mortgage, Mortgagor shall furnish Mortgagee with a true and complete copy of the transferor and transferee questionnaires, all supporting documentation, and any affidavits furnished to the taxing authorities or recording officer applicable thereto, and the vendee or transferee shall automatically assume and become responsible to perform the obligations imposed upon Mortgagor under this Article.

Mortgagor also covenants and agrees that in the event of a Transfer, Mortgagor shall duly complete, execute and deliver to Mortgagee all forms and supporting documentation required by any taxing authority to estimate and fix the transfer taxes and other taxes, if any, payable by reason of the Transfer or recording of the deed evidencing the Transfer.

Mortgagor agrees to pay any tax (including, without limitation, any transfer tax imposed by any Governmental Authority) that may now or hereafter become due and payable with respect to any Transfer of the Mortgaged Property, and in default thereof Mortgagee may at its option pay the same and the amount of such payment shall be added to the indebtedness secured hereby and, unless incurred in connection with a foreclosure of this Mortgage, be secured by this Mortgage.

Mortgagor hereby irrevocably and unconditionally constitutes and appoints Mortgagee as Mortgagor's true and lawful attorney in fact, coupled with an interest, in Mortgagor's name and stead, with full power of substitution to prepare and deliver any questionnaire, statement, affidavit or tax return in furtherance of any Transfer.

If Mortgagor fails or refuses to pay a tax payable by Mortgagor after a Transfer by reason of a foreclosure of this Mortgage in accordance with this Article, the amount of the tax and any interest or penalty applicable thereto may, at the sole option of Mortgagee, be paid as an expense of the sale out of the proceeds of the mortgage foreclosure sale.

The provisions of this Article shall survive any Transfer and the delivery of the deed affecting such Transfer.

Nothing in this Article is intended (a) to expand any obligation of Mortgagee beyond that provided for by law; (b) to confer any benefit or rights upon any taxing authority; or (c) to limit Section 1.18.

Article VI

Additional Provisions

6.1. Assignment of Leases and Rents. This Mortgage is intended to constitute a present, absolute and irrevocable assignment of all of the Rents now or hereafter accruing, and Mortgagor, without limiting the generality of the Granting Clause hereof, specifically hereby presently, absolutely and irrevocably assigns all of the Rents now or hereafter accruing to Mortgagee. The aforesaid assignment shall be effective immediately upon the execution of this Mortgage and is not conditioned upon the occurrence of any Event of Default hereunder or any other contingency or event, provided, however, that Mortgagee hereby grants to Mortgagor the right and license to collect and receive the Rents as they become due so long as no Event of Default exists hereunder. Immediately upon the occurrence of any such Event of Default, the foregoing right and license shall be automatically terminated and of no further force or effect. Nothing contained in this Section 6.1 or elsewhere in this Mortgage shall be construed to make Mortgagee a mortgagee in possession unless and until Mortgagee actually takes possession of the Mortgaged Property, nor to obligate Mortgagee to take any action or incur any expense or discharge any duty or liability under or in respect of any leases or other agreements relating to the Mortgaged Property or any part thereof.

6.2. Type of Property. Mortgagor represents and warrants to Mortgagee that this Mortgage does not cover real property principally improved or to be improved by one or more structures containing in the aggregate not more than six residential dwelling units, each having its own separate cooking facilities.

6.3. Maximum Principal Indebtedness Secured. Notwithstanding anything set forth in this Mortgage to the contrary, the maximum amount of principal indebtedness secured hereby at execution, or which under any contingency may become secured hereby at any time hereafter, is \$20,000,000, with interest (including interest at the Default Rate to the extent provided in this Mortgage), late charges and such other sums as may (a) be advanced by Mortgagee pursuant to the Loan Documents for the protection of the Mortgaged Property or the preservation of the lien of this Mortgage (together with attorneys' fees and disbursements) and (b) be secured hereby without resulting in the imposition of mortgage recording tax in addition to the amount of tax due with respect to the principal indebtedness of \$20,000,000.

6.4. Exculpation. Neither Mortgagor nor any Principal of Mortgagor shall be personally liable for payment of the principal of the Note or interest thereon, and in the event of any failure by Mortgagor to pay any portion of such principal or interest, Mortgagee will look, with respect to the then outstanding balance of such principal and interest, solely to the Mortgaged Property and such other collateral as has been, or hereafter shall be, given to secure payment of the Note. The foregoing limitation on liability shall not impair or otherwise affect the validity or enforceability of (a) the debt evidenced by the Note or of any other obligations evidenced by the Loan Documents or (b) Mortgagee's liens, security interests, rights and remedies (including, without limitation, the remedies of foreclosure and/or sale) with respect to the Mortgaged Property or any other property, security, collateral and/or assets (including the proceeds thereof) encumbered, pledged or assigned by this Mortgage or any other security for the Loan. In addition, the foregoing limitation on liability shall not limit anyone's obligations or be applicable with respect to: (i) liability under any guaranty(ies) or indemnity(ies) delivered or afforded to Mortgagee; (ii) any fraud, material misrepresentation or breach of trust; (iii) taxes of any kind (whether characterized as transfer, gains or other taxes) payable in connection with the foreclosure sale of the Mortgaged Property, irrespective of who pays such taxes; (iv) application of any proceeds of the Loan to any purpose other than as provided in the Loan Documents; (v) the application of any insurance or condemnation proceeds or other funds or payments other than strictly in accordance with the Loan Documents; (vi) the misapplication of any security deposits; (vii) rents, sales proceeds, or other sums received after default under the Loan Documents which are not applied to expenses of operating the Mortgaged Property or paid to Mortgagee or a duly appointed receiver of the Premises; (viii) any failure to deliver to Mortgagee, after demand therefor, any agreements relating to the operation, management, leasing, use, occupancy or construction of the Mortgaged Property; (ix) any intentional physical waste in respect of the Mortgaged Property; (x) any failure to pay or discharge any real estate tax, other tax, assessment, fine, penalty or lien against the Mortgaged Property to the extent revenue from leases of the Mortgaged Property was available to pay same; (xi) liability to Mortgagee for the reimbursement to Mortgagee, together with interest as provided in the Loan Documents, of all sums advanced or expended by Mortgagee after or in respect of any default under the Loan Documents; (xii) liability as landlord under any lease(s) relating to the Mortgaged Property which Mortgagee is or becomes obligated for by virtue of Mortgagee's succeeding to the interests of Mortgagor; (xiii) liability under any agreement relating to the operation or maintenance of the Mortgaged Property which Mortgagee is or becomes obligated for by virtue of Mortgagee succeeding to the interests of Mortgagor; (xiv) liability to pay for the premiums on and keep in full force and effect insurance in respect of the Mortgaged Property in accordance with the Loan Documents to the extent revenue from leases of the Mortgaged Property was available to pay same; or (xv) liability for Hazardous Substances that may exist upon or be discharged from the Mortgaged Property. Mortgagor and any Principal of Mortgagor shall in any event be and shall remain personally liable for each of the matters to which reference is made in the preceding sentence and Mortgagee may seek, obtain and enforce one or more money judgments in any appropriate proceeding(s) with respect thereto. The limitation on personal liability contained in this paragraph shall become automatically null and void and shall be of no further force or effect, and Mortgagor and each Principal of Mortgagor shall be and remain personally liable for payment of the principal of the Note and interest thereon, in the event that Mortgagor, or anyone acting on behalf of Mortgagor, shall (A) file a petition or answer seeking any relief of any kind under the bankruptcy laws of the United States (or if an Insolvency

Event shall otherwise occur), (B) assert in writing or in any legal proceedings of any kind that any provisions of any of the Loan Documents are in whole or in part unenforceable, invalid or not legally binding, or (C) fail fully to cooperate with Mortgagee or a receiver in Mortgagee's or such receiver's efforts to collect Rents directly from tenants after a default under the Loan Documents.

6.5. Intentionally Omitted.

6.6. Reduction of Mortgage Amount. Amounts received by Mortgagee in reduction of the Loan in accordance with the Note and the Loan Agreement shall not decrease the amounts secured by this Mortgage unless the aggregate amounts actually received in reduction of the Loan has reduced the maximum Loan Amount that is or may be outstanding, after taking into consideration sums that may be advanced pursuant to the Note and the Loan Agreement, to the Mortgage Amount.

6.7. Revolving Loan Mortgage Provisions. This Mortgage permits and secures any and all current and future advances to Mortgagor evidenced by (or pursuant to) any one or more of the following: the Note, the Loan Agreement and such other agreements as may be entered into by Mortgagor with Mortgagee and signed by Mortgagor. The unpaid principal balance of indebtedness outstanding under and secured by this Mortgage shall at no time exceed \$20,000,000 plus any amounts advanced by as permitted by the Loan Documents, including, without limitation, advances to pay taxes or insurance premiums, to complete the Improvements or otherwise to preserve and protect the Mortgaged Property and the lien of this Mortgage thereon.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, this Mortgage has been duly executed by Mortgagor as of the date first above written.

RD ELMWOOD ASSOCIATES, L.P., a Delaware limited partnership (as Borrower)

By: Acadia Property Holdings, LLC, its general partner

By: Acadia Realty Limited Partnership, its sole member

By: Acadia Realty Trust, a Maryland real estate investment trust, its general partner

By _____
Robert Masters
Senior Vice President

The undersigned joins in the execution and authorizes the delivery of this Mortgage for the purpose of accepting and agreeing to the provisions of paragraph 6.4 hereof.

ACADIA REALTY LIMITED PARTNERSHIP

By: Acadia Realty Trust, a Maryland real estate investment trust, its general partner

By _____
Robert Masters
Senior Vice President

SCHEDULE A

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February 19, 2003

Via Facsimile

- - - - -
Mr. Michael Nelsen
19 Evon Drive
Syosset, NY 11791

Re: Employment at Acadia Realty Trust
- - - - -

Dear Mike:

I am very pleased to make the following offer to you with regard to employment at Acadia Realty Trust as Senior Vice President and Chief Financial Officer. You shall report directly to me as President of the Company.

Pursuant to our conversation, the following is our offer to you:

1. Base Salary: \$200,000 per annum less the car allowance described below.
2. Bonus: For your first year of employment, you are guaranteed a minimum cash bonus of \$75,000, prorated for a partial year and payable after December 31, 2003. All future bonuses shall be discretionary and range from 25% to 50% of base salary.
3. Longterm Compensation: You shall participate in a contemplated long term compensation plan being proposed to the shareholders of Acadia. I anticipate that the value of your participation in 2003 shall be approximately \$75,000, as prorated. In the event that the plan is rejected by Acadia's shareholders, adjustments will be made in the cash portion of your compensation.
4. Duties: You will be responsible for all financial reporting and activities of the Company, including preparation and delivery of reports to the Board of Trustees. As such, all accounting/financial personnel shall report to you.
5. Location: We expect to relocate our offices in the near future to an office park in Westchester County, most likely in the White Plains/Harrison area.

6. Car Allowance: You will be given up to \$800 a month for your car allowance (inclusive of loan or lease payments, insurance premiums and repairs). Gas and tolls for business related trips will be reimbursed separately.
7. Severance: Your employment may be terminated at any time by you or Acadia, subject to the provisions of this paragraph. You shall receive a severance package comparable to the package established for other senior executives of the Company (with the exception of certain change of control provisions). The agreement shall provide that you shall receive six months' salary and car allowance if you are terminated without Cause (defined as deliberate misrepresentation, willful misconduct, willful failure to perform your duties or conviction for felony) during the first year of employment and a full year's salary and car allowance after the first year of employment. If you resign or are terminated for Cause, no additional compensation or severance shall be due to you. Attached is a draft of the Severance Agreement.
8. Vacation: You shall be entitled to up to four weeks of vacation annually.
9. Start Date: We have agreed that you shall commence working at Acadia on or before March 15, 2003.

We look forward to having you join our team at Acadia. If this offer is acceptable, please acknowledge by faxing back to me an executed copy of this letter.

Very truly yours,

ACADIA REALTY TRUST

By: _____
Kenneth F. Bernstein
President

Accepted and Agreed to this
__ day of February, 2003.

Michael Nelsen

SEVERANCE AGREEMENT

THIS SEVERANCE AGREEMENT (the "Agreement") is entered into as of March __ 2003, by and between Michael Nelsen, an individual residing in the State of New York ("Senior Officer") and Acadia Realty Trust, a Maryland real estate investment trust with offices at 20 Soundview Marketplace, Port Washington, New York 11050 (the "Trust").

RECITALS

WHEREAS, The Trust desires to employ Senior Officer as Senior Vice President, and Chief Financial Officer, and Senior Officer desires to be employed by the Trust as Senior Vice President and Chief Financial Officer; and

WHEREAS, Senior Officer has requested the Trust to enter into a severance agreement and the Trust is willing to do so.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreement set forth herein, the parties hereby agree as follows:

1. Termination of Employment and Change in Control.

(a) Senior Officer's employment hereunder may be terminated at any time under the following circumstances:

- (i) Cause. The Trust shall have the right to terminate Senior Officer's employment for Cause upon Senior Officer's: (A) deliberate misrepresentation; (B) willful and continued failure substantially to perform his duties hereunder (other than any such failure resulting from Senior Officer's incapacity due to physical or mental illness) which failure continues for a period of ten (10) days after written demand for substantial performance is delivered by the Trust specifically identifying the manner in which the Trust believes the Senior Officer has not substantially performed his duties; (C) willful misconduct or (D) conviction of, or plea of guilty to a felony. For purposes of this subparagraph, no act, or failure to act, on Senior Officer's part shall be considered "willful" unless done, or omitted to be done, by him (i) not in good faith and (ii) without reasonable belief that his action or omission was in furtherance of the interests of the Trust.
- (ii) Death. Senior Officer's employment hereunder shall terminate upon his death.
- (iii) Disability. The Trust shall have the right to terminate Senior Officer's employment due to "Disability" in the event that there is a determination by the Trust that the Senior Officer has become physically or mentally incapable of performing his duties under this Agreement and such disability has disabled the Senior Officer for a cumulative period of one hundred eighty (180) days within a twelve (12) month period.

- (iv) Good Reason. The Senior Officer shall have the right to terminate his employment for "Good Reason": (A) upon the occurrence of any material breach of this Agreement by the Trust which shall include but not be limited to: a material, adverse alteration in the nature of Senior Officer's duties, responsibilities, or authority; or (B) upon a reduction in Senior Officer's Annual Base Salary or a material reduction in other benefits (except for bonuses or similar discretionary payments) as in effect at the time in question, or a failure to pay such amounts when due which is not cured by the Trust within ten (10) days after written notice of such default by the Senior Officer.
- (v) Without Cause. The Trust shall have the right to terminate the Senior Officer's employment hereunder Without Cause subject to the terms and conditions of this Agreement.

(b) Notice of Termination Any termination of Senior Officer's employment by the Trust or any such termination by the Senior Officer (other than on account of death) shall be communicated by written Notice of Termination to the other party hereto. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Senior Officer's employment under the provision so indicated. In the event of the termination of Senior Officer's employment on account of death, written Notice of Termination shall be deemed to have been provided on the date of death.

2. Compensation Upon Termination of Employment By the Trust for Cause or Voluntarily By The Senior Officer.

In the event the Trust terminates Senior Officer's employment for Cause, or the Senior Officer voluntarily terminates his employment, the Trust shall pay the Senior Officer any unpaid Annual Base Salary at the rate then in effect accrued through and including the date of termination and any accrued vacation pay ("Unpaid Accrued Salary"). In addition, in such event, the Senior Officer shall be entitled to exercise any options which, as of the date of termination, have vested and are exercisable in accordance with the terms of the applicable option grant agreement or plan. All options and all restricted stock granted to the Senior Officer which have not vested on the date of termination shall automatically terminate.

Except for any rights which the Senior Officer may have to Unpaid Accrued Salary through and including the date of termination, and vested options and stock, the Trust shall have no further obligations hereunder following such termination. The aforesaid amounts shall be payable in full immediately upon such termination.

3. Compensation Upon Termination of Employment Upon Disability, Without Cause or By Senior Officer for Good Reason.

In the event of termination of Senior Officer's employment as a result of Senior Officer's Disability, Without Cause or by Senior Officer for Good Reason, the Trust shall pay to the Senior Officer, the following:

- (i) any Unpaid Accrued Salary through and including the date of termination; plus
- (ii) reimbursement of expenses incurred prior to date of termination ("Expense Reimbursement"); plus
- (iii) during the first year's employment, an amount equal to six months salary and after the completion of a full year of employment, an amount equal to one year's salary at the then current annual base salary (before any reductions) (the "Severance Salary"); plus
- (iv) during the first year's employment, an amount equal to six months' car allowance and after the completion of a full year of employment, an amount equal to one year's car allowance (the "Car Allowance"); plus
- (v) a pro rata portion of Senior Officer's bonus (based upon the last year's bonus); plus

In the event of termination of Senior Officer because of a Change in Control, in addition to the above amounts,

- (vi) the Trust shall pay to the Senior Officer an amount equal to six months' base salary (the "Change of Control Retention Payment"); and
- (vii) the Trust shall continue Senior Officer's base salary and medical benefits for a period not to exceed the earlier of (a) six months from the date of such termination or (b) the date when Senior Officer becomes reemployed.

For purposes of this Agreement "Change in Control" shall mean that any of the following events has occurred: (A) any "person" or "group" of persons, as such terms are used in Sections 13 and 14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), other than any employee benefit plan sponsored by the Trust, becomes the "beneficial owner", as such term is used in Section 13 of the Exchange Act (irrespective of any vesting or waiting periods) of (i) Common Shares or any class of stock convertible into Common Shares and/or (ii) Common OP Units or preferred units or any other class of units convertible into Common OP Units, in an amount equal to fifty one (51%) percent or more of the sum total of the Common Shares and the Common OP Units (treating all classes of outstanding Common Shares, units or other securities convertible into Common Shares as if they were converted into Common Shares or Common OP Units, as the case may be, and then treating Common Shares and Common OP Units as if they were

a single class) issued and outstanding immediately prior to such acquisition as if they were a single class and disregarding any equity raise in connection with the financing of such transaction; or (B) the dissolution or liquidation of the Trust or the consummation of any merger or consolidation of the Trust if the shareholders of the Trust and unit holders of the Partnership taken as a whole and considered as one class immediately before such transaction own, immediately after consummation of such transaction, equity securities and partnership units possessing less than fifty (50%) percent of the surviving or acquiring Trust and partnership taken as a whole; or (C) or the sale or other disposition of all or substantially all of its assets, or (D) a turnover, during any two (2) year period, of the majority of the members of the Board, without the consent of the remaining members of the Board as to the appointment of the new Board members.

In addition, all (A) incentive compensation payments or programs of any nature whether stock based or otherwise that are subject to a vesting schedule, including without limitation restricted stock, phantom stock, units and any loan forgiveness arrangements granted to the Senior Officer ("Incentive Compensation") shall immediately vest as of the date of such termination ("Vested Incentive Compensation") and (B) options granted to the Senior Officer shall immediately vest as of the date of such termination (the "Vested Options") and the Senior Officer shall be entitled at the option of the Senior Officer, his estate or his personal representative, within three years of the date of such termination, to exercise any options which have vested (including, without limitation, by acceleration in accordance with the terms of the Agreement, the applicable option grant agreement or the current Acadia stock option plan (the "Plan")) and are exercisable in accordance with the terms of the applicable option grant agreement or plan and/or any other methods or procedures for exercise applicable to optionees.

Except for any rights which the Senior Officer may have to all of the above including unpaid Accrued Salary, Severance Salary, Vested Incentive Compensation, Vested Options, Expense Reimbursement, the Car Allowance and the Bonus, the Trust shall have no further obligations hereunder following such termination.

The parties both agree that the agreement to make these payments was consideration and an inducement to obtain Senior Officer's consent to enter into this Agreement. The payments are not a penalty and neither party will claim them to be a penalty. Rather, the payments represent a fair approximation of reasonable amounts due to the Senior Officer.

4. Change in Control.

(a) Options. Any options granted to the Senior Officer that have not vested as of the date of a Change in Control shall immediately vest upon the date of the Change in Control. Neither the occurrence of a Change in Control, nor the vesting in any options as a result thereof shall require the Senior Officer to exercise any options.

(b) Restricted Stock. Any restricted stock granted to the Senior Officer that have not vested as of the date of a Change in Control shall immediately vest upon the date of the Change in Control. In the event of a conflict between any restricted stock agreement or the Plan and this Agreement, the terms of this Agreement shall control.

(c) Upon Termination. If the surviving entity terminates Senior Officer's employment Without Cause, the Trust shall pay to the Senior Officer, and the Senior Officer shall be entitled to, all the payments and rights the Senior Officer would have had if the Senior Officer had terminated his employment with Good Reason as set forth in Paragraph 3, including the payments due under Paragraph 3.(vi) and (vii), but less the value of any severance payments Senior Officer receives from the surviving entity after the date of the Change of Control. The rights described herein are subject to the provisions of Section 6(b).

5. Indemnification/Legal Fees.

(a) Indemnification. In the event the Senior Officer is made party or threatened to be made a party to any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of Senior Officer's employment with or serving as an officer of the Trust, whether or not the basis of such Proceeding is alleged action in an official capacity, the Trust shall indemnify, hold harmless and defend Senior Officer to the fullest extent authorized by Maryland law, as the same exists and may hereafter be amended, against any and all claims, demands, suits, judgments, assessments and settlements including all expenses incurred or suffered by Senior Officer in connection therewith (including, without limitation, all legal fees incurred using counsel reasonably acceptable to Senior Officer) and such indemnification shall continue as to Senior Officer even after Senior Officer is no longer employed by the Trust and shall inure to the benefit of his heirs, executors, and administrators. Expenses incurred by Senior Officer in connection with any Proceeding shall be paid by the Trust in advance upon request of Senior Officer that the Trust pay such expenses; but only in the event that Senior Officer shall have delivered in writing to the Trust an undertaking to reimburse the Trust for expenses with respect to which Senior Officer is not entitled to indemnification. The provisions of this Paragraph shall remain in effect after this Agreement is terminated irrespective of the reasons for termination. The indemnification provisions of this Paragraph shall not supersede or reduce any indemnification provided to Senior Officer under any separate agreement, or the by-laws of the Trust since it is intended that this Agreement shall expand and extend the Senior Officer's rights to receive indemnity.

(b) Legal Fees. If any contest or dispute shall arise between the Trust and Senior Officer regarding or as a result of any provision of this Agreement, the Trust shall reimburse Senior Officer for all legal fees and expenses reasonably incurred by Senior Officer in connection with such contest or dispute, but only if Senior Officer is successful in respect of substantially all of Senior Officer's claims pursued or defended in connection with such contest or dispute. Such reimbursement shall be made as soon as practicable following the resolution of such contest or dispute (whether or not appealed).

6. Successors and Assigns, Term.

(a) The Trust shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Trust, by agreement in form and substance satisfactory to Senior Officer, to expressly assume and agree to perform this

Agreement in the same manner and to the same extent that the Trust would be required to perform it if no such succession had taken place. Failure of the Trust to obtain any such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle Senior Officer to compensation from the Trust in the same amount and on the same terms as he would be entitled to hereunder if Senior Officer terminated his employment for Good Reason hereunder in accordance with the terms as set forth in Paragraph 1.(a)(iv), except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the date of termination. In the event of such a breach of this Agreement, the Notice of Termination shall specify such date as the date of termination. As used in this Agreement, "Trust" shall mean the Trust as hereinbefore defined and any successor to all or substantially all of its business and/or its assets as aforesaid which executes and delivers the Agreement provided for in this Paragraph 6 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law. Any cash payments owed to Senior Officer pursuant to this Paragraph 6 shall be paid to Senior Officer in a single sum without discount for early payment immediately prior to the consummation of the transaction with such successor. Nothing in this Paragraph 6(a) shall be construed to interfere with the Trust's right to implement or pursue such succession.

(b) Notwithstanding anything to the contrary contained herein, this Agreement, including the obligations described in Section 4.(c), shall terminate and be of no further force and effect 18 months from the date of a Change of Control.

7. Timing of and No Duplication of Payments.

All payments payable to Senior Officer pursuant to this Agreement shall be paid as soon as practicable after such amounts have become fully vested and determinable. In addition, Senior Officer shall not be entitled to receive duplicate payments under any of the provisions of this Agreement.

8. Modification or Waiver.

No amendment, modification, waiver, termination or cancellation of this Agreement shall be binding or effective for any purpose unless it is made in a writing signed by the party against whom enforcement of such amendment, modification, waiver, termination or cancellation is sought. No course of dealing between or among the parties to this Agreement shall be deemed to affect or to modify, amend or discharge any provision or term of this Agreement. No delay on the part of the Trust or Senior Officer in the exercise of any of their respective rights or remedies shall operate as a waiver thereof, and no single or partial exercise by the Trust or Senior Officer of any such right or remedy shall preclude other or further exercise thereof. A waiver of right to remedy on any one occasion shall not be construed as a bar to or waiver of any such right or remedy on any other occasion.

The respective rights and obligations of the parties hereunder shall survive the Senior Officer's termination of employment and termination of this Agreement to the extent necessary for the intended preservation of such rights and obligations.

9. Notices.

All notices or other communications required or permitted hereunder shall be made in writing and shall be deemed to have been duly given if delivered by hand or delivered by a recognized delivery service or mailed, postage prepaid, by express, certified or registered mail, return receipt requested, and addressed to the Trust at the address set forth above or Senior Officer at his address as set forth in the Trust records (or to such other address as shall have been previously provided in accordance with this Paragraph 10).

10. Governing Law.

This Agreement will be governed by and construed in accordance with the laws of the State of New York.

11. Severability.

Whenever possible, each provision and term of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision or term of this Agreement shall be held to be prohibited by or invalid under such applicable law, then, such provision or term shall be ineffective only to the extent of such prohibition or invalidity, without invalidating or affecting in any manner whatsoever the remainder of such provisions or term or the remaining provisions or terms of this Agreement.

12. Legal Representation.

Each of the Trust and Senior Officer has had an opportunity to discuss this Agreement with counsel.

13. Counterparts.

This Agreement may be executed in separate counterparts, each of which is deemed to be an original and both of which taken together shall constitute one and the same Agreement.

14. Headings.

The headings of the Paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute a part hereof and shall not affect the construction or interpretation of this Agreement.

15. Entire Agreement.

This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof and supersedes all other prior agreements and undertakings, both written and oral, among the parties with respect to the subject matter hereof.

16. Survival of Agreements.

The covenants made in Paragraphs 1 through 5 each shall survive the termination of this Agreement.

17. Binding Effect.

This Agreement shall be binding on the Trust, its successors and assigns, including any surviving entity resulting from a merger, consolidation or other corporate reorganization.

18. Senior Officer's Covenants.

Senior Officer covenants and agrees that a) he shall not solicit for employment any personnel employed by the Trust at the time of his termination for a period of two years from his Date of Termination as long as such personnel is still employed by the Trust. Nothing contained herein to the contrary, however, shall prevent Senior Officer from providing a reference for any such personnel and b) he shall not disparage the Trust.

19. Confidentiality.

Senior Officer and the Trust agree to keep this Agreement confidential to the extent permitted by law. Senior Officer agrees to keep confidential all information in his possession regarding the Company, its properties and its plans, which is not generally known to the public.

20. Excess Parachute Payments

Any provision of this Agreement to the contrary notwithstanding, if any of the payments or benefits provided for in this Agreement, together with any other payments which Employee has a right to receive from the Company or any of its affiliates, constitute a "parachute payment", as defined in Section 280G(b)(2) of the Internal Revenue Code of 1986, as amended (the "Code"), payments pursuant to this Agreement shall be reduced, if necessary to the largest amount as will result in no portion of such payments being subject to the excise tax imposed by Section 4999 of the Code, all as determined by the Company's regularly engaged independent public accountants.

21. Prior Understandings.

This Agreement embodies the entire contract between the parties hereto with respect to employment and severance and supersedes any and all prior agreements and understandings, written or oral, formal or informal by and between the Trust and the Senior Officer.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first above written.

ACADIA REALTY TRUST

By: _____
Kenneth F. Bernstein
President

Name: Michael Nelsen
Title: Senior Vice President

LIST OF SUBSIDIARIES OF
ACADIA REALTY TRUST

Acadia Realty Limited Partnership
Acadia Realty Trust
Acadia Property Holdings, LLC
Acadia Realty Services, Inc.
Acadia Realty Acquisition I, LLC
Acadia Realty Management Services, Corp.
Acadia Strategic Opportunity Fund, L.P.
Acadia Bartow Avenue, LLC

239 Greenwich Associates Limited Partnership
Acadia 239 Greenwich Avenue, LLC
Crossroads Joint Venture
Crossroads II
RD Abington Associates Limited Partnership
RD Absecon Associates, L.P.
RD Absecon, Inc.
RD Bloomfield Associates Limited Partnership
RD Branch Associates L.P.
RD Columbia Associates, L.P.
RD Elmwood Associates, L.P.

Heathcote Associates, L.P.
Acadia Heathcote, LLC
RD Hendon Realty, Inc.
RD Hobson Associates, L.P.
Acadia Mad River Property LLC

Acadia Merrillville Realty, L.P.
Acadia Merrillville Realty, Inc.
RD Methuen Associates Limited Partnership
Pacesetter/Ramapo Associates
Acadia Pacesetter LLC
Port Bay Associates, LLC
RD Smithtown, LLC
Sound View Management LLC
Acadia Town Line, LLC
RD Village Associates Limited Partnership
RD Whitegate Associates, L.P.
RD Woonsocket Associates Limited Partnership

Blackman Fifty L.P.
Blackman Fifty Realty Corp.
Mark Plaza Fifty L.P.
Mark Plaza Fifty Realty Corp.
Mark Twelve Associates, L.P.
New Castle Fifty Realty Corp.

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-95966) pertaining to the 1999 Share Incentive Plan of Acadia Realty Trust, in the Registration Statement (Form S-3 No. 33-85190) of Acadia Realty Trust, and in the Registration Statement (Form S-3 No. 333-31630) of Acadia Realty Trust, of our report dated February 25, 2003, with respect to the consolidated financial statements and schedule of Acadia Realty Trust included in this Annual Report on Form 10-K for the year ended December 31, 2002.

/s/ ERNST & YOUNG LLP

New York, New York
March 26, 2003

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

In connection with the Annual Report of Acadia Realty Trust (the "Company") on Form 10-K for the year ended December 31, 2002 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. ss. 1350, as adopted pursuant to ss. 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
March 26, 2003

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

In connection with the Annual Report of Acadia Realty Trust (the "Company") on Form 10-K for the year ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael Nelsen, Sr. Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Michael Nelsen

Michael Nelsen
Sr. Vice President and Chief Financial Officer
March 26, 2003