

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, 2003

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.)

1311 Mamaroneck Avenue, Suite 260
White Plains, NY 10605
(Address of principal executive offices)

(914) 288-8100
(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 the last business day of the Registrant's most recently completed second fiscal quarter was \$247.3 million, based on a price of \$9.14 per share, the average 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 12, 2004 was 27,449,472.

DOCUMENTS INCORPORATED BY REFERENCE

Part III – Definitive proxy statement for the 2004 Annual Meeting of Shareholders presently scheduled to be held May 6, 2004, 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 may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities and Exchange Act of 1934 and as such may involve known and unknown risks, uncertainties and other factors which may cause the Company's actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements, which are based on certain assumptions and describe the Company's future plans, strategies and expectations are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "intend" or "project" or the negative thereof or other variations thereon or comparable terminology. Factors which could have a material adverse effect on the operations and future prospects of the Company include, but are not limited to those set forth under the heading "Risk Factors" in this Annual Report on Form 10-K. These risks and uncertainties should be considered in evaluating any forward-looking statements contained or incorporated by reference herein.

PART I

ITEM 1. BUSINESS

GENERAL

Acadia Realty Trust (the “Company”) 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 primarily 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, 2003, the Company controlled 96% 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”.

A total of 2,212 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. These units 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. A total of 1,580 Series A Preferred OP Units were outstanding as of December 31, 2003 following the conversion of 632 Preferred OP Units to Common OP Units during 2003.

On January 27, 2004, the Operating Partnership issued 4,000 Series B Preferred Units in connection with the acquisition from Klaff Realty, L.P. (“Klaff”) of its rights to provide asset management, leasing, disposition, development and construction services for an existing portfolio of retail properties. These units have a stated value of \$1,000 each and are entitled to a quarterly preferred distribution of the greater of (i) \$13.00 (5.2% 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 convertible into Common OP Units based on the stated value of \$1,000 divided by \$12.82 at any time. Additionally, the holder of the Preferred OP Units may redeem them at par for either cash or Common OP Units (at the Company’s option) after the earlier of the third anniversary of their issuance, or the occurrence of certain events including a change in control of the Company. Finally, after the fifth anniversary of the issuance, the Company may redeem the Preferred OP Units and convert them into Common OP Units at market value as of the redemption date. In response to a subsequent request from Klaff, the Company’s Board of Trustees approved a waiver on February 24, 2004 which allows Klaff to redeem 1,500 Preferred OP Units at any time for cash.

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 OP Units and 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 February 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. To accomplish this goal, the Company conducted a “Modified Dutch Auction” tender offer (the “Tender Offer”) which permitted it to provide liquidity to some shareholders and at the same time benefit its remaining shareholders by acquiring shares at an attractive price. Upon completion of 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 Ross Dworman, former Chairman of the Board of Trustees, who participated in the Tender Offer. The aggregate purchase price paid for the 5,523,974 Shares was \$33.4 million.

RECENT DEVELOPMENTS

On January 27, 2004, the Company entered into a venture (the “Venture”) with Klaff and Klaff’s long time capital partner Lubert-Adler Management, Inc. (“Lubert-Adler”) for the purpose of making investments in surplus or underutilized properties owned by retailers. The initial size of the Venture is expected to be approximately \$300 million in equity based on anticipated investments of approximately \$1 billion. The Venture is currently exploring investment opportunities, but has not yet made any commitments. Each participant in the Venture has the right to opt out of any potential investment. The Company and its current acquisition fund, Acadia Strategic Opportunity Fund (“ASOF”), as well as possible subsequent joint venture funds sponsored by the Company, anticipate investing 20% of the equity of the Venture. Cash flow is to be distributed to the partners until they have received a 10% cumulative return and a full return of all contributions. Thereafter, remaining cash flow is to be distributed 20% to Klaff (“Klaff’s Promote”) and 80% to the partners (including Klaff). Profits earned on up to \$20.0 million of the Company’s contributed capital is not subject to Klaff’s Promote. The Company will also earn market-rate fees for property management, leasing and construction services on behalf of the Venture.

The Company has also acquired Klaff’s rights to provide asset management, leasing, disposition, development and construction services for an existing portfolio of retail properties and/or leasehold interests comprised of approximately 10 million square feet of retail space located throughout the United States (the “Klaff Properties”). The acquisition involves only Klaff’s rights associated with operating the Klaff Properties and does not include equity interests in assets owned by Klaff or Lubert-Adler. The Operating Partnership issued \$4.0 million of Preferred OP Units to Klaff in consideration of this acquisition as discussed in further detail under Item 1. - Business – General of this Form 10-K.

BUSINESS OBJECTIVES AND STRATEGIES

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. The Company focuses on the following fundamentals to achieve this objective:

- Own and operate a portfolio of community and neighborhood shopping centers anchored by necessity-based and value-oriented retail and located in markets with strong demographics
- Maintain a strong and flexible balance sheet through conservative financial practices while ensuring access to sufficient capital to fund future growth
- Generate internal growth within the portfolio through aggressive redevelopment, re-anchoring and leasing activities
- Generate external growth through an opportunistic yet disciplined acquisition program. The emphasis is on targeting transactions with high inherent opportunity for the creation of additional value through redevelopment and leasing and/or transactions requiring creative capital structuring to facilitate the transactions

Operating and Growth Strategies

Currently, the primary conduits for the Company’s acquisition program is through its existing acquisition joint venture, ASOF, as well as the new Venture established to invest in surplus or underutilized properties owned or controlled by retailers as discussed under “Recent Developments”.

Through ASOF, 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 with the potential to create significant additional value through re-tenanting, timely capital improvements and property redevelopment. The Company considers both single assets and portfolios in its acquisition program. Although the Company currently operates properties in the Northeast, Mid-Atlantic and Midwest region, and therefore focuses on potential acquisitions within these geographic areas, it would consider portfolio acquisitions outside its current geographic footprint.

Through the new Venture, the Company will seek to invest opportunistically in any of the following three ways:

- working with financially healthy retailers to create value from their surplus real estate;
- acquiring properties, designation rights or other control of real estate or leases associated with retailers in bankruptcy; and
- completing sale leasebacks with retailers in need of capital.

The Company also regularly engages in discussions with public and private entities regarding business combinations. 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.

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 continually focuses on maintaining a strong balance sheet when considering the sourcing of capital. The Company manages its interest rate risk primarily through the use of variable and fixed rate debt. It also utilizes LIBOR 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.

PROPERTY ACQUISITIONS THROUGH 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. Since the formation of ASOF, the Company has used it as the primary vehicle for the acquisitions of assets.

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 based upon certain investment return thresholds. Cash flow is distributed pro-rata to the partners (including the Company) until they have received a 9% cumulative return on, and a return of all capital contributions. Thereafter, remaining cash flow is 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 30 assets in three separate transactions. Details of these transactions are as follows:

2003 Acquisitions

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

Brandywine Town Center - A two phase open-air value retail center. The first phase ("Phase I") is approximately 450,000 square feet and 99% occupied, with tenants including Lowe's, Bed Bath & Beyond, Regal Cinema, Michaels, PetSmart, Old Navy, Annie Sez, Thomasville Furniture and Dick's Sporting Goods. The second phase ("Phase II") consists of approximately 420,000 square feet of existing space, of which Target occupies 138,000 square feet. The balance of Phase II is currently not occupied.

The initial investment for this portfolio was approximately \$86.3 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 “Earn-out”). The additional investment, depending on the Earn-out, 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 \$48.9 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 supermarket 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.

2002 Acquisitions

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.

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 and completed it in 2002. Non-core assets were identified based on factors including property type and location, tenant mix and potential income growth as well as whether a property complemented other assets within the Company's portfolio. The Company sold 28 non-core assets in connection with this initiative comprising a total of approximately 4.6 million square feet of retail properties and 800 multi-family units, for a total sales price of \$158.4 million which generated net sale proceeds to the Company of \$82.5 million.

Property Redevelopment and Expansion

The Company's redevelopment program focuses on selecting well-located neighborhood and community shopping centers and creating significant value through re-tenanting and property redevelopment. During 2003, the Company substantially completed the redevelopment of three shopping centers and added an additional project to its redevelopment pipeline as follows:

Gateway Shopping Center – The redevelopment of the Gateway Shopping Center, formerly a partially enclosed mini-mall with an undersized Grand Union, included the demolition of 90% of the existing building and the construction of a new anchor supermarket. The center has been converted into a new open-air community shopping center anchored with a 72,000 square foot Shaw's supermarket which opened during March of 2003. Approximately 11,000 square feet of small shop space remains to be leased at the property. Total costs for this project, including the original acquisition costs, aggregated \$17.9 million.

Plaza 422 – Home Depot held its grand opening during fourth quarter of 2003 at the Plaza 422 redevelopment project located in Lebanon, Pennsylvania. The expansion of the former 83,000 square foot Ames space to a 104,000 square foot Home Depot included the recapture and demolition of the formerly enclosed portion of this center. The Company is now collecting triple the base rent of that which was paid by Ames. In connection with the redevelopment project, the Company also recaptured another 48,000 square feet of space, for which re-leasing is currently underway. The majority of redevelopment costs were paid directly by Home Depot. The Company's share of costs for this project totaled \$402,000.

New Loudon Center – The Bon Ton Department Store also opened for business during the fourth quarter of 2003 as part of the redevelopment of the New Loudon Center located in Latham, New York. Occupying 66,000 square feet formerly occupied by an Ames department store, Bon Ton is paying base rent at a 15% increase over that of Ames. In addition, the Company has leased the balance of the former Ames space to Marshall's, an existing tenant at the center, which will be expanding its current 26,000 square foot store to 37,000 square feet. The Company will also install a new 49,000 square foot Raymour and Flanigan Furniture store at this center. Following the completion of this project in mid-2004, this community shopping center will be 100% occupied. Costs incurred to date by the Company for this project totaled \$418,000. The remaining costs to complete this redevelopment project are to be paid directly by the above tenants.

Town Line Plaza – This project, located in Rocky Hill, Connecticut, was added to the Company's redevelopment pipeline in December of 2003. The Company is re-anchoring the center with a new Super Stop & Shop supermarket, replacing a former GU Markets supermarket. The existing building is being demolished and will be replaced with a 66,000 square foot Super Stop & Shop. The new supermarket anchor is paying gross rent at a 33% increase over that of the former tenant with no interruption in rent payments. Costs to date for this project totaled \$1.7 million. All remaining redevelopment costs associated with this project, which is anticipated to be completed during the first quarter of 2005, are to be paid by Stop & Shop.

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 1311 Mamaroneck Avenue, Suite 260, White Plains, New York 10605, and its telephone number is (914) 288-8100. The Company has 112 employees, of which 52 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.

COMPANY WEBSITE

All of the Company's filings with the Securities and Exchange Commission, including the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are available free of charge at the Company's website at www.acadiarealty.com, as soon as reasonably practicable after the Company electronically file such material with, or furnish it to, the Securities and Exchange Commission. These filings can also be accessed through the Securities and Exchange Commission's website at www.sec.gov. Alternatively, the Company will provide paper copies of its filings free of charge upon request.

CODE OF ETHICS AND WHISTLEBLOWER POLICIES

During 2003, the Company's Board of Trustees adopted a Code of Ethics for Senior Financial Officers that applies to the Company's Chief Executive Officer, Chief Financial Officer, Director of Financial Reporting, Controller and Assistant Controller. The Board also adopted a Code of Business Conduct and Ethics applicable to all employees, as well as a "Whistleblower Policy". Copies of these documents are available in the Investor Information section of the Company's website.

RISK FACTORS

If any of the following risks actually occur, the Company's business, results of operations and financial condition would likely suffer. This section includes or refers to certain forward-looking statements. Refer to the explanation of the qualifications and limitations on such forward-looking statements discussed elsewhere in this Annual Report on Form 10-K.

The Company relies on revenues derived from major tenants.

The Company derives significant revenues from certain anchor tenants that occupy more than one center. The Company could be adversely affected in the event of the bankruptcy or insolvency of, or a downturn in the business of, any of the Company's major tenants, or in the event that any such tenant does not renew its leases as they expire or renews at lower rental rates. Vacated anchor space not only would reduce rental revenues if not re-tenanted at the same rental rates but also could adversely affect the entire shopping center because of the loss of the departed anchor tenant's customer drawing power. Loss of customer drawing power also can occur through the exercise of the right that most anchors have to vacate and prevent re-tenanting by paying rent for the balance of the lease term, or the departure of an anchor tenant that owns its own property. In addition, in the event that certain major tenants cease to occupy a property, such an action may result in a significant number of other tenants having the right to terminate their leases, or pay a reduced rent based on a percentage of the tenant's sales, at the affected property, which could adversely affect the future income from such property.

Tenants may seek the protection of the bankruptcy laws, which could result in the rejection and termination of their leases and thereby cause a reduction in the cash flow available for distribution by the Company. Such reduction could be material if a major tenant files bankruptcy. For example, Kmart Corporation ("Kmart"), which represents 4.3% of the Company's annual base rental income, filed for bankruptcy protection under Chapter 11 of the United States bankruptcy laws ("Chapter 11 Bankruptcy") and while it did not do so, it could have rejected its leases. See the discussion of bankruptcy risks under Risk Factors.

Limited control over joint venture investments.

The Company's joint venture investments may involve risks not otherwise present for investments made solely by the Company, including the possibility that the Company's joint venture partner might have different interests or goals than the Company does. Other risks of joint venture investments include impasse on decisions, such as a sale, because neither the Company nor a joint venture partner would have full control over the joint venture. Also, there is no limitation under the Company's organizational documents as to the amount of funds that may be invested in joint ventures.

Under the terms of the Company's ASOF joint venture, the Company is required to first offer to ASOF all of the Company's opportunities to acquire retail shopping centers. Only if (i) the Company's joint venture partner elects not to approve ASOF's pursuit of an acquisition opportunity (ii) the ownership of the acquisition opportunity by ASOF would create a material conflict of interest for the Company, (iii) the Company requires the acquisition opportunity for a "like-kind" exchange; or (iv) the consideration payable for the acquisition opportunity is the Company's Common Shares, OP Units or other securities, may the Company pursue the opportunity directly. As a result, the Company may not be able to make attractive acquisitions directly and may only receive a minority interest in such acquisitions through ASOF.

The Company operates through a partnership structure, which could have an adverse effect on the Company's ability to manage the Company's assets.

The Company's primary property-owning vehicle is the Operating Partnership, of which the Company is the general partner. The Company's acquisition of properties through the Operating Partnership in exchange for interests in the Operating Partnership may permit certain tax deferral advantages to limited partners who contribute properties to the Operating Partnership. Since properties contributed to the Operating Partnership may have unrealized gain attributable to the difference between the fair market value and adjusted tax basis in such properties prior to contribution, the sale of such properties could cause adverse tax consequences to the limited partners who contributed such properties. Although the Company, as the general partner of the Operating Partnership, generally has no obligation to consider the tax consequences of the Company's actions to any limited partner, there can be no assurance that the Operating Partnership will not acquire properties in the future subject to material restrictions designed to minimize the adverse tax consequences to the limited partners who contribute such properties. Such restrictions could result in significantly reduced flexibility to manage the Company's assets.

There are risks relating to investments in real estate.

Value of Real Estate is Dependent on Numerous Factors. Real property investments are subject to varying degrees of risk. Real estate values are affected by a number of factors, including: changes in the general economic climate, local conditions (such as an oversupply of space or a reduction in demand for real estate in an area), the quality and philosophy of management, competition from other available space, the ability of the owner to provide adequate maintenance and insurance and to control variable operating costs. Shopping centers, in particular, may be affected by changing perceptions of retailers or shoppers regarding the safety, convenience and attractiveness of the shopping center and by the overall climate for the retail industry generally. Real estate values are also affected by such factors as government regulations, interest rate levels, the availability of financing and potential liability under, and changes in, environmental, zoning, tax and other laws. As substantially all of the Company's income is derived from rental income from real property, the Company's income and cash flow would be adversely affected if a significant number of the Company's tenants were unable to meet their obligations, or if the Company were unable to lease on economically favorable terms a significant amount of space in the Company's properties. In the event of default by a tenant, the Company may experience delays in enforcing, and incur substantial costs to enforce, the Company's rights as a landlord. In addition, certain significant expenditures associated with each equity investment (such as mortgage payments, real estate taxes and maintenance costs) are generally not reduced when circumstances cause a reduction in income from the investment.

The bankruptcy of, or a downturn in the business of, any of the Company's major tenants may adversely affect the Company's cash flows and property values.

The bankruptcy of, or a downturn in the business of, any of the Company's major tenants causing them to reject their leases, or not renew their leases as they expire, or renew at lower rental rates may adversely affect the Company's cash flows and property values. Furthermore, the impact of vacated anchor space and the potential reduction in customer traffic may adversely impact the balance of tenants at the center.

Certain of the Company's tenants have experienced financial difficulties and have filed for 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 a claim for lost rent equal to the greater of either one year's rent (including tenant expense reimbursements) 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.

Since January 1, 2002, there have been three significant tenant bankruptcies within the Company's portfolio. On January 22, 2002 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 Kmart at these locations totaled \$2.8 million and \$2.7 million for the years ended December 31, 2003 and 2002, respectively. Kmart also operated in a location occupying 101,000 square feet at a property in which the Company holds a 49% ownership interest. The Company's pro-rata share of rental revenues from the tenant at this location were \$558,000 and \$564,000 for the years ended December 31, 2003 and 2002, respectively. On May 5, 2003, Kmart emerged from bankruptcy and continues to operate at all of the above locations.

On May 30, 2003, The Penn Traffic Company ("Penn Traffic") filed for protection under Chapter 11 Bankruptcy. Penn Traffic operates in one location in the Company's wholly-owned portfolio in 52,000 square feet. Rental revenues from this tenant at this location were \$516,000 and \$493,000 for the years ended December 31, 2003 and 2002, respectively. Penn Traffic also operated in a location occupying 55,000 square feet at a property in which the Company, through ASOF, holds a 22% ownership interest. The Company's pro-rata share of rental revenues from the tenant at this location were \$147,000 and \$36,000 for the years ended December 31, 2003 and 2002, respectively. Penn Traffic continues to operate in the Company's wholly-owned location, but has neither assumed nor rejected this lease. Penn Traffic has ceased operations at the joint venture location and rejected the lease at this location on February 20, 2004.

On January 14, 2004, KB Toys (“KB”) filed for protection under Chapter 11 Bankruptcy. KB operates in five locations in the Company’s wholly-owned portfolio totaling approximately 41,000 square feet. Rental revenues from KB at these locations aggregated \$739,000 and \$724,000 for the years ended December 31, 2003 and 2002, respectively. KB also operates in a location occupying 20,000 square feet at a property in which the Company holds a 22% ownership interest. Through ASOF, the Company’s pro-rata share of rental revenues from the tenant at this location were \$87,000 and \$0 for the years ended December 31, 2003 and 2002, respectively. KB continues to operate in the Company’s wholly-owned location, but has ceased operations at the joint venture location. KB has neither assumed nor rejected any of these leases.

The Company could be adversely affected by poor market conditions where properties are geographically concentrated.

The Company’s performance depends on the economic conditions in markets in which the Company’s properties are concentrated. The Company has significant exposure to the New York region, from which the Company derives 48.1% of the annual base rents within its wholly-owned portfolio. The Company’s operating results could be adversely affected if market conditions, such as an oversupply of space or a reduction in demand for real estate, in this area becomes more competitive relative to other geographic areas.

The Company’s ability to change the Company’s portfolio is limited because real estate investments are illiquid.

Equity investments in real estate are relatively illiquid and, therefore, the Company’s ability to change the Company’s portfolio promptly in response to changed conditions will be limited. The Company’s board of trustees may establish investment criteria or limitations as it deems appropriate, but currently does not limit the number of properties in which the Company may seek to invest or on the concentration of investments in any one geographic region. The Company could change the Company’s investment, disposition and financing policies without a vote of the Company’s shareholders.

Market interest rates could have an adverse effect on the Company’s share price.

One of the factors that may influence the trading price of the Company’s Common Shares is the annual dividend rate on the Company’s Common Shares as a percentage of its market price. An increase in market interest rates may lead purchasers of the Company’s Common Shares to demand a higher annual dividend rate, which could adversely affect the market price of the Company’s Common Shares and the Company’s ability to raise additional equity in the public markets.

The Company could become highly leveraged, resulting in increased risk of default on the Company’s obligations and in an increase in debt service requirements which could adversely affect the Company’s financial condition and results of operations and the Company’s ability to pay distributions.

The Company has incurred, and expects to continue to incur, indebtedness in furtherance of the Company’s activities. Neither the Company’s Declaration of Trust nor any policy statement formally adopted by the Company’s board of trustees limits either the total amount of indebtedness or the specified percentage of indebtedness that the Company may incur. Accordingly, the Company could become more highly leveraged, resulting in increased risk of default on the Company’s obligations and in an increase in debt service requirements which could adversely affect the Company’s financial condition and results of operations and the Company’s ability to make distributions.

The Company’s loan agreements contain customary representations, covenants and events of default. Certain loan agreements require the Company to comply with certain affirmative and negative covenants, including the maintenance of certain debt service coverage and leverage ratios. In addition, as of December 31, 2003, loans secured by five of the Company’s properties, totaling \$50.7 million, are subject to cross-collateralization and cross-default provisions, loans secured by three other properties, aggregating \$12.0 million, are also subject to cross-collateralization and cross-default provisions and two loans, aggregating \$24.1 million, are also subject to cross-collateralization and cross-default provisions.

Of the Company’s total outstanding debt, \$57.8 million will become due in 2005. 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 \$578,000 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, 2003 would increase by \$340,000 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.

The Company may not be able to renew current leases and the terms of re-letting (including the cost of concessions to tenants) may be less favorable to the Company than current lease terms.

Upon the expiration of current leases for space located in the Company's properties, the Company may not be able to re-let all or a portion of that space, or the terms of re-letting (including the cost of concessions to tenants) may be less favorable to the Company than current lease terms. If the Company is unable to re-let promptly all or a substantial portion of the space located in the Company's properties or if the rental rates the Company receives upon re-letting are significantly lower than current rates, the Company's net income and ability to make expected distributions to the Company's shareholders will be adversely affected due to the resulting reduction in rent receipts. There can be no assurance that the Company will be able to retain tenants in any of the Company's properties upon the expiration of their leases. See Item 2 – Properties – Lease Expirations in this Annual Report on Form 10-K for additional information as to the scheduled lease expirations in the Company's portfolio.

Possible liability relating to environmental matters.

Under various federal, state and local environmental laws, statutes, ordinances, rules and regulations, as an owner of real property, the Company may be liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, in or under the Company's property, as well as certain other potential costs relating to hazardous or toxic substances (including government fines and penalties and damages for injuries to persons and adjacent property). These laws may impose liability without regard to whether the Company knew of, or were responsible for, the presence or disposal of those substances. This liability may be imposed on the Company in connection with the activities of an operator of, or tenant at, the property. The cost of any required remediation, removal, fines or personal or property damages and the Company's liability therefore could exceed the value of the property and/or the Company's aggregate assets. In addition, the presence of those substances, or the failure to properly dispose of or remove those substances, may adversely affect the Company's ability to sell or rent that property or to borrow using that property as collateral, which, in turn, would reduce the Company's revenues and ability to make distributions.

A property can also be adversely affected either through physical contamination or by virtue of an adverse effect upon value attributable to the migration of hazardous or toxic substances, or other contaminants that have or may have emanated from other properties. Although the Company's tenants are primarily responsible for any environmental damages and claims related to the leased premises, in the event of the bankruptcy or inability of any of the Company's tenants to satisfy any obligations with respect to the property leased to that tenant, the Company may be required to satisfy such obligations. In addition, the Company may be held directly liable for any such damages or claims irrespective of the provisions of any lease.

From time to time, in connection with the conduct of the Company's business, and prior to the acquisition of any property from a third party or as required by the Company's financing sources, the Company authorizes the preparation of Phase I environmental reports and, when necessary, Phase II environmental reports, with respect to the Company's properties. Based upon these environmental reports and the Company's ongoing review of the Company's properties, as of the date of this prospectus supplement, the Company is not aware of any environmental condition with respect to any of the Company's properties that the Company believes would be reasonably likely to have a material adverse effect on the Company. There can be no assurance, however, that the environmental reports will reveal all environmental conditions at the Company's properties or that the following will not expose the Company to material liability in the future:

- the discovery of previously unknown environmental conditions;
- changes in law;
- activities of tenants; or
- activities relating to properties in the vicinity of the Company's properties.

Changes in laws increasing the potential liability for environmental conditions existing on properties or increasing the restrictions on discharges or other conditions may result in significant unanticipated expenditures or may otherwise adversely affect the operations of the Company's tenants, which could adversely affect the Company's financial condition or results of operations.

Competition may adversely affect the Company's ability to purchase properties and to attract and retain tenants.

There are numerous commercial developers, real estate companies, financial institutions and other investors with greater financial resources than the Company has that compete with the Company in seeking properties for acquisition and tenants who will lease space in the Company's properties. The Company's competitors include other REITs, financial institutions, insurance companies, pension funds, private companies and individuals. This competition may result in a higher cost for properties that the Company wishes to purchase.

In addition, retailers at the Company's properties face increasing competition from outlet malls, discount shopping clubs, internet commerce, direct mail and telemarketing, which could (i) reduce rents payable to the Company; (ii) reduce the Company's ability to attract and retain tenants at the Company's properties; and (iii) lead to increased vacancy rates at the Company's properties.

The Company has pursued, and may in the future continue to pursue extensive growth opportunities which may result in significant demands on the Company's operational, administrative and financial resources.

The Company has pursued extensive growth opportunities. This expansion has placed significant demands on the Company's operational, administrative and financial resources. The continued growth of the Company's real estate portfolio can be expected to continue to place a significant strain on its resources. The Company's future performance will depend in part on the Company's ability to successfully attract and retain qualified management personnel to manage the growth and operations of the Company's business and to finance such acquisitions. In addition, acquired properties may fail to operate at expected levels due to the numerous factors which may affect the value of real estate. There can be no assurance that the Company will have sufficient resources to identify and manage acquired properties or otherwise be able to maintain the Company's historic rate of growth.

The Company's inability to carry out the Company's growth strategy could adversely affect the Company's financial condition and results of operations.

The Company's growth strategy is based on the acquisition and development of additional properties, including acquisitions through co-investment programs such as joint ventures. In the context of the Company's business plan, "development" generally means an expansion or renovation of an existing property. The consummation of any future acquisitions will be subject to satisfactory completion of the Company's extensive valuation analysis and due diligence review and to the negotiation of definitive documentation. The Company cannot be sure that the Company will be able to implement the Company's strategy because the Company may have difficulty finding new properties, negotiating with new or existing tenants or securing acceptable financing.

Acquisitions of additional properties entail the risk that investments will fail to perform in accordance with expectations, including operating and leasing expectations. Redevelopment is subject to numerous risks, including risks of construction delays, cost overruns or force majeure that may increase project costs, new project commencement risks such as the receipt of zoning, occupancy and other required governmental approvals and permits, and the incurrence of development costs in connection with projects that are not pursued to completion.

The Company's board of trustees may change the Company's investment policy without shareholder approval.

The Company's board of trustees will determine the Company's investment and financing policies, the Company's growth strategy and the Company's debt, capitalization, distribution, acquisition, disposition and operating policies. The Company's board of trustees may establish investment criteria or limitations as it deems appropriate, but currently does not limit the number of properties in which the Company may seek to invest or on the concentration of investments in any one geographic region. Although the Company's board of trustees has no present intention to revise or amend the Company's strategies and policies, it may do so at any time without a vote by the Company's shareholders. Accordingly, the Company's shareholders' control over changes in the Company's strategies and policies is limited to the election of trustees, and changes made by the Company's board of trustees may not serve the interests of the Company's shareholders and could adversely affect the Company's financial condition or results of operations, including the Company's ability to distribute cash to shareholders or qualify as a REIT.

There can be no assurance that the Company has qualified or will remain qualified as a REIT for federal income tax purposes.

The Company believes that the Company has met the requirements for qualification as a REIT for federal income tax purposes beginning with the Company's taxable year ended December 31, 1993, and the Company intends to continue to meet these requirements in the future. However, qualification as a REIT involves the application of highly technical and complex provisions of the Internal Revenue Code, for which there are only limited judicial or administrative interpretations. No assurance can be given that the Company has qualified or will remain qualified as a REIT. The Internal Revenue Code provisions and income tax regulations applicable to REITs are more complex than those applicable to corporations. The determination of various factual matters and circumstances not entirely within the Company's control may affect the Company's ability to continue to qualify as a REIT. In addition, no assurance can be given that legislation, regulations, administrative interpretations or court decisions will not significantly change the requirements for qualification as a REIT or the federal income tax consequences of such qualification. If the Company does not qualify as a REIT, the Company would not be allowed a deduction for distributions to shareholders in computing the Company's net taxable income. In addition, the Company's income would be subject to tax at the regular corporate rates. The Company also could be disqualified from treatment as a REIT for the four taxable years following the year during which qualification was lost. Cash available for distribution to the Company's shareholders would be significantly reduced for each year in which the Company does not qualify as a REIT. In that event, the Company would not be required to continue to make distributions.

Although the Company currently intends to continue to qualify as a REIT, it is possible that future economic, market, legal, tax or other considerations may cause the Company, without the consent of the shareholders, to revoke the REIT election or to otherwise take action that would result in disqualification.

Distribution requirements imposed by law limit the Company's operating flexibility.

To maintain the Company's status as a REIT for federal income tax purposes, the Company is generally required to distribute to the Company's shareholders at least 90% of the Company's taxable income for that calendar year. The Company's taxable income is determined without regard to any deduction for dividends paid and by excluding net capital gains. To the extent that the Company satisfies the distribution requirement, but distribute less than 100% of the Company's taxable income, the Company will be subject to federal corporate income tax on the Company's undistributed income. In addition, the Company will incur a 4% nondeductible excise tax on the amount, if any, by which the Company's distributions in any year are less than the sum of (i) 85% of the Company's ordinary income for that year, (ii) 95% of the Company's capital gain net income for that year and (iii) 100% of the Company's undistributed taxable income from prior years. The Company intends to continue to make distributions to the Company's shareholders to comply with the distribution requirements of the Internal Revenue Code and to reduce exposure to federal income and nondeductible excise taxes. Differences in timing between the receipt of income and the payment of expenses in determining the Company's income and the effect of required debt amortization payments could require us to borrow funds on a short-term basis in order to meet the distribution requirements that are necessary to achieve the tax benefits associated with qualifying as a REIT.

Uninsured losses or a loss in excess of insured limits could adversely affect the Company's financial condition.

The Company carries comprehensive liability, fire, extended coverage and rent loss insurance on most of the Company's properties, with policy specifications and insured limits customarily carried for similar properties. However, with respect to those properties where the leases do not provide for abatement of rent under any circumstances, the Company generally does not maintain rent loss insurance. In addition, there are certain types of losses, such as losses resulting from wars, terrorism or acts of God that generally are not insured because they are either uninsurable or not economically insurable. Should an uninsured loss or a loss in excess of insured limits occur, the Company could lose capital invested in a property, as well as the anticipated future revenues from a property, while remaining obligated for any mortgage indebtedness or other financial obligations related to the property. Any loss of these types would adversely affect the Company's financial condition.

Limits on ownership of the Company's capital shares.

For the Company to qualify as a REIT for federal income tax purposes, among other requirements, not more than 50% of the value of the Company's capital shares may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities) during the last half of each taxable year after 1993, and such capital shares must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year (in each case, other than the first such year). The Company's Declaration of Trust includes certain restrictions regarding transfers of the Company's capital shares and ownership limits that are intended to assist the Company in satisfying these limitations. These restrictions and limits may not be adequate in all cases, however, to prevent the transfer of the Company's capital shares in violation of the ownership limitations. The ownership limit discussed above may have the effect of delaying, deferring or preventing someone from taking control of the Company.

Actual or constructive ownership of the Company's capital shares in excess of the share ownership limits contained in the Company's Declaration of Trust would cause the violative transfer or ownership to be null and void from the beginning and subject to purchase by the Company at a price equal to the lesser of (i) the price stipulated in the challenged transaction and (ii) the fair market value of such shares (determined in accordance with the rules set forth in the Company's declaration of trust). As a result, if a violative transfer were made, the recipient of the shares would not acquire any economic or voting rights attributable to the transferred shares. Additionally, the constructive ownership rules for these limits are complex and groups of related individuals or entities may be deemed a single owner and consequently in violation of the share ownership limits.

Adverse legislative or regulatory tax changes could have an adverse effect on the Company.

There are a number of issues associated with an investment in a REIT that are related to the federal income tax laws, including, but not limited to, the consequences of failing to continue to qualify as a REIT. At any time, the federal income tax laws governing REITs or the administrative interpretations of those laws may be amended. Any of those new laws or interpretations may take effect retroactively and could adversely affect the Company or the Company's shareholders. Recently enacted legislation reduces tax rates applicable to certain corporate dividends paid to most domestic noncorporate shareholders. REIT dividends generally would not be eligible for reduced rates because a REIT's income generally is not subject to corporate level tax. As a result, investment in non-REIT corporations may be viewed as relatively more attractive than investment in REITs by domestic noncorporate investors. This could adversely affect the market price of the Company's shares.

Concentration of ownership by certain investors.

Yale University currently owns or controls 8.8 million of the Company's Common Shares, representing 32.2% of the Company's total outstanding voting securities. However, the Company and Yale have established a voting trust whereby all shares that Yale owns 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. In addition, three other shareholders own more than 5% individually, and 20.1% in the aggregate, of the Company's Common Shares.

A significant concentration of ownership may allow an investor to exert a greater influence over the Company's management and affairs and may have the effect of delaying, deferring or preventing a change in control of the Company.

Restrictions on a potential change of control.

The Company's Board of Trustees is authorized by the Company's Declaration of Trust to establish and issue one or more series of preferred shares without shareholder approval. The Company has not established any series of preferred shares, however the establishment and issuance of a series of preferred shares could make more difficult a change of control of the Company that could be in the best interest of the shareholders.

In addition, the Company has entered into an employment agreement with the Chief Executive Officer of the Company and severance agreements are in place with the Company's senior vice presidents which provide that, upon the occurrence of a change in control of the Company, those executive officers would be entitled to certain termination or severance payments made by the Company (which may include a lump sum payment equal to defined percentages of annual salary and prior years' average bonuses, paid in accordance with the terms and conditions of the respective agreement, which could deter a change of control of the Company that could be in the Company's best interest.

The loss of a key executive officer could have an adverse effect on the Company.

The success of the Company depends on the contribution of key management members. The loss of the services of Kenneth F. Bernstein, President and Chief Executive Officer, or other key executive-level employees could have a material adverse effect on the Company's results of operations. Although the Company has entered into an employment agreement with the Company's President, Kenneth F. Bernstein, the loss of his services could have an adverse effect on the Company's operations.

ITEM 2. PROPERTIES

SHOPPING CENTER PROPERTIES

The discussion and tables in Item 2 includes six properties held through joint ventures in which the Company owns a partial interest (“Joint Venture Portfolio”). Except where noted, it does not include the Company’s partial interest in 25 anchor-only leases with Kroger and Safeway supermarkets as previously discussed in Item 1. – Property Acquisitions, as the majority of these properties are free-standing and all are triple-net leases.

As of December 31, 2003, the Company owned and operated 35 shopping centers as part of its wholly-owned portfolio and the Joint Venture Portfolio, which included a mixed-use property (retail and residential) and three properties under redevelopment. The Company’s shopping centers, which total approximately 6.5 million square feet of gross leasable area (“GLA”), are located in 12 states and are generally well-established, anchored community and neighborhood shopping centers. The properties are diverse in size, ranging from approximately 31,000 to 614,000 square feet with an average size of 185,000 square feet. As of December 31, 2003, the Company’s wholly-owned portfolio and the Joint Venture Portfolio were approximately 88% and 98% occupied, respectively. The Company’s shopping centers are typically anchored by supermarkets or value-oriented retail.

The Company had approximately 500 leases as of December 31, 2003, of which 63%, 24% and 13% of the rental revenues received therefrom were from national, regional and local tenants, respectively. 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 92% of the Company’s total revenues for the year ended December 31, 2003.

As of December 31, 2003, 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 1% of the total 2003 revenues of the Company.

Four 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 at three locations and is responsible for all costs and expenses associated with the building and improvements at all four locations.

No individual property contributed in excess of 10% of the Company’s total revenues for the years ended December 31, 2003, 2002 and 2001.

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, 2003:

Shopping Center	Location	Year Constructed(C) Acquired(A)	Ownership Interest	GLA	Occupancy (1) % 12/31/03	Anchor Tenants (2) Current Lease Expiration Lease Option Expiration
NEW ENGLAND REGION						
<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	206,178(4)	100%	Stop & Shop 2023/2063(5) Wal*Mart(4)
<u>Massachusetts</u>						
Methuen Shopping Center	Methuen	1998(A)	LI/Fee (7)	130,238	100%	Wal*Mart 2011/2051 DeMoulas Market 2005/2015
Crescent Plaza	Brockton	1984(A)	Fee	218,277	100%	Home Depot 2021/2051 Shaw’s 2012/2042
<u>Rhode Island</u>						
Walnut Hill Plaza	Woonsocket	1998(A)	Fee	285,773	100%	Sears 2008/2033 Shaw’s 2013/2043
<u>Vermont</u>						
The Gateway Shopping Center	South Burlington	1999(A)	Fee	100,563(6)	84%	Shaw’s 2024/2054

Shopping Center Property	Location	Year Constructed(C) Acquired(A)	Ownership Interest	GLA	Occupancy (1) % 12/31/03	Anchor Tenants (2) Current Lease Expiration Lease Option Expiration
NEW YORK REGION						
<u>New Jersey</u>						
Berlin Shopping Center	Berlin	1994 (A)	Fee	188,717	80%	Kmart 2004/2029 Acme 2005/2015
Elmwood Park Shopping Center	Elmwood Park	1998 (A)	Fee	149,676	100%	Pathmark 2017/2052 Walgreen's 2022/2062
Ledgewood Mall	Ledgewood	1983 (A)	Fee	515,980	88%	The Sports' Authority 2007/2037 Macy's 2005/2030 Wal*Mart 2019/2049 Circuit City 2020/2040 Marshall's 2007/2027
Marketplace of Absecon	Absecon	1998 (A)	Fee	105,251	93%	Eckerd Drug 2020/2040 Acme 2015/2055
<u>New York</u>						
Branch Shopping Plaza	Smithtown	1998 (A)	LI (7)	125,640	96%	Waldbaum's 2013/2028
New Loudon Center	Latham	1982 (A)	Fee	254,332	75%	Price Chopper 2015/2035 Marshall's 2014/2029(8) Bon Ton 2014/2034 (8)
Village Commons Shopping Center	Smithtown	1998 (A)	Fee	87,285	96%	Daffy's 2008/2028 Walgreens 2021/none
Soundview Marketplace	Port Washington	1998 (A)	LI/Fee (7)	182,367	92%	King Kullen 2007/2042 Clearview Cinema 2010/2030
Pacesetter Park Shopping Center	Pomona	1999 (A)	Fee	96,252	84%	Stop & Shop 2020/2040
MID-ATLANTIC REGION						
<u>Pennsylvania</u>						
Abington Towne Center	Abington	1998 (A)	Fee	216,542(9)	98%	TJ Maxx 2010/2020 Target (9)
Blackman Plaza	Wilkes-Barre	1968 (C)	Fee	121,341	92%	Kmart 2004/2049 (10)
Bradford Towne Centre	Towanda	1993 (C)	Fee	256,939	89%	Kmart 2019/2069 P&C Foods 2014/2024 (16)
East End Centre	Wilkes-Barre	1986 (C)	Fee	308,283	52%	Price Chopper 2008/2028
Greenridge Plaza	Scranton	1986 (C)	Fee	198,393	53%	Giant Food 2021/2051
Luzerne Street Shopping Center	Scranton	1983 (A)	Fee	57,988	94%	Price Chopper 2004/2024 (11) Eckerd Drug 2004/2019
Mark Plaza	Edwardsville	1968 (C)	LI/Fee (7)	214,036	91%	Kmart 2004/2054 (10) Redner's Markets 2018/2028
Pittston Plaza	Pittston	1994 (C)	Fee	79,494	98%	Redner's Markets 2018/2028 Eckerd Drug 2006/2016
Plaza 422	Lebanon	1972 (C)	Fee	155,026	69%	Home Depot 2028/2058 (12)
Route 6 Mall	Honesdale	1994 (C)	Fee	175,507	99%	Kmart 2020/2070

Shopping Center Property	Location	Year Constructed(C) Acquired(A)	Ownership Interest	GLA	Occupancy (1) % 12/31/03	Anchor Tenants (2) Current Lease Expiration Lease Option Expiration
MIDWEST REGION						
<u>Illinois</u>						
Hobson West Plaza	Naperville	1998 (A)	Fee	99,044	99%	Bobak's Market & Restaurant 2007/2032
<u>Indiana</u>						
Merrillville Plaza	Merrillville	1998 (A)	Fee	235,603	100%	JC Penney 2008/2018 Office Max 2008/2028 TJ Maxx 2004/2014
<u>Michigan</u>						
Bloomfield Town Square	Bloomfield Hills	1998 (A)	Fee	217,499	88%	TJ Maxx 2009/2014 Marshalls 2011/2026 Home Goods 2010/2025
<u>Ohio</u>						
Mad River Station	Dayton	1999 (A)	Fee	154,325(13)	80%	Office Depot 2005/2010 Babies 'R' Us 2005/2020
Wholly-owned portfolio				5,153,383	88%	

PROPERTIES HELD IN JOINT VENTURES
NEW YORK REGION

<u>New York</u>						
Crossroads Shopping Center	White Plains	1998 (A)	JV (14)	310,919	99%	Kmart 2012/2037 Waldbaum's 2007/2032 B. Dalton 2012/2022 Modell's 2009/2019 Pay Half 2018/none

MIDWEST REGION

<u>Ohio</u>						
Amherst Marketplace	Cleveland	2002 (A)	JV (15)	79,937	100%	Giant Eagle 2021/2041
Granville Centre	Columbus	2002 (A)	JV (15)	131,543	88%	Big Bear 2020/2050 (16) California Fitness 2017/2027
Sheffield Crossing	Cleveland	2002 (A)	JV (15)	112,634	94%	Giant Eagle 2022/2042

MID-ATLANTIC REGION

<u>Delaware</u>						
Brandywine Town Center (17)	Wilmington	2003 (A)	JV (15)	614,289	99%	Target 2018/2068 Lowe's Home Centers 2018/2048 Dick's Sporting Goods 2013/2028 Bed Bath & Beyond 2014/2029 Old Navy (Gap) 2011/2016
Market Square Shopping Center	Wilmington	2003 (A)	JV (15)	87,760	100%	Trader Joe's 2013/2028 TJ Maxx 2006/2016
Joint Venture Portfolio				1,337,082	98%	

Notes:

- (1) Does not include space leased for which rent has not yet commenced.
- (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) Following the recapture, demolition and reconstruction of the existing supermarket building, a new Super Stop & Shop supermarket will open at this center during the first quarter of 2005. Although not yet open, rent has commenced pursuant to the lease.
- (6) The newly built 72,000 square foot Shaw's supermarket opened during the second quarter 2003 at this redevelopment project. The balance of the newly constructed small shop space is in its initial lease-up phase.
- (7) The Company is a ground lessee under a long-term ground lease.
- (8) The Bon Ton Department Store opened for business in 66,000 square feet on November 21, 2003 as part of the redevelopment of this property. Additional space which has been leased, but is not yet occupied consists of approximately 11,000 square feet to Marshall's, an existing tenant at the center, which will be expanding its current 26,000 square foot store to 37,000 square feet, and 49,000 square feet to Raymour and Flanigan Furniture. Following these tenants taking occupancy in mid-2004, this community shopping center will be 100% leased.
- (9) Includes a 157,616 square foot Target Store that is not owned by the Company.
- (10) Kmart has notified the Company of its intentions to exercise its option to renew the lease upon expiration of the current lease term.
- (11) This tenant has ceased operating in their space but continues to pay rent pursuant to the lease.
- (12) Home Depot opened in 104,000 square feet at this shopping center redevelopment in December 2003. In connection with the project, the Company also recaptured another 48,000 square feet of space, for which re-leasing is underway.
- (13) The GLA for this property includes 28,205 square feet of office space.
- (14) The Company has a 49% investment in this property.
- (15) The Company has a 22% investment in this property.
- (16) This is a subsidiary of Penn Traffic, which is currently operating under Chapter 11 bankruptcy. Penn Traffic continues to operate at the Bradford Towne Centre, but has neither accepted nor rejected this lease. Penn Traffic ceased operations at the Granville Centre and rejected the lease at this location on February 20, 2004.
- (17) Does not include 240,000 square feet of new space in Phase II of the Brandywine Town Center, which will be paid for by the Company on an Earn-out basis only if, and when, it is leased.

MAJOR TENANTS

No individual retail tenant accounted for more than 4.7% of minimum rents for the year ended December 31, 2003 or 9.9% of total leased GLA as of December 31, 2003. The following table sets forth certain information for the 25 largest retail tenants based upon minimum rents in place as of December 31, 2003. The table includes leases related to the Company's partial interest in 25 anchor-only leases with Kroger and Safeway supermarkets. The below amounts include the Company's pro-rata share of GLA and annualized base rent for its partial ownership interest in 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	175	\$ 2,337	3.0%	4.7%
Kmart	6	570	2,148	9.9%	4.3%
T.J. Maxx	9	245	1,923	4.3%	3.9%
Ahold (Giant, Stop & Shop) (3)	3	179	1,549	3.1%	3.1%
Wal*Mart	2	210	1,515	3.6%	3.1%
Price Chopper (4)	3	168	1,296	2.9%	2.7%
A&P / Waldbaum's	2	82	1,168	1.4%	2.4%
Eckerd Drug (5)	8	90	1,054	1.6%	2.1%
Home Depot	2	211	1,010	3.7%	2.0%
Pathmark	1	48	955	0.8%	1.9%
Restoration Hardware	1	12	930	0.2%	1.9%
Acme (Albertson's)	2	76	919	1.3%	1.9%
Redners Supermarket	2	112	863	2.0%	1.7%
Safeway (6)	13	104	832	1.8%	1.7%
Kroger (7)	12	122	829	2.1%	1.7%
KB Toys (8)	6	46	669	0.8%	1.4%
Macy's	1	73	611	1.3%	1.2%
Clearview Cinema (9)	1	25	596	0.5%	1.2%
JC Penney	2	73	592	1.3%	1.2%
Payless Shoe Source	12	41	589	0.7%	1.2%
Walgreen's	2	24	589	0.4%	1.2%
King Kullen	1	48	563	0.8%	1.1%
Blockbuster Video	5	23	505	0.4%	1.0%
Fashion Bug (Charming Shoppes) (10)	9	88	470	1.5%	1.0%
Total	108	2,845	\$ 24,512	49.4%	49.6%

Notes:

- (1) Base rents do not include percentage rents (except where noted), additional rents for property expense reimbursements, and contractual rent escalations due after December 31, 2003.
- (2) Represents total GLA and annualized base rent for the Company's retail properties including its pro-rata share of joint venture properties.
- (3) The Company will be installing a new Super Stop & Shop supermarket in connection with the redevelopment of Town Line Plaza. Although not yet open, rent has commenced pursuant to the lease.
- (4) The tenant is currently not operating the store at the Luzerne Street Shopping Center. They are obligated, and continue, to pay annual minimum rent of \$178 until the lease expires on April 30, 2004.
- (5) Subsidiary of JC Penney. The store at the Berlin Shopping Center has ceased operating, but continues to pay annual rent of \$30 pursuant to the lease which expires November 30, 2004. The Route 6 Plaza location has been sublet to Advance Auto and expires 2011.
- (6) Safeway has sub-leased seven of these locations to supermarket tenants, one location to a non-supermarket tenant and ceased operations at one other location. Safeway is obligated to pay rent through the full term of all these leases which expire in 2009.
- (7) Kroger has sub-leased four of these locations to supermarket tenants, two locations to a non-supermarket tenant and ceased operations at one other location. Kroger is obligated to pay rent through the full term of these leases which expire in 2009.
- (8) The tenant is currently operating under Chapter 11 bankruptcy and, to date has neither affirmed nor rejected its leases at any of these locations.
- (9) Subsidiary of Cablevision.
- (10) This tenant pays percentage rent only (no minimum rent) at four of its locations. Included in the above rent is \$245 of percentage rent paid for calendar 2003.

LEASE EXPIRATIONS

The following table shows scheduled lease expirations for retail tenants in place as of December 31, 2003, assuming that none of the tenants exercise renewal options. 255,000 square feet of GLA owned by anchor tenants are not included in the below table. Leases related to the Company's joint venture properties are shown separately below before the Company's pro-rata share of annual base rent and GLA (GLA and rent in thousands):

Wholly-Owned Portfolio:

Leases maturing in	Number of Leases	Annualized Base Rent (1)		GLA	
		Current Annual Rent	Percentage of Total	Square feet	Percentage of Total
2004	65	\$ 2,734	6%	354	8%
2005	54	4,403	10%	434	10%
2006	54	2,447	6%	199	5%
2007	56	4,181	10%	377	9%
2008	57	4,694	11%	424	10%
2009	39	3,354	8%	460	11%
2010	19	2,426	6%	212	5%
2011	18	2,120	5%	195	5%
2012	8	988	2%	73	2%
2013	15	2,312	5%	164	4%
Thereafter	30	13,011	31%	1,366	31%
Total	415	\$ 42,670	100%	4,258	100%

Joint Venture Portfolio:

Leases maturing in	Number of Leases	Annualized Base Rent (1)		GLA	
		Current Annual Rent	Percentage of Total	Square feet	Percentage of Total
2004	14	\$ 1,554	8%	65	5%
2005	7	512	3%	21	2%
2006	9	760	4%	52	4%
2007	12	1,458	7%	78	6%
2008	11	927	5%	38	3%
2009	4	366	2%	30	2%
2011	5	1,645	9%	73	6%
2012	7	1,752	9%	160	12%
2013	7	2,007	11%	117	9%
Thereafter	15	8,008	42%	673	51%
Total	91	\$ 18,989	100%	1,307	100%

Note:

(1) Base rents do not include percentage rents, additional rents for property expense reimbursements, nor contractual rent escalations due after December 31, 2003.

GEOGRAPHIC CONCENTRATIONS

The following table summarizes the Company's retail properties by region as of December 31, 2003. (GLA and rent in thousands):

Region	GLA (1)	Occupied % (2)	Annualized Base Rent (2)	Annualized Base Rent per Leased Square Foot	Percentage of Total Represented by Region	
					GLA	Annualized Base Rent
Wholly-Owned Portfolio:						
New York Region	1,706	88%	\$ 19,116	\$ 12.77	33%	45%
New England	958	98%	9,106	10.78	19%	22%
Midwest	706	92%	7,001	10.80	14%	16%
Mid-Atlantic	1,783	80%	7,447	6.28	34%	17%
Total Wholly-Owned Portfolio	5,153	88%	\$ 42,670	\$ 10.22	100%	100%
Joint Venture Portfolio:						
Midwest (3)	324	93%	\$ 3,193	\$ 10.56	24%	17%
Mid-Atlantic (3,4)	702	99%	10,272	14.72	52%	54%
New York Region (5)	311	99%	5,524	17.99	24%	29%
Total Joint Venture Portfolio	1,337	98%	\$ 18,989	\$ 14.53	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 excluded for calculating annualized base rent per square foot.
- (2) The above occupancy and rent amounts do not include space which is currently leased, but for which rent payment has not yet commenced
- (3) The Company has a 22% interest in Acadia Strategic Opportunity Fund which owns these properties.
- (4) Does not include 240 square feet of new space in Phase II of the Brandywine Town Center, which will be paid for by the Company on an Earn-out basis only if, and when it is leased.
- (5) The Company has a 49% interest in two partnerships which, together, own the Crossroads Shopping Center.

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, 2003, had an average occupancy rate of 94%. The following sets forth more specific information with respect to each of the Company's multi-family properties at December 31, 2003:

Multi-Family Property	Location	Year Acquired	Ownership Interest	Units	% Occupied
Missouri					
Gate House, Holiday House, Tiger Village and Colony Apartments(1)	Columbia	1998	Fee	874	98%
North Carolina					
Village Apartments	Winston Salem	1998	Fee	600	89%
Totals				1,474	94%

Notes:

- (1) The Company owns four contiguous 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.

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 2003.

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, 2003 and 2002.

Quarter Ended	High	Low	Dividend Per Share
2003			
March 31, 2003	\$ 8.15	\$ 7.40	\$ 0.145
June 30, 2003	9.25	8.02	0.145
September 30, 2003	11.50	9.06	0.145
December 31, 2003	12.68	10.81	0.16
2002			
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

At March 12, 2004, there were 288 holders of record of the Company’s Common Shares.

(b) Dividends

The Company has determined that 100% of the total dividends distributed to shareholders in 2003 represented ordinary income. 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.

(c) Issuer purchases of equity securities

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 12, 2004, the Company had repurchased 1,899,486 Common Shares (net of 155,199 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. There were no Common Shares repurchased by the Company during the fourth quarter of the fiscal year ended December 31, 2003.

(d) Securities authorized for issuance under equity compensation

The following table provides information related to the Company's 1999 Share Incentive Plan (the "1999 Plan") and 2003 Share Incentive Plan (the "2003 Plan") as of December 31, 2003:

	Equity Compensation Plan Information		
	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted- average exercise price of outstanding options, warrants and rights	(c) 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	2,095,150	\$ 7.04	1,101,622 (1)
Equity compensation plans Not approved by security holders	—	—	—
Total	2,095,150	\$ 7.04	1,101,622 (1)

Notes:

- (1) The 1999 and 2003 Plans authorize the issuance of options equal to up to a total of 12% 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 and 2003 Plans. Remaining available is based on 27,409,141 outstanding Common Shares and 1,139,017 OP Units as of December 31, 2003, less the issuance of a total of 229,007 restricted shares granted through the same date.

ITEM 6. 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,				
	2003	2002	2001	2000	1999
OPERATING DATA:					
Revenues	\$ 69,445	\$ 69,347	\$ 61,282	\$ 63,450	\$ 58,933
Operating expenses	34,703	30,894	29,049	28,736	27,651
Interest expense	11,231	11,017	12,370	15,877	13,686
Depreciation and amortization	17,909	14,804	13,745	13,136	12,241
Abandoned project costs	—	274	—	—	—
Gain in sale of land	1,187	1,530	—	—	—
Equity in earnings of unconsolidated partnerships	2,411	628	504	645	584
Minority interest	(1,347)	(2,999)	(1,466)	(1,952)	(1,832)
Income from continuing operations	7,853	11,517	5,156	4,394	4,107
Income from discontinued operations	—	7,882	4,795	15,513	3,088
Income before cumulative effect of a change in accounting principle	7,853	19,399	9,951	19,907	7,195
Cumulative effect of a change in accounting principle	—	—	(149)	—	—
Net income	\$ 7,853	\$ 19,399	\$ 9,802	\$ 19,907	\$ 7,195
Basic earnings per share:					
Income from continuing operations	\$ 0.30	\$ 0.46	\$ 0.18	\$ 0.16	\$ 0.16
Income from discontinued operations	—	0.31	0.18	0.59	0.12
Cumulative effect of a change in accounting principle	—	—	(0.01)	—	—
Basic earnings per share	\$ 0.30	\$ 0.77	\$ 0.35	\$ 0.75	\$ 0.28
Diluted earnings per share:					
Income from continuing operations	\$ 0.29	\$ 0.45	\$ 0.18	\$ 0.16	\$ 0.16
Income from discontinued operations	—	0.31	0.18	0.59	0.12
Cumulative effect of a change in accounting principle	—	—	(0.01)	—	—
Diluted earnings per share	\$ 0.29	\$ 0.76	\$ 0.35	\$ 0.75	\$ 0.28
Weighted average number of Common Shares outstanding					
- basic	26,589	25,321	28,313	26,437	25,709
- diluted (1)	27,496	25,806	—	—	—
BALANCE SHEET DATA:					
Real estate before accumulated depreciation	\$ 427,628	\$ 413,878	\$ 398,416	\$ 387,729	\$ 389,111
Total assets	388,184	410,935	493,939	523,611	570,803
Total mortgage indebtedness	190,444	202,361	211,444	193,693	213,154
Minority interest – Operating Partnership	7,875	22,745	37,387	48,959	74,462
Total equity	169,734	161,323	179,098	179,317	152,487
OTHER:					
Funds from Operations (2)	\$ 27,664	\$ 30,162	\$ 13,487	\$ 31,789	\$ 31,160
Cash flows provided by (used in):					
Operating activities	19,082	24,918	20,521	19,197	25,886
Investing activities	(19,400)	24,646	(11,199)	(11,165)	(19,930)
Financing activities	(30,187)	(58,807)	(7,047)	(45,948)	14,201

Notes:

- (1) For 1999 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.
- (2) The Company considers funds from operations ("FFO") as defined by the National Association of Real Estate Investment Trusts ("NAREIT") to be an appropriate supplemental disclosure of operating performance for an equity REIT due to its widespread acceptance and use within the REIT and analyst communities. FFO is presented to assist investors in analyzing the performance of the Company. It is helpful as it excludes various items included in net income that are not indicative of the operating performance, such as gains (or losses) from sales of property and depreciation and amortization. However, the Company's method of calculating FFO may be different from methods used by other REITs and, accordingly, may not be comparable to such other REITs. FFO does not represent cash generated from operations as defined by generally accepted accounting principles ("GAAP") and is not indicative of cash available to fund all cash needs, including distributions. It should not be considered as an alternative to net income for the purpose of evaluating the Company's performance or to cash flows as a measure of liquidity. Consistent with the NAREIT definition, the Company defines FFO as net income (computed in accordance with GAAP), excluding gains (or losses) from sales of depreciated property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. The Company historically had added back impairments in real estate in calculating FFO, in accordance with prior NAREIT guidance. However, NAREIT, based on discussions with the SEC, has provided revised guidance that provides that impairments should not be added back to net income in calculating FFO. As such, historical FFO has been restated consistent with this revised guidance. 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 Annual Report on Form 10-K may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities and Exchange Act of 1934 and as such may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements, which are based on certain assumptions and describe the Company's future plans, strategies and expectations are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "intend" or "project" or the negative thereof or other variations thereon or comparable terminology. Factors which could have a material adverse effect on the operations and future prospects of the Company include, but are not limited to those set forth under the heading "Risk Factors" in this Annual Report on Form 10-K. These risks and uncertainties should be considered in evaluating any forward-looking statements contained or incorporated by reference herein.

OVERVIEW

The Company currently operates 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 primarily in the Northeast, Mid-Atlantic and Midwestern regions of the United States and, in total, comprise approximately nine million square feet. The Company receives income primarily from the rental revenue from its properties, including recoveries from tenants, offset by operating and overhead expenses.

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

- Focus on maximizing the return on its existing portfolio through leasing and property redevelopment activities. The Company's redevelopment program is a significant and ongoing component of managing its existing portfolio and focuses on selecting well-located neighborhood and community shopping centers and creating significant value through re-tenanting and property redevelopment.
- Pursue above-average returns through an disciplined and opportunistic acquisition program. The primary conduits for the Company's acquisition program are through its existing acquisition joint venture, ASOF, as well as the new venture established to invest in surplus or underutilized properties owned or controlled by retailers as discussed under Item 1. Business - Recent Developments in this Annual Report on Form 10-K.
- Maintain a strong balance sheet, which provides the Company with the financial flexibility to fund both property redevelopment and acquisition opportunities.

RESULTS OF OPERATIONS

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

Total revenues increased \$98,000 to \$69.4 million for 2003 compared to \$69.3 million for 2002.

Minimum rents increased \$1.7 million, or 3%, to \$50.2 million for 2003 compared to \$48.5 million for 2002. This increase was attributable to an increase in rents following the redevelopment of the Elmwood Park and Gateway shopping centers and an increase in rents from re-tenanting activities and renewals of tenant leases across the portfolio. These increases were partially offset by a decrease in rents following Ames Department Stores' bankruptcy.

In total, expense reimbursements increased \$2.1 million, or 19%, from \$11.4 million for 2002 to \$13.5 million for 2003. CAM expense reimbursements increased \$1.6 million, or 34%, from \$4.7 million in 2002 to \$6.3 million in 2003. This resulted primarily from tenant reimbursements of higher snow removal costs following the harsh winter of 2003 as well as tenant reimbursements of higher insurance costs throughout the portfolio. Real estate tax reimbursements increased \$457,000 primarily as a result of the variance in real estate tax expense as discussed below.

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

Other income increased \$97,000, or 3%, from \$3.9 million in 2002 to \$4.0 million in 2003. This was primarily due to a lump sum additional rent payment of \$1.2 million received from a former tenant during 2003 in connection with the re-anchoring of the Branch Plaza and an increase of \$527,000 in management fee income received from ASOF in 2003. These increases were partially offset by a decrease in interest income during 2003 due to lower interest earning assets, including cash investments and notes receivable, as well as the decline in interest rates.

Total operating expenses increased \$6.6 million, or 14%, to \$52.6 million for 2003, from \$46.0 million for 2002.

Property operating expenses increased \$2.9 million, or 24%, to \$15.2 million for 2003 compared to \$12.3 million for 2002. This was a result of higher snow removal costs due to the harsh winter of 2003 and higher insurance costs throughout the portfolio.

Real estate taxes increased \$352,000, or 4%, from \$8.4 million in 2002 to \$8.8 million in 2003. This increase was attributable to higher real estate taxes experienced generally throughout the portfolio and a 2002 adjustment of accrued real estate taxes for an acquired property. These increases were primarily offset by a real estate tax refund agreed to in 2003 related to the appeal of taxes paid in prior years at the Greenridge Plaza.

General and administrative expense increased \$561,000, or 6%, from \$10.2 million for 2002 to \$10.7 million for 2003. This increase was primarily attributable to stock-based compensation. These increases were offset by additional costs paid in 2002 related to the Company's tender offer and repurchase of its Common Shares.

Depreciation and amortization increased \$3.1 million, or 21%, from \$14.8 million for 2002 to \$17.9 million for 2003. Depreciation expense increased \$3.5 million. This was a result of the write-off of \$2.7 million of unamortized tenant improvement costs related to the buyout and termination of the former anchor at the Town Line Plaza redevelopment project. In addition, depreciation expense increased following the Elmwood Park redevelopment project being placed in service during the fourth quarter of 2002 and the Gateway project being placed in service during the first quarter of 2003. Amortization expense decreased \$443,000, which was primarily attributable to the write-off of deferred leasing costs during 2002 related to certain tenant leases.

Interest expense of \$11.2 million for 2003 increased \$214,000, or 2%, from \$11.0 million for 2002. This was primarily attributable to a decrease of \$528,000 in capitalized interest in 2003 and a \$198,000 increase in interest expense as a result of higher average interest rates on the portfolio debt for 2003. These increases were offset by a \$512,000 decrease resulting from lower average outstanding borrowings during 2003.

Income from discontinued operations decreased \$7.9 million due to the timing of property sales in 2002.

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 due to increased portfolio occupancy in 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 \$3.2 million, or 7%, to \$46.0 million for 2002, from \$42.8 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 \$1.1 million, or 8%, from \$13.7 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 \$468,000, 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 \$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.

Income from discontinued operations increased \$3.1 million due to the timing of property sales in 2002 and 2001.

Funds from Operations

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

Consistent with the NAREIT definition, the Company defines FFO as net income (computed in accordance with GAAP), excluding gains (or losses) from sales of depreciated property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. The Company historically had added back impairments in real estate in calculating FFO, in accordance with prior NAREIT guidance. However, NAREIT, based on discussions with the SEC, has provided revised guidance that provides that impairments should not be added back to net income in calculating FFO. As such, historical FFO has been restated consistent with this revised guidance. The reconciliations of net income to FFO for the years ended December 31, 2003, 2002, 2001, 2000 and 1999 are as follows:

Reconciliation of Net Income to Funds from Operations

	For the Years Ended December 31,				
	2003	2002	2001	2000	1999
Net income	\$ 7,853	\$ 19,399	\$ 9,802	\$ 19,907	\$ 7,195
Depreciation of real estate and amortization of leasing costs:					
Wholly owned and consolidated partnerships	16,957	15,305	18,422	19,325	18,949
Unconsolidated partnerships	2,107	662	627	625	626
Income attributable to minority interest (1)	747	2,928	2,221	5,674	3,106
(Gain)loss on sale of properties	—	(8,132)	(17,734)	(13,742)	1,284
Cumulative effect of change in accounting principle	—	—	149	—	—
Funds from operations	\$ 27,664	\$ 30,162	\$ 13,487	\$ 31,789	\$ 31,160

Notes:

(1) Represents income attributable to Common Operating Partnership Units and does not include distributions paid on Preferred OP Units.

LIQUIDITY AND CAPITAL RESOURCES

USES OF LIQUIDITY

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

Distributions

In order to qualify as a REIT for Federal income tax purposes, the Company must currently distribute at least 90% of its taxable income to its shareholders. For the first three quarters during 2003, the Company paid a quarterly dividend of \$0.145 per Common Share and Common OP Unit. In December of 2003, the Board of Trustees approved and declared a 10% increase in the Company's quarterly dividend to \$0.16 per Common Share and Common OP Unit for the fourth quarter of 2003 which was paid January 15, 2004. On February 26, 2004, the Board of Trustees approved and declared a quarterly dividend of \$0.16 per Common Share and Common OP Unit payable April 15, 2004 to shareholders and OP unitholders of record as of March 31, 2004.

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. Since the formation of ASOF, the Company has used it as the primary vehicle for the acquisition of assets.

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

To date, ASOF has purchased a total of 30 assets in three separate transactions. Details of the transactions completed during 2003 are as follows:

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 100% leased and anchored by a T.J. Maxx and a Trader Joe's gourmet food market.

Brandywine Town Center is a two phase open-air value retail center. The first phase ("Phase I") is approximately 450,000 square feet and 99% occupied, with tenants including Lowe's, Bed Bath & Beyond, Regal Cinema, Michaels, PetSmart, Old Navy, Annie Sez, Thomasville Furniture and Dick's Sporting Goods. The second phase ("Phase II") consists of approximately 420,000 square feet of existing space, of which Target occupies 138,000 square feet. The balance of Phase II is currently not occupied.

The initial investment for the portfolio was approximately \$86.3 million, inclusive of closing and other related acquisition costs. 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 "Earn-out"). The additional investment, depending on the Earn-out, 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 Earn-out would be less. The Earn-out 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.

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 \$48.9 million (inclusive of closing and other related acquisition costs), which included the assumption of an aggregate of \$34.5 million of existing fixed-rate mortgage debt, which is at a blended fixed interest rate of 6.6% and is fully amortizing over the Primary Term. The individual mortgages are secured by each individual property and are not cross-collateralized. 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.

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

On January 27, 2004, the Company entered into a venture (the "Venture") with Klaff and Klaff's long time capital partner Lubert-Adler Management, Inc. ("Lubert-Adler") for the purpose of making investments in surplus or underutilized properties owned by retailers. The initial size of the Venture is expected to be approximately \$300 million in equity based on anticipated investments of approximately \$1 billion. The Venture is currently exploring investment opportunities, but has not yet made any commitments. Each participant in the Venture has the right to opt out of any potential investment. The Company and its current acquisition fund, ASOF, as well as possible subsequent joint venture funds sponsored by the Company, anticipate investing 20% of the equity of the Venture. Cash flow is to be distributed to the partners until they have received a 10% cumulative return and a full return of all contributions. Thereafter, remaining cash flow is to be distributed 20% to Klaff ("Klaff's Promote") and 80% to the partners (including Klaff). Profits earned on up to \$20.0 million of the Company's contributed capital is not subject to Klaff's Promote. The Company will also earn market-rate fees for property management, leasing and construction services on behalf of the Venture.

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

Other

In March 2004, the Company invested \$4.1 million in a loan secured by a shopping center property.

Property Redevelopment and Expansion

The Company's redevelopment program focuses on selecting well-located neighborhood and community shopping centers and creating significant value through re-tenanting and property redevelopment. During 2003, the Company substantially completed the redevelopment of three shopping centers and added an additional project to its redevelopment pipeline as follows:

Gateway Shopping Center – The redevelopment of the Gateway Shopping Center, formerly a partially enclosed mini-mall with an undersized Grand Union, included the demolition of 90% of the existing building and the construction of a new anchor supermarket. The center has been converted into a new open-air community shopping center anchored with a 72,000 square foot Shaw's supermarket which opened during March of 2003. Approximately 11,000 square feet of small shop space remains to be leased at the property. Total costs for this project, including the original acquisition costs, aggregated \$17.9 million.

Plaza 422 – Home Depot held its grand opening during fourth quarter of 2003 at the Plaza 422 redevelopment project located in Lebanon, Pennsylvania. The expansion of the former 83,000 square foot Ames space to a 104,000 square foot Home Depot included the recapture and demolition of the formerly enclosed portion of this center. The Company is now collecting triple the base rent of that which was paid by Ames. In connection with the redevelopment project, the Company also recaptured another 48,000 square feet of space, for which re-leasing is currently underway. The majority of redevelopment costs were paid directly by Home Depot. The Company's share of costs for this project totaled \$402,000.

New Loudon Center – The Bon Ton Department Store also opened for business during the fourth quarter of 2003 as part of the redevelopment of the New Loudon Center located in Latham, New York. Occupying 66,000 square feet formerly occupied by an Ames department store, Bon Ton is paying base rent at a 15% increase over that of Ames. In addition, the Company has leased the balance of the former Ames space to Marshall's, an existing tenant at the center, which will be expanding its current 26,000 square foot store to 37,000 square feet. The Company will also install a new 49,000 square foot Raymour and Flanigan Furniture store at this center. Following the completion of this project in mid-2004, this community shopping center will be 100% occupied. Costs incurred to date by the Company for this project totaled \$418,000. The remaining costs to complete this redevelopment project are to be paid directly by the above tenants.

Town Line Plaza – This project, located in Rocky Hill, Connecticut, was added to the Company's redevelopment pipeline in December of 2003. The Company is re-anchoring the center with a new Super Stop & Shop supermarket, replacing a former GU Markets supermarket. The existing building is being demolished and will be replaced with a 66,000 square foot Super Stop & Shop. The new supermarket anchor is paying gross rent at a 33% increase over that of the former tenant with no interruption in rent payments. Costs to date for this project totaled \$1.7 million. All remaining redevelopment costs associated with this project, which is anticipated to be completed during the first quarter of 2005, are to be paid by Stop & Shop.

Additionally, for the year ending December 31, 2004, the Company currently estimates that capital outlays of approximately \$3.0 million to \$7.0 million will be required for tenant improvements, related renovations and other property improvements.

Share Repurchase

The Company's repurchase of its Common Shares is an additional use of liquidity. Upon completion of a tender offer in February 2002, the Company purchased a total of 5,523,974 Common Shares and Common OP Units (collectively, "Shares"), comprised of 4,136,321 Common Shares and 1,387,653 Common OP Units (which were converted to Common Shares upon tender), at a Purchase Price of \$6.05 per Share. The aggregate purchase price paid for the 5,523,974 Shares was \$33.4 million. In addition to the tender offer, the Company has an existing share repurchase program that authorizes management, at its discretion, to repurchase up to \$20.0 million of the Company's outstanding Common Shares. Through March 12, 2004, the Company had repurchased 1,899,486 Common Shares (net of 152,199 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 and the Venture as the primary vehicle for future acquisitions. Sources of capital for funding the Company's joint venture commitments, other property acquisitions, redevelopment, expansion and re-tenanting, as well as future repurchases of Common Shares are expected to be obtained primarily from cash on hand, additional debt financings and future sales of existing properties. As of December 31, 2003, the Company had a total of approximately \$51.1 million of additional capacity with six lenders, of which the Company is required to draw \$12.7 million by December 2004, or forego the ability to draw these funds at any time during the remaining term of the loans. Of the remaining capacity, approximately \$3.0 million is subject to additional leasing requirements at the collateral properties, which the Company has not yet satisfied. The Company also had cash and cash equivalents on hand of \$14.7 million at December 31, 2003 as well as nine 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, 2003, mortgage notes payable aggregated \$190.4 million and were collateralized by 22 properties and related tenant leases. Interest on the Company's outstanding mortgage indebtedness ranged from 2.6% to 8.1% with maturities that ranged from April 2005 to June 2013. Taking into consideration \$86.7 million of notional principal under variable to fixed-rate swap agreements currently in effect, \$156.4 million of the portfolio, or 82%, was fixed at a 6.6% weighted average interest rate and \$34.0 million, or 18% was floating at a 2.9% weighted average interest rate. There is no debt maturing in 2004, and \$57.8 million is scheduled to mature in 2005 at a weighted average interest rate of 2.9%. 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, 2002:

In January 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.

In March 2003, the Company repaid a \$3.6 million loan with a life insurance company.

In April 2003, the Company extended an existing \$7.4 million revolving facility with a bank through March 1, 2008. As of December 31, 2003, there were no outstanding amounts under this loan.

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

On October 27, 2003, the Company paid off maturing loans totaling \$7.4 million, which were secured by two of the Company's properties.

Effective December 1, 2003, the Company amended an \$8.6 million loan with a bank. An additional \$5.0 million has been made available under the loan as well as extending the maturity of the loan until December 1, 2008 with two one-year extension options. In addition, the interest rate has been reduced to LIBOR plus 140 basis points. The loan, which is secured by one of the Company's properties, requires the monthly payment of interest and fixed principal commencing January 1, 2004.

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

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

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

These swap agreements have been executed in contemplation of the finalization of the extension and modification of certain mortgage loans currently being negotiated, although there can be no assurance that such extensions will be finalized.

Asset Sales

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

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

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

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

CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

At December 31, 2003, maturities on the Company's mortgage notes ranged from April 2005 to June 2013. In addition, the Company has non-cancelable ground leases at three of its shopping centers. The Company also leases space for its White Plains corporate office for a term expiring in 2010. The following table summarizes the Company's debt maturities, excluding scheduled monthly amortization payments, and obligations under non-cancelable operating leases of December 31, 2003:

Contractual obligation	(amounts in millions)				
	Total	Less than 1 year	Payments due by period		
			1 to 3 years	3 to 5 years	More than 5 years
Future debt maturities	\$ 176.1	\$ —	\$ 57.8	\$ 69.3	\$ 49.0
Operating lease obligations	23.1	1.0	2.0	2.0	18.1
Total	\$ 199.2	\$ 1.0	\$ 59.8	\$ 71.3	\$ 67.1

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 pro rata share of Crossroads mortgage debt as of December 31, 2003 was \$16.2 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 pro rata share of ASOF fixed-rate mortgage debt as of December 31, 2003 was \$24.0 million at a weighted average interest rate of 6.4%. The Company's pro rata share of ASOF variable-rate mortgage debt as of December 31, 2003 was \$1.3 million at an interest rate of 3.1%. Maturities on these loans range from October 2007 to January 2023.

HISTORICAL CASH FLOW

The following discussion of historical cash flow compares the Company's cash flow for the year ended December 31, 2003 ("2003") with the Company's cash flow for the year ended December 31, 2002 ("2002").

Cash and cash equivalents were \$14.7 million and \$45.2 million at December 31, 2003 and 2002, respectively. The decrease of \$30.5 million was a result of the following increases and decreases in cash flows:

(amounts in millions)

	Years Ended December 31,		
	2003	2002	Variance
Net cash provided by operating activities	\$ 19.1	\$ 24.9	\$ (5.8)
Net cash (used in) provided by investing activities	(19.4)	24.6	(44.0)
Net cash used in financing activities	(30.2)	(58.8)	28.6
Net cash provided by discontinued operations	—	20.5	(20.5)

The variance in net cash provided by operating activities was primarily due to \$3.9 million of lease termination income received in 2002 which was not repeated in 2003. In addition, there was a net decrease in cash provided by changes in operating assets and liabilities of \$2.0 million, primarily rents receivable.

The variance in net cash (used in) provided by investing activities was primarily the result of an additional \$37.8 million collected on purchase money notes in 2002, a \$2.5 million earn-out payment related to a redevelopment project in 2002, an additional \$3.1 million invested in ASOF in 2003 and \$1.2 million of additional expenditures for real estate acquisitions, development and tenant installation costs during 2003.

The decrease in net cash used in financing activities resulted primarily from \$33.4 million of cash used in 2002 for the Company's repurchase of Common Shares offset by \$2.8 million of additional cash used in 2003 for the net repayment of debt.

The decrease in net cash provided by discontinued operations was primarily a result of \$2.9 million in net cash provided by operating activities at the discontinued properties in 2002 and net proceeds in 2002 from the sale of such properties.

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 properties which were held for sale and subsequently sold. Management does not believe that the values of any properties in its portfolio are impaired as of December 31, 2003.

Bad Debts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of tenants to make payments on arrearages in billed rents, as well as the likelihood that tenants will not have the ability to make payment on unbilled rents including estimated expense recoveries and straight-line rent. As of December 31, 2003, the Company had recorded an allowance for doubtful accounts of \$2.4 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 December 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities ("FIN 46R"). FIN 46R replaces FASB Interpretation No. 46, Consolidation of Variable Interest Entities, which was issued in January 2003. In general, a variable interest entity ("VIE") 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 VIE often holds financial assets, including loans or receivables, real estate or other property. A VIE 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 VIE to be consolidated by a company if that company is subject to a majority of the risk of loss from the VIE's activities or entitled to receive a majority of the entity's residual returns or both. The Company will be required to adopt FIN 46R in the first fiscal period beginning after March 15, 2004. Upon adoption of FIN 46R, the assets, liabilities and non-controlling interests of the VIE initially would be measured at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognized interest being recognized as the cumulative effect of an accounting change. If determining the carrying amounts is not practicable, fair value at the date FIN 46R first applies may be used to measure the assets, liabilities and non-controlling interest of the VIE. It is not anticipated that the effect on the Company's Consolidated Financial Statements would be material.

In May 2003, the FASB issued SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". This statement establishes how an issuer classifies and measures certain financial instruments that have characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within the scope of SFAS No. 150 as a liability because that financial instrument embodies an obligation of the issuer. For the Company, SFAS 150 was effective for instruments entered into or modified after May 31, 2003 and otherwise will be effective as of January 1, 2004, except for mandatorily redeemable financial instruments. For certain mandatorily redeemable financial instruments, SFAS 150 will be effective for the Company on January 1, 2005. The effective date has been deferred indefinitely for certain other types of mandatorily redeemable financial instruments. The adoption of SFAS No. 150 had no impact on the Company's consolidated financial statements. The Company currently is a majority-owner of a finite life partnership which is included in the consolidated accounts of the Company. The application of SFAS 150 as it relates to finite life entities has been deferred indefinitely. Based on the estimated value of the property owned by the partnership at December 31, 2003, the Company estimates that the minority interest in this partnership would be entitled to approximately \$2,080 upon the dissolution of the partnership.

April 2003, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". This statement amends and clarifies financial reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 had no impact on the Company's consolidated financial statements.

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, 2003, the Company had total mortgage debt of \$190.4 million of which \$69.8 million, or 37% was fixed-rate and \$120.6 million, or 63%, was variable-rate based upon LIBOR plus certain spreads. As of December 31, 2003, the Company was a party to five interest rate swap transactions to hedge the Company's exposure to changes in interest rates with respect to \$86.7 million of LIBOR based variable-rate debt, effectively increasing the fixed-rate portion of its total outstanding debt as of December 31, 2003 to 82%. The Company also has two interest rate swaps hedging the Company's exposure to changes in interest rates with respect to \$16.2 million of LIBOR based variable rate debt related to its investment in Crossroads.

The following table sets forth information as of December 31, 2003 concerning the Company's long-term debt obligations, including principal cash flows by scheduled maturity and weighted average interest rates of maturing amounts (amounts in millions):

Consolidated mortgage debt:

Year	Scheduled amortization	Maturities	Total	Weighted average interest rate
2004	\$ 3.6	\$ —	\$ 3.6	n/a
2005	2.8	57.8	60.6	2.9%
2006	2.4	—	2.4	n/a
2007	1.4	61.3	62.7	3.7%
2008	1.2	8.0	9.2	2.6%
Thereafter	2.9	49.0	51.9	7.1%
	\$ 14.3	\$ 176.1	\$ 190.4	

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

Year	Scheduled amortization	Maturities	Total	Weighted average interest rate
2004 – 2006	\$ 4.2	\$ —	\$ 4.2	n/a
2007	1.2	16.0	17.2	6.9%
2008	1.0	6.7	7.7	4.7%
Thereafter	3.6	7.4	11.0	7.1%
	\$ 10.0	\$ 30.1	\$ 40.1	

Of the Company's total outstanding debt, \$57.8 million will become due in 2005. 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 \$578,000 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, 2003 would increase by \$340,000 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

ITEM 9A. CONTROLS AND PROCEDURES

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

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

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

This item is incorporated by reference from the definitive proxy statement for the 2004 Annual Meeting of Shareholders presently scheduled to be held May 6, 2004, to be filed pursuant to Regulation 14A.

ITEM 11. EXECUTIVE COMPENSATION

This item is incorporated by reference from the definitive proxy statement for the 2004 Annual Meeting of Shareholders presently scheduled to be held May 6, 2004, 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 2004 Annual Meeting of Shareholders presently scheduled to be held May 6, 2004, 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 2004 Annual Meeting of Shareholders presently scheduled to be held May 6, 2004, to be filed pursuant to Regulation 14A.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

This item is incorporated by reference from the definitive proxy statement for the 2004 Annual Meeting of Shareholders presently scheduled to be held May 6, 2004, to be filed pursuant to Regulation 14A.

PART IV

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

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

ACADIA REALTY TRUST

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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, 2003

- 1) Form 8-K filed November 3, 2003 (earliest event November 3, 2003), reporting in Item 9 certain supplemental information concerning the ownership, operations and portfolio of the Registrant as of September 30, 2003 and in Item 12 a press release announcing the consolidated financial results for the quarter ended September 30, 2003.

Exhibit No.	Description
3.1	Declaration of Trust of the Company, as amended (1)
3.2	Fourth Amendment to Declaration of Trust (4)
3.3	By-Laws of the Company (5)
4.1	Voting Trust Agreement between the Company and Yale University dated February 27, 2002 (14)
10.1	1999 Share Option Plan (8) (20)
10.2	2003 Share Option Plan (16) (20)
10.3	Form of Share Award Agreement (17) (20)
10.4	Form of Registration Rights Agreement and Lock-Up Agreement (19)
10.5	Registration Rights and Lock-Up Agreement (RD Capital Transaction) (11)
10.6	Registration Rights and Lock-Up Agreement (Pacesetter Transaction) (11)
10.7	Contribution and Share Purchase Agreement dated as of April 15, 1998 among Mark Centers Trust, Mark Centers Limited Partnership, the Contributing Owners and Contributing Entities named therein, RD Properties, L.P. VI, RD Properties, L.P.VIA and RD Properties, L.P. VIB (9)
10.8	Agreement of Contribution among Acadia Realty Limited Partnership, Acadia Realty Trust and Klaff Realty, LP and Klaff Realty, Limited (19)
10.9	Employment agreement between the Company and Kenneth F. Bernstein (6) (20)
10.10	Employment agreement between the Company and Ross Dworman (6) (20)
10.11	Amendment to employment agreement between the Company and Kenneth F. Bernstein (19) (20)
10.12	First Amendment to Employment Agreement between the Company and Kenneth Bernstein dated as of January 1, 2001(12) (20)
10.13	First Amendment to Employment Agreement between the Company and Ross Dworman dated as of January 1, 2001 (12)(20)
10.14	Letter of employment offer between the Company and Michael Nelsen, Sr. Vice President and Chief Financial Officer dated February 19, 2003 (15) (20)
10.15	Severance Agreement between the Company and Joel Braun, Sr. Vice President, dated April 6, 2001 (13) (20)
10.16	Severance Agreement between the Company and Joseph Hogan, Sr. Vice President, dated April 6, 2001 (13) (20)

10.17	Severance Agreement between the Company and Joseph Napolitano, Sr. Vice President dated April 6, 2001 (19) (20)
10.18	Severance Agreement between the Company and Robert Masters, Sr. Vice President and General Counsel dated January 2001 (19) (20)
10.19	Severance Agreement between the Company and Michael Nelsen, Sr. Vice President and Chief Financial Officer dated February 19, 2003 (15) (20)
10.20	Secured Promissory Note between RD Absecon Associates, L.P. and Fleet Bank, N.A. dated February 8, 2000 (7)
10.21	Promissory Note between 239 Greenwich Associates, L.P. and Greenwich Capital Financial Products, Inc. dated May 30, 2003 (19)
10.22	Open-End Mortgage, Assignment of Leases and Rents, and Security Agreement between 239 Greenwich Associates, L.P. and Greenwich Capital Financial Products, Inc. dated May 30, 2003 (19)
10.23	Promissory Note between Merrillville Realty, L.P. and Sun America Life Insurance Company dated July 7, 1999 (7)
10.24	Secured Promissory Note between Acadia Town Line, LLC and Fleet Bank, N.A. dated March 21, 1999 (7)
10.25	Promissory Note between RD Village Associates Limited Partnership and Sun America Life Insurance Company Dated September 21, 1999 (7)
10.26	Amended and Restated Mortgage Note between Port Bay Associates, LLC and Fleet Bank, N.A. dated July 19, 2000 (3)
10.27	Mortgage and Security Agreement between Port Bay Associates, LLC and Fleet Bank, N.A. dated July 19, 2000 (10)
10.28	Mortgage Note between Port Bay Associates, LLC and Fleet Bank, N.A. dated December 1, 2003 (19)
10.29	Mortgage and Security Agreement, and Assignment of Leases and Rents between Port Bay Associates, LLC and Fleet Bank, N.A. dated December 1, 2003 (19)
10.30	Note Modification Agreement between Port Bay Associates, LLC and Fleet Bank, N.A. dated December 1, 2003 (19)
10.31	Amended and Restated Promissory Note between Acadia Realty L.P. and Metropolitan Life Insurance Company for \$25.2 million dated October 13, 2000 (10)
10.32	Amended and Restated Mortgage, Security Agreement and Fixture Filing between Acadia Realty L.P. and Metropolitan Life Insurance Company dated October 13, 2000 (10)
10.33	Term Loan Agreement between Acadia Realty L.P. and The Dime Savings Bank of New York, dated March 30, 2000 (10)
10.34	Mortgage Agreement between Acadia Realty L.P. and The Dime Savings Bank of New York, dated March 30, 2000 (10)
10.35	Promissory Note between RD Whitegate Associates, L.P. and Bank of America, N.A. Dated December 22, 2000 (10)
10.36	Promissory Note between RD Columbia Associates, L.P. and Bank of America, N.A. Dated December 22, 2000 (10)
10.37	Term Loan Agreement dated as of December 28, 2001, among Fleet National Bank and RD Branch Associates, L.P., et al (13)
10.38	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 (13)
10.39	Option Extension of Term Loan as of December 19, 2003 between RD Woonsocket Associates Limited Partnership, et al. and Washington Mutual Bank, FA (19)
10.40	Revolving Loan Promissory Note dated as of November 22, 2002, among RD Elmwood Associates, L.P. and Washington Mutual Bank, FA (15)
10.41	Revolving Loan Agreement dated as of November 22, 2002, among RD Elmwood Associates, L.P. and Washington Mutual Bank, FA (15)
10.42	Mortgage Agreement dated as of November 22, 2002, among RD Elmwood Associates, L.P. and Washington Mutual Bank, FA (15)
10.43	Note Modification Agreement between RD Elmwood Associates, L.P. and Washington Mutual Bank, FA dated December 19, 2003 (19)
14	Code of Ethics of the Company (18)
21	List of Subsidiaries of Acadia Realty Trust (19)
23	Consent of Independent Auditors to Form S-3 and Form S-8 (19)
31.1	Certification of Chief Executive Officer pursuant to rule 13a – 14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (19)
31.2	Certification of Chief Financial Officer pursuant to rule 13a – 14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (19)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (19)
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (19)
99.1	Amended and Restated Agreement of Limited Partnership of the Operating Partnership (11)
99.2	First and Second Amendments to the Amended and Restated Agreement of Limited Partnership of the Operating Partnership (11)
99.3	Third Amendment to Amended and Restated Agreement of Limited Partnership of the Operating Partnership (19)
99.4	Fourth Amendment to Amended and Restated Agreement of Limited Partnership of the Operating Partnership (19)
99.5	Certificate of Designation of Series A Preferred Operating Partnership Units of Limited Partnership Interest of Acadia Realty Limited Partnership (2)
99.6	Certificate of Designation of Series B Preferred Operating Partnership Units of Limited Partnership Interest of Acadia Realty Limited Partnership (19)

Notes:

- (1) Incorporated by reference to the copy thereof filed as an exhibit to the Company's Annual Report on 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 Quarterly Report on Form 10-Q filed for the quarter ended June 30, 1997
- (3) Incorporated by reference to the copy thereof filed as an Exhibit to Company's Quarterly Report on Form 10-Q filed for the quarter ended June 30, 1998
- (4) Incorporated by reference to the copy thereof filed as an Exhibit to Company's Quarterly Report on Form 10-Q filed for the quarter ended September 30, 1998
- (5) Incorporated by reference to the copy thereof filed as an exhibit to the Company's Registration Statement on Form S-11 (File No.33-60008)
- (6) Incorporated by reference to the copy thereof filed as an exhibit to the Company's Annual Report on Form10-K filed for the fiscal year ended December 31, 1998
- (7) Incorporated by reference to the copy thereof filed as an exhibit to the Company's Annual Report on Form10-K filed for the fiscal year ended December 31, 1999
- (8) Incorporated by reference to the copy thereof filed as an exhibit to the Company's Registration Statement on Form S-8 filed September 28, 1999
- (9) Incorporated by reference to the copy thereof filed as an exhibit to the Company's Form 8-K filed on April 20, 1998
- (10) 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
- (11) Incorporated by reference to the copy thereof filed as an exhibit to the Company's Registration Statement on Form S-3 filed on March 3, 2000
- (12) Incorporated by reference to the copy thereof filed as an Exhibit to Company's Quarterly Report on Form 10-Q filed for the quarter ended June 30, 2001
- (13) Incorporated by reference to the copy thereof filed as an exhibit to the Company's Annual Report on Form 10-K filed for the fiscal year ended December 31, 2001
- (14) Incorporated by reference to the copy thereof filed as an Exhibit to Yale University's Schedule 13D filed on September 25, 2002
- (15) Incorporated by reference to the copy thereof filed as an exhibit to the Company's Annual Report on Form 10-K filed for the fiscal year ended December 31, 2002
- (16) Incorporated by reference to the copy thereof filed as an exhibit to the Company's Definitive Proxy Statement on Schedule 14A filed April 29, 2003
- (17) Incorporated by reference to the copy thereof filed as an exhibit to the Company's Current Report on Form 8-K filed on July 2, 2003
- (18) Incorporated by reference to the copy thereof filed as an exhibit to the Company's website (www.acadiarealty.com)
- (19) Filed herewith
- (20) Management contract or compensatory plan or arrangement.

SIGNATURES

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

**ACADIA REALTY TRUST
(Registrant)**

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

By: /s/ Michael Nelsen
Michael Nelsen
Sr. Vice President and
Chief Financial Officer

Dated: March 12, 2004

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.

Signature	Title	Date
/s/ Kenneth F. Bernstein (Kenneth F. Bernstein)	Chief Executive Officer, President and Trustee (Principal Executive Officer)	March 12, 2004
/s/ Michael Nelsen (Michael Nelsen)	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 12, 2004
/s/ Douglas Crocker II Douglas Crocker II	Trustee	March 12, 2004
/s/ Ross Dworman (Ross Dworman)	Trustee	March 12, 2004
/s/ Martin L. Edelman (Martin L. Edelman, Esq.)	Trustee	March 12, 2004
/s/ Alan S. Forman (Alan S. Forman)	Trustee	March 12, 2004
/s/ Lorrence T. Kellar Lorrence T. Kellar	Trustee	March 12, 2004
/s/ Marvin J. Levine (Marvin J. Levine, Esq.)	Trustee	March 12, 2004
/s/ Lawrence J. Longua (Lawrence J. Longua)	Trustee	March 12, 2004
/s/ Gregory A. White (Gregory A. White)	Trustee	March 12, 2004
/s/ Lee S. Wielansky (Lee S. Wielansky)	Trustee	March 12, 2004

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 No.	Description
10.4	Form of Registration Rights Agreement and Lock-Up Agreement
10.8	Agreement of Contribution among Acadia Realty Limited Partnership, Acadia Realty Trust and Klaff Realty, LP and Klaff Realty, Limited
10.11	Amendment to employment agreement between the Company and Kenneth F. Bernstein
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10.18	Severance Agreement between the Company and Robert Masters, Sr. Vice President and General Counsel dated January 2001
10.21	Promissory Note between 239 Greenwich Associates, L.P. and Greenwich Capital Financial Products, Inc. dated May 30, 2003
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99.4	Fourth Amendment to Amended and Restated Agreement of Limited Partnership of the Operating Partnership
99.6	Certificate of Designation of Series B Preferred Operating Partnership Units of Limited Partnership Interest of Acadia Realty Limited Partnership

ACADIA REALTY TRUST AND SUBSIDIARIES
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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, 2003 and 2002, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2003. 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, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 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.

/s/ ERNST & YOUNG LLP

New York, New York
March 12, 2004

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

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

	December 31,	
	2003	2002
	_____	_____
ASSETS		
Real estate:		
Land	\$ 54,890	\$ 54,890
Buildings and improvements	366,879	352,359
Construction in progress	5,859	6,629
	_____	_____
	427,628	413,878
Less: accumulated depreciation	101,090	85,062
	_____	_____
Net real estate	326,538	328,816
Cash and cash equivalents	14,663	45,168
Cash in escrow	3,342	3,447
Investments in unconsolidated partnerships	13,630	6,164
Rents receivable, net	10,394	6,959
Notes receivable	3,586	6,795
Prepaid expenses	3,127	2,042
Deferred charges, net	11,173	10,360
Other assets	1,731	1,184
	_____	_____
	\$ 388,184	\$ 410,935
	_____	_____
LIABILITIES AND SHAREHOLDERS' EQUITY		
Mortgage notes payable	\$ 190,444	\$ 202,361
Accounts payable and accrued expenses	5,804	8,528
Dividends and distributions payable	4,619	3,744
Due to related parties	48	174
Deferred gain on sale of properties	—	1,212
Derivative instruments	4,044	5,470
Other liabilities	3,806	2,998
	_____	_____
Total liabilities	208,765	224,487
	_____	_____
Minority interest in Operating Partnership	7,875	22,745
Minority interests in majority- owned partnerships	1,810	2,380
	_____	_____
Total minority interests	9,685	25,125
	_____	_____
Shareholders' equity:		
Common shares, \$.001 par value, authorized 100,000,000 shares, issued and outstanding 27,409,141 and 25,257,178 shares, respectively	27	25
Additional paid-in capital	177,891	170,851
Accumulated other comprehensive loss	(5,505)	(6,874)
Deficit	(2,679)	(2,679)
	_____	_____
Total shareholders' equity	169,734	161,323
	_____	_____
	\$ 388,184	\$ 410,935
	_____	_____

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,		
	2003	2002	2001
Revenues			
Minimum rents	\$ 50,168	\$ 48,488	\$ 47,086
Percentage rents	1,012	1,079	1,196
Expense reimbursements	13,539	11,419	10,884
Lease termination income	—	3,945	—
Other property income	749	536	589
Other	3,977	3,880	1,527
Total revenues	69,445	69,347	61,282
Operating Expenses			
Property operating	15,170	12,274	11,597
Real estate taxes	8,799	8,447	8,427
General and administrative	10,734	10,173	9,025
Depreciation and amortization	17,909	14,804	13,745
Abandoned project costs	—	274	—
Total operating expenses	52,612	45,972	42,794
Operating income	16,833	23,375	18,488
Equity in earnings of unconsolidated partnerships	2,411	628	504
Interest expense	(11,231)	(11,017)	(12,370)
Gain on sale of land	1,187	1,530	—
Minority interest	(1,347)	(2,999)	(1,466)
Income from continuing operations	7,853	11,517	5,156
Discontinued operations:			
Operating income from discontinued operations	—	1,165	3,972
Impairment of real estate	—	(197)	(15,886)
Gain on sale of properties	—	8,132	17,734
Minority interest	—	(1,218)	(1,025)
Income from discontinued operations	—	7,882	4,795
Income before cumulative effect of a change in accounting principle	7,853	19,399	9,951
Cumulative effect of a change in accounting principle	—	—	(149)
Net income	\$ 7,853	\$ 19,399	\$ 9,802

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,		
	2003	2002	2001
Basic earnings per share			
Income from continuing operations	\$ 0.30	\$ 0.46	\$ 0.18
Income from discontinued operations	—	0.31	0.18
Cumulative effect of a change in accounting principle	—	—	(0.01)
Basic earnings per share	\$ 0.30	\$ 0.77	\$ 0.35
Diluted earnings per share			
Income from continuing operations	\$ 0.29	\$ 0.45	\$ 0.18
Income from discontinued operations	—	0.31	0.18
Cumulative effect of a change in accounting principle	—	—	(0.01)
Diluted earnings per share	\$ 0.29	\$ 0.76	\$ 0.35

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, 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 to Common Shares by limited partners 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, 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
Conversion of 2,058,804 OP Units to Common Shares by limited partners of the Operating Partnership	2,058,804	2	14,898	—	—	14,900
Conversion of 632 Preferred OP Units to Common Shares by limited partners of the Operating Partnership	84,267	—	632	—	—	632
Employee restricted share award	7,832	—	410	—	—	410
Settlement of vested options	—	—	(750)	—	—	(750)
Dividends declared (\$0.595 per Common Share)	—	—	(8,160)	—	(7,853)	(16,013)
Employee exercise of 250 options	250	—	2	—	—	2
Unrealized gain on valuation of swap agreements	—	—	—	1,369	—	1,369
Common Shares purchased under Employee Stock Purchase Plan	810	—	8	—	—	8
Income before minority interest	—	—	—	—	8,600	8,600
Minority interest's equity	—	—	—	—	(747)	(747)
Balance at December 31, 2003	27,409,141	\$ 27	\$ 177,891	\$ (5,505)	\$ (2,679)	\$ 169,734

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,		
	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income from continuing operations after cumulative effect of a change in accounting principle	\$ 7,853	\$ 11,517	\$ 5,007
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	17,909	14,804	13,745
Gain on sale of land	(1,187)	(1,530)	—
Minority interests	1,347	2,999	1,466
Abandoned project costs	—	274	—
Equity in earnings of unconsolidated partnerships	(2,411)	(628)	(504)
Provision for bad debts	523	447	741
Stock-based compensation	—	—	239
Cumulative effect of a change in accounting principle	—	—	149
Changes in assets and liabilities:			
Funding of escrows, net	105	(850)	89
Rents receivable	(3,958)	(1,882)	937
Prepaid expenses	(1,085)	(429)	251
Other assets	(891)	346	(273)
Accounts payable and accrued expenses	218	174	(1,739)
Due to/from related parties	(126)	67	(4)
Other liabilities	785	(391)	417
Net cash provided by operating activities	19,082	24,918	20,521
CASH FLOWS FROM INVESTING ACTIVITIES:			
Expenditures for real estate and improvements	(13,531)	(14,134)	(10,685)
Payment of accrued expense related to redevelopment project	(2,488)	—	—
Contributions to unconsolidated partnerships	(6,032)	(2,956)	(36)
Distributions from unconsolidated partnerships	1,602	1,049	1,252
Collections on purchase money notes	3,232	41,042	—
Payment of deferred leasing costs	(2,183)	(355)	(1,730)
Net cash (used in) provided by investing activities	(19,400)	24,646	(11,199)

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)

	2003	Years ended December 31, 2002	2001
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments on mortgage notes payable	\$ (32,917)	\$ (16,841)	\$ (33,599)
Proceeds received on mortgage notes payable	21,000	7,758	51,350
Payment of deferred financing and other costs	(241)	(812)	(847)
Dividends paid	(14,896)	(13,131)	(13,569)
Distributions to minority interests in Operating Partnership	(1,207)	(2,023)	(2,985)
Distributions on Preferred Operating Partnership Units	(199)	(199)	(199)
Distributions to minority interests in majority-owned partnership	(985)	(139)	(90)
Purchase of minority interest in majority-owned partnerships	—	—	(30)
Settlement of vested options	(750)	—	—
Redemption of Operating Partnership Units	—	—	(5,114)
Repurchase of Common Shares	—	(33,420)	(1,964)
Common Shares issued under Employee Stock Purchase Plan	8	—	—
Net cash used in financing activities	(30,187)	(58,807)	(7,047)
Cash flows from discontinued operations:			
Net cash provided by discontinued operations	—	20,464	10,174
(Decrease) increase in cash and cash equivalents	(30,505)	11,221	12,449
Cash and cash equivalents, beginning of year	45,168	33,947	21,689
	14,663	45,168	34,138
Less: Cash of discontinued operations	—	—	191
Cash and cash equivalents, end of year	\$ 14,663	\$ 45,168	\$ 33,947
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest, net of amounts capitalized of \$403, \$931 and \$372, respectively	\$ 11,242	\$ 12,346	\$ 19,047
Notes received in connection with sale of properties	\$ —	\$ 22,425	\$ 34,757
Disposition of real estate through assumption of debt	\$ —	\$ 42,438	\$ —

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

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2003

(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, 2003, the Company controlled 96% of the Operating Partnership as the sole general partner. As the general partner, the Company is entitled to share, in proportion to its percentage interest, in the cash distributions and profits and losses of the Operating Partnership. The limited partners represent entities or individuals who contributed their interests in certain properties or partnerships to the Operating Partnership in exchange for common or preferred units of limited partnership interest ("Common or Preferred OP Units"). Limited partners holding Common OP Units are generally entitled to exchange their units on a one-for-one basis for common shares of beneficial interest of the Company ("Common Shares"). This structure is commonly referred to as an umbrella partnership REIT or "UPREIT".

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

As of December 31, 2003, the Company operated 62 properties, which it owned or had an ownership interest in, consisting of 60 neighborhood and community shopping centers and two multi-family properties, located primarily in the Northeast, Mid-Atlantic and Midwest 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.

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 \$15,886 was recognized related to properties sold subsequent to December 31, 2001. Management does not believe that the values of its properties within the portfolio are impaired as of December 31, 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

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, 2003 and 2002, unbilled rents receivable relating to straight-lining of rents were \$5,873 and \$5,302, 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, 2003 and 2002 are shown net of an allowance for doubtful accounts of \$2,420 and \$2,284, 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 (the "Code"). To maintain REIT status for federal income tax purposes, the Company is generally required to distribute to its stockholders at least 90% of its REIT taxable income as well as comply with certain other requirements as defined by the Code. The Company is not subject to federal corporate income tax to the extent that it distributes 100% of its REIT taxable income each year. Accordingly, no provision has been made for Federal income taxes for the Company in the accompanying consolidated financial statements. The Company is subject to state income or franchise taxes in certain states in which some of its properties are located. These state taxes, which in total are not significant, are included in general and administrative expenses in the accompanying consolidated financial statements.

Stock-based Compensation

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

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

Stock-based Compensation, continued

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 below vested stock options:

	Years ended December 31,		
	2003	2002	2001
Net income:			
As reported	\$ 7,853	\$ 19,399	\$ 9,802
Pro forma	\$ 7,829	\$ 19,363	\$ 9,699
Basic earnings per share:			
As reported	\$ 0.30	\$ 0.77	\$ 0.35
Pro forma	\$ 0.29	\$ 0.76	\$ 0.34
Diluted earnings per share:			
As reported	\$ 0.29	\$ 0.76	\$ 0.34
Pro forma	\$ 0.29	\$ 0.76	\$ 0.34

Recent Accounting Pronouncements

In December 2003, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities (“FIN 46R”). FIN 46R replaces FASB Interpretation No. 46, Consolidation of Variable Interest Entities, which was issued in January 2003. In general, a variable interest entity (“VIE”) 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 VIE often holds financial assets, including loans or receivables, real estate or other property. A VIE 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 VIE to be consolidated by a company if that company is subject to a majority of the risk of loss from the VIE’s activities or entitled to receive a majority of the entity’s residual returns or both. The Company will be required to adopt FIN 46R in the first fiscal period beginning after March 15, 2004. Upon adoption of FIN 46R, the assets, liabilities and non-controlling interests of the VIE initially would be measured at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognized interest being recognized as the cumulative effect of an accounting change. If determining the carrying amounts is not practicable, fair value at the date FIN 46R first applies may be used to measure the assets, liabilities and non-controlling interest of the VIE. It is not anticipated that the effect on the Company’s Consolidated Financial Statements would be material.

In May 2003, the FASB issued SFAS No. 150 “Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity”. This statement establishes how an issuer classifies and measures certain financial instruments that have characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within the scope of SFAS No. 150 as a liability because that financial instrument embodies an obligation of the issuer. For the Company, SFAS 150 was effective for instruments entered into or modified after May 31, 2003 and otherwise will be effective as of January 1, 2004, except for mandatorily redeemable financial instruments. For certain mandatorily redeemable financial instruments, SFAS 150 will be effective for the Company on January 1, 2005. The effective date has been deferred indefinitely for certain other types of mandatorily redeemable financial instruments. The adoption of SFAS No. 150 had no impact on the Company’s consolidated financial statements. The Company currently is a majority-owner of a finite life partnership which is included in the consolidated accounts of the Company. The application of SFAS 150 as it relates to finite life entities has been deferred indefinitely. Based on the estimated value of the property owned by the partnership at December 31, 2003, the Company estimates that the minority interest in this partnership would be entitled to approximately \$2,080 upon the dissolution of the partnership.

In April 2003, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 149 “Amendment of Statement 133 on Derivative Instruments and Hedging Activities”. This statement amends and clarifies financial reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133, “Accounting for Derivative Instruments and Hedging Activities”. SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 had no impact on the Company’s consolidated financial statements.

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

Comprehensive income

The following table sets forth comprehensive income for the years ended December 31, 2003, 2002 and 2001:

	2003	Years ended December 31, 2002	2001
Net income	\$ 7,853	\$ 19,399	\$ 9,802
Other comprehensive income (loss) (1)	1,369	(5,668)	(1,206)
Comprehensive income	<u>\$ 9,222</u>	<u>\$ 13,731</u>	<u>\$ 8,596</u>

Notes:

(1) Relates to the changes in the fair value of derivative instruments accounted for as hedges.

The following table sets forth the change in accumulated other comprehensive loss for the years ended December 31, 2003, 2002 and 2001:

	2003	Years ended December 31, 2002	2001
Beginning balance	\$ 6,874	\$ 1,206	\$ —
Unrealized (gain) loss on valuation of derivative instruments	(1,369)	5,668	1,206
Ending balance	<u>\$ 5,505</u>	<u>\$ 6,874</u>	<u>\$ 1,206</u>

As of December 31, 2003, the balance in accumulated other comprehensive loss was comprised solely of unrealized losses on the valuation of swap agreements.

Reclassifications

Certain 2002 and 2001 amounts were reclassified to conform to the 2003 presentation.

2. Acquisition and Disposition of Properties

Currently the primary vehicle for the Company's acquisition activity is its acquisition joint venture, Acadia Strategic Opportunity Fund (Note 4).

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

Dispositions relate to the sale of shopping centers, multi-family properties and land. Gains from these sales are 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 sales are met.

The results of operations of sold properties is reported separately as discontinued operations for the years ended December 31, 2002 and 2001. Revenues from discontinued operations for the years ended December 31, 2002 and 2001 totaled \$6,295 and \$24,178, respectively.

ACADIA REALTY TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

2. Acquisition and Disposition of Properties, continued

2002 Acquisitions and Dispositions

On November 8, 2002, the Company and an unaffiliated joint venture partner completed the sale of a contract to purchase land in Bethel, Connecticut, to the Target Corporation for \$1,540 after closing and other related costs. The joint venture received a \$1,632 note receivable for the net purchase price and additional reimbursements due from the buyer and deferred recognition of the gain on sale in accordance with SFAS No. 66. The note was paid in full on January 10, 2003, and as such, the Company's share of the deferred gain, or \$634, was recognized in 2003.

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

On April 24, 2002, the Company sold a multi-property portfolio for \$52,700. The portfolio 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, through July 15, 2003. The Company recorded a loss of \$166 on the sale.

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

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.

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

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, 2003, 2002, and 2001 (does not include unconsolidated partnerships):

	2003			
	<u>Retail Properties</u>	<u>Multi-Family Properties</u>	<u>All Other</u>	<u>Total</u>
Revenues	\$ 58,150	\$ 7,318	\$ 3,977	\$ 69,445
Property operating expenses and real estate taxes	19,782	4,187	—	23,969
Net property income before depreciation and amortization	<u>\$ 38,368</u>	<u>\$ 3,131</u>	<u>\$ 3,977</u>	<u>\$ 45,476</u>
Depreciation and amortization	<u>\$ 16,252</u>	<u>\$ 1,336</u>	<u>\$ 321</u>	<u>\$ 17,909</u>
Interest expense	<u>\$ 9,701</u>	<u>\$ 1,530</u>	<u>\$ —</u>	<u>\$ 11,231</u>
Real estate at cost	<u>\$ 387,854</u>	<u>\$ 39,774</u>	<u>\$ —</u>	<u>\$ 427,628</u>
Total assets	<u>\$ 337,724</u>	<u>\$ 36,830</u>	<u>\$ 13,630</u>	<u>\$ 388,184</u>
Gross leasable area (multi-family – 1,474 units)	<u>5,153</u>	<u>1,207</u>	<u>—</u>	<u>6,360</u>
Expenditures for real estate and improvements	<u>\$ 12,153</u>	<u>\$ 1,378</u>	<u>\$ —</u>	<u>\$ 13,531</u>
Revenues				
Total revenues for reportable segments	\$ 71,085			
Elimination of intersegment management fee income	(1,340)			
Elimination of intersegment asset management fee income	(300)			
Total consolidated revenues	<u>\$ 69,445</u>			
Property operating expenses and real estate taxes				
Total property operating expenses and real estate taxes for reportable segments	\$ 25,126			
Elimination of intersegment management fee expense	(1,157)			
Total consolidated expense	<u>\$ 23,969</u>			
Reconciliation to income before cumulative effect of a change in accounting principle				
Net property income before depreciation and amortization	\$ 45,476			
Depreciation and amortization	(17,909)			
General and administrative	(10,734)			
Equity in earnings of unconsolidated partnerships	2,411			
Interest expense	(11,231)			
Gain on sale of land	1,187			
Minority interest	(1,347)			
Income before cumulative effect of a change in accounting principle	<u>\$ 7,853</u>			

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 cumulative effect of a 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)			
Gain on sale of land	1,530			
Income from discontinued operations	7,882			
Minority interest	(2,999)			
Income before cumulative effect of a 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	\$ 12,294	\$ 1,097	\$ 354	\$ 13,745
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 cumulative effect of a change in accounting principle				
Net property income before depreciation and amortization	\$ 41,258			
Depreciation and amortization	(13,745)			
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 cumulative effect of a change in accounting principle	\$ 9,951			

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

4. Investments in Partnerships*Crossroads*

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

	December 31,	
	2003	2002
Balance Sheets		
Assets:		
Rental property, net	\$ 7,402	\$ 7,603
Other assets	3,710	3,536
Total assets	\$ 11,112	\$ 11,139
Liabilities and partners' equity		
Mortgage note payable	\$ 32,961	\$ 33,575
Other liabilities	4,696	5,832
Partners' equity	(26,545)	(28,268)
Total liabilities and partners' equity	\$ 11,112	\$ 11,139
Company's investment	\$ 3,665	\$ 3,241

	Years Ended December 31,		
	2003	2002	2001
Statements of Operations			
Total revenue	\$ 8,324	\$ 7,091	\$ 7,174
Operating and other expenses	2,465	2,150	2,159
Interest expense	2,542	2,722	2,620
Depreciation and amortization	570	547	538
Net income	\$ 2,747	\$ 1,672	\$ 1,857
Company's share of net income	\$ 1,377	\$ 934	\$ 910
Amortization of excess investment (See below)	392	392	392
Income from partnerships	\$ 985	\$ 542	\$ 518

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. Decisions made by the general partner as it relates to purchasing, financing and disposition of properties are subject to the unanimous disapproval of the Advisory Committee, which is comprised of representatives from each of the four institutional investors.

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

Acquisitions completed during 2003 and 2002 were as follows:

Kroger/Safeway Portfolio – In January 2003, ASOF 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 \$48,900 (inclusive of closing and other related acquisition costs) included the assumption of \$34,450 of existing fixed-rate debt which bears interest at a weighted-average rate of 6.6%. The mortgage debt fully amortizes over the next seven years, which is coterminous with the primary lease term of the supermarket leases. ASOF invested \$11,250 of the equity capitalization of which the Company’s share was \$2,500.

Brandywine Portfolio – In January 2003, ASOF acquired a one million square foot portfolio for an initial purchase price of \$86,287, inclusive of closing and other related acquisition costs. The portfolio consists of two shopping centers located in Wilmington, Delaware. A portion of one of the properties is currently unoccupied for which ASOF will pay for on an “earn-out” 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. On December 6, 2002, ASOF completed a forward interest rate lock agreement on \$30,000 of anticipated mortgage debt in connection with this transaction. This forward interest rate lock agreement was settled at closing in January 2003.

On September 19, 2002, ASOF acquired three supermarket–anchored shopping centers located in Ohio for a total purchase price of \$26,679. ASOF assumed \$12,568 of fixed rate debt on two of the properties at a blended rate of 8.1%. A new \$6,000 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 the joint venture, of which the Company’s share was \$1,802.

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:

	2003	December 31, 2002
Balance Sheets		
Assets:		
Rental property, net	\$ 173,507	\$ 28,046
Other assets	4,763	5,977
Total assets	\$ 178,270	\$ 34,023
Liabilities and partners’ equity		
Mortgage note payable	\$ 120,609	\$ 18,450
Other liabilities	11,731	2,418
Partners’ equity	45,930	13,155
Total liabilities and partners’ equity	\$ 178,270	\$ 34,023
Company’s investment	\$ 9,965	\$ 2,923

	Year ended December 31, 2003	Year ended December 31, 2002	Period from September 28, 2001 (inception) to December 31, 2001
Statements of Operations			
Total revenue	\$ 26,008	\$ 1,224	\$ —
Operating and other expenses	5,017	342	—
Management and other fees	2,171	1,391	402
Interest expense	6,399	350	—
Depreciation and amortization	8,055	145	—
Minority interest	157	—	—
Net income (loss)	\$ 4,209	\$ (1,004)	\$ (402)

Company's share of net income (loss) (1)	\$	1,426	\$	86	\$	(14)
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Notes:

- (1) Reflects the elimination of the Company's pro-rata share of asset management, property management and leasing fees paid by ASOF aggregating \$491, \$309 and \$75 for the years ended December 31, 2003, 2002 and 2001, respectively, as these fees are paid to the Company.

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, 2003 and 2002:

	2003	2002
Deferred financing costs	\$ 6,392	\$ 6,150
Deferred leasing and other costs	15,485	13,302
	21,877	19,452
Accumulated amortization	(10,704)	(9,092)
	\$ 11,173	\$ 10,360

6. Mortgage Loans

At December 31, 2003, mortgage notes payable aggregated \$190,444 and were collateralized by 22 properties and related tenant leases. Interest rates ranged from 2.6% to 8.1%. Mortgage payments are due in monthly installments of principal and/or interest and mature on various dates through 2013. 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.

Effective December 1, 2003, the Company amended an \$8,599 loan with a bank. An additional \$5,000 has been made available under the loan as well as extending the maturity of the loan until December 1, 2008 with two one-year extension options. In addition, the interest rate has been reduced to LIBOR plus 140 basis points. The loan, which is secured by one of the Company's properties, requires the monthly payment of interest and fixed principal commencing January 1, 2004.

On October 27, 2003, the Company paid off maturing loans totaling \$7,418, which were secured by two of the Company's properties.

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

In April 2003, the Company extended an existing \$7,400 revolving facility with a bank through March 1, 2008. As of December 31, 2003, there were no outstanding amounts under this loan.

In March 2003, the Company repaid a \$3,551 loan with a life insurance company.

In January 2003, the Company drew down \$5,000 of an available \$10,000 facility with a bank and used the proceeds to partially pay down the outstanding principal on another loan with the same lender.

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

6. Mortgage Loans, Continued

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

	December 31, 2003	December 31, 2002	Interest Rate at December 31, 2003	Maturity	Properties Encumbered	Payment Terms
Mortgage notes payable – variable rate						
First Union National Bank	\$ —	\$ 13,388	—	—	—	—
Metropolitan Life Insurance Company	—	7,577	—	—	—	—
Washington Mutual Bank, FA	50,686	56,950	2.94% (LIBOR + 1.75%)	04/01/05	(1)	(15)
Sun America Life Insurance Company	9,191	9,446	2.89% (LIBOR + 1.73%)	10/01/05	(2)	(15)
Fleet National Bank	12,009	12,187	2.92% (LIBOR + 1.75%)	01/01/07	(3)	(15)
Washington Mutual Bank, FA	20,083	15,637	3.04% (LIBOR + 1.85%)	01/01/07	(4)	(15)
Fleet National Bank	4,865	4,942	2.91% (LIBOR + 1.75%)	03/15/07	(5)	(15)
Fleet National Bank	6,256	6,300	2.91% (LIBOR + 1.75%)	05/01/07	(6)	(15)
Fleet National Bank	8,992	9,108	2.91% (LIBOR + 1.75%)	06/01/07	(7)	(15)
Washington Mutual Bank, FA	—	—	— (LIBOR + 1.70%)	11/22/07	(8)	(15)
Fleet National Bank	—	—	— (LIBOR + 1.50%)	03/01/08	(9)	(15)
Fleet National Bank	8,598	8,731	2.57%(LIBOR + 1.40%)	12/01/08	(10)	(15)
Total variable-rate debt	120,680	144,266				
Mortgage notes payable – fixed rate						
Anchor National Life Insurance Company	—	3,570	—	—	—	—
SunAmerica Life Insurance Company	13,425	13,648	6.46%	07/01/07	(11)	(15)
Metropolitan Life Insurance Company	24,113	24,495	8.13%	11/01/10	(12)	(15)
Bank of America, N.A.	16,226	16,382	7.55%	01/01/11	(13)	(15)
RBS Greenwich Capital	16,000	—	5.19%	06/01/13	(14)	(16)
Total fixed-rate debt	69,764	58,095				
	\$ 190,444	\$ 202,361				

Notes:

- | | | |
|---|--|--|
| (1) New Loudon Center
LedgeWood Mall
Route 6 Plaza
Bradford Towne Centre
Berlin Shopping Center | (5) Town Line Plaza | (10) Soundview Marketplace |
| (2) Village Apartments | (6) Gateway Shopping Center | (11) Merrillville Plaza |
| (3) Branch Shopping Center
Abington Towne Center
Methuen Shopping Center | (7) Smithtown Shopping Center | (12) Crescent Plaza
East End Centre |
| (4) Walnut Hill Plaza

Bloomfield Town Square | (8) Elmwood Park Shopping
Center; no amounts are out-
standing under this \$20,000
revolving facility | (13) GHT Apartments/Colony Apartments |
| | (9) Marketplace of Absecon;
no amounts are outstanding
under this \$7,400 revolving
facility | (14) 239 Greenwich Avenue |
| | | (15) Monthly principal and interest |
| | | (16) Interest only until 5/05; monthly principal and
interest
thereafter |

ACADIA REALTY TRUST AND SUBSIDIARIES
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6. Mortgage Loans, continued

The scheduled principal repayments of all mortgage indebtedness as of December 31, 2003 are as follows:

2004	\$	3,580
2005		60,544
2006		2,445
2007		62,646
2008		9,144
Thereafter		52,085
	\$	<u>190,444</u>

7. Shareholders' Equity and Minority Interests

Common Shares

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

Through December 31, 2003, the Company had repurchased 1,922,788 Common Shares (net of 131,817 Common Shares reissued) at a total cost of \$10,381 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.

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.

Also in February 2002, the Board of Trustees voted to permit Yale University ("Yale") to acquire 2,266,667 additional Common Shares from another shareholder 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.

Minority Interests

Minority interest in Operating Partnership represents the limited partners' interest of 1,139,017 and 3,162,980 units in the Operating Partnership ("Common OP Units") at December 31, 2003 and 2002, respectively. During 2003 and 2002, various limited partners converted a total of 2,058,804 and 2,086,736 Common OP Units into Common Shares on a one-for-one basis, respectively. Ross Dworman, a trustee of the Company, received 34,841 of Common OP Units through various affiliated entities during 2003 (Note 8).

Minority interest in Operating Partnership also includes 1,580 and 2,212 units of preferred limited partnership interests designated as Series A Preferred Units at December 31, 2003 and 2002, respectively ("Preferred OP Units"). The Preferred OP Units were issued in connection with the acquisition of all the partnership interests of the limited partnership which owns the Pacesetter Park Shopping Center on November 16, 1999. Certain Preferred OP Unit holders converted 632 Preferred OP Units into 84,267 Common OP Units and then into Common Shares during 2003.

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.

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

ACADIA REALTY TRUST AND SUBSIDIARIES
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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 2001, the Company terminated a contract to manage a property owned by a related party that earned a fee of 3.25% of tenant collections. Management fees earned by the Company under these contracts aggregated \$212, \$229 and \$391 for the years ended December 31, 2003, 2002 and 2001 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 (after adjusting for intercompany fees) aggregated \$1,689, \$1,082 and \$338 for the years ended December 31, 2003, 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 Common OP Units and cash valued at \$2,750 to certain limited partners in connection with the RDC Transaction. The payment was due upon the commencement of rental payments from a designated tenant at one of the properties acquired in the RDC Transaction. In February 2003, Mr. Dworman received 34,841 of these Common OP Units through various affiliated entities.

Included in the Common OP Units converted to Common Shares during 2003 and 2002, were 2,300 and 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, 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, 2003 are summarized as follows:

2004	\$	42,329
2005		38,272
2006		35,675
2007		32,505
2008		27,625
Thereafter		182,243
	\$	<u>358,649</u>

Minimum future rentals above include a total of \$6,169 for two tenants (with six leases), which have filed for bankruptcy protection. None of these leases have been rejected nor affirmed. During the years ended December 31, 2003, 2002 and 2001, 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. The Company leases space for its White Plains corporate office for a term expiring in 2010. Future minimum rental payments required for leases having remaining non-cancelable lease terms are as follows:

2004	\$	954
2005		973
2006		981
2007		995
2008		1,055
Thereafter		18,106
	\$	<u>23,064</u>

ACADIA REALTY TRUST AND SUBSIDIARIES
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11. Share Incentive Plan

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

The 1999 Plan also provides for the granting of share appreciation rights, restricted shares and performance units/shares. Share appreciation rights provide for the participant to receive, upon exercise, cash and/or Common Shares, at the discretion of the committee, equal to the excess of the market value of the Common Shares at the exercise date over the market value of the Common Shares at the Grant Date. The Committee will determine the award and restrictions placed on restricted shares, including the dividends thereon and the term of such restrictions. The Committee also determines the award and vesting of performance units and performance shares based on the attainment of specified performance objectives of the Company within a specified performance period. Through December 31, 2003, no share appreciation rights or performance units/shares have been awarded.

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

As of December 31, 2003, the Company has 2,068,150 options outstanding to officers and employees. These fully vested options are for ten-year terms from the grant date and, except for 30,000 options which vested fully as of the grant date, vested in three equal annual installments which began on the grant date. In addition, 27,000 options have been issued to non-employee Trustees of which 14,600 options were vested as of December 31, 2003.

For the year ended December 31, 2003, the Committee granted a total of 107,834 restricted shares pursuant to the 2003 Plan to certain officers of the Company (the "Recipients"). In general, the restricted shares carry all the rights of Common Shares including voting and dividend rights, but may not be transferred, assigned or pledged until the Recipients have a vested non-forfeitable right to such shares. Vesting with respect to these restricted shares, which is subject to the Recipients' continued employment with the Company through the applicable vesting dates, is as follows:

- i. 39,168 restricted shares, which were granted in lieu of a portion of the Recipients' 2002 cash bonus, vested 20% on January 2, 2003 and vest 20% thereafter on each of the next four anniversaries of such date,
- ii. 34,333 restricted shares vest 20% on January 2, 2004 and on each of the next four anniversaries of such date,
- iii. and 34,333 restricted shares vest 20% on January 2, 2004 and on each of the next four anniversaries of such date, provided that in addition to the Recipients' continued employment through the vesting date, the Company's total shareholder return, as determined by the Committee in its discretion, is 12% or more either for such fiscal year or, on average, for such fiscal year and each other fiscal year occurring after January 2, 2003 – in which case vesting shall occur for any restricted shares that did not vest in a prior fiscal year based on this 12% condition.

The total value of the above restricted share awards on the date of grant was \$987 which will be recognized in expense over the vesting period. During 2003, \$410 was recognized in compensation expense. Unearned compensation of \$577 as of December 31, 2003 will be recognized in expense as such shares vest.

For the year ended December 31, 2001, the Company issued 37,110 restricted shares 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, 2003, 2002 and 2001, the Company recognized compensation expenses of \$516, \$121 and \$121, 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, 2003, 2002 and 2001.

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11. Share Incentive Plan, continued

Effective January 1, 2002, the Company adopted the fair value method of recording stock-based compensation contained in SFAS No. 123, "Accounting for Stock-Based Compensation". As such, stock based compensation awards granted after December 31, 2001 will be expensed 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 year ended December 31, 2001 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. The Company elected the prospective method whereby compensation expense is recognized only for those options granted, modified or settled on or after January 1, 2002.

The Company has used the Black-Scholes option-pricing model for purposes of estimating the fair value in determining compensation expense for options granted for the years ended December 31, 2003 and 2002. The Company has also used this model for the pro forma information regarding net income and earnings per share as required by SFAS No. 123 for options issued for the year ended December 31, 2001 as if the Company had also accounted for these employee stock options under the fair value method. The fair value for the options issued by the Company was estimated at the date of the grant using the following weighted-average assumptions resulting in:

	Years ended December 31,		
	2003	2002	2001
Risk-free interest rate	4.4%	3.3%	5.4%
Dividend yield	5.8%	7.0%	8.4%
Expected life	10.0 years	7.0 years	7.0 years
Expected volatility	18.0%	19.1%	17.7%
Fair value at date of grant (per option)	\$ 0.82	\$ 0.44	\$ 0.27

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

	Years ended December 31,		
	2003	2002	2001
Outstanding at beginning of year	2,472,400	2,593,400	2,124,600
Granted	8,000	5,000	475,000
Option price per share granted	\$ 9.11-11.66	\$ 7.10	\$ 6.00-\$7.00
Cancelled	—	—	—
Exercisable at end of year	2,082,750	2,313,436	2,418,137
Settled (1)	385,250	126,000	6,200
Expired	—	—	—
Outstanding at end of year	2,095,150	2,472,400	2,593,400
Option prices per share outstanding	\$ 4.89-\$11.66	\$ 4.89-\$7.50	\$ 4.89-\$7.50

(1) Pursuant to the 1999 Plan (except for 250 options exercised during 2003) these options were settled and did not result in the issuance of any additional Common Shares.

As of December 31, 2003 the outstanding options had a weighted average exercise price of \$7.04 and a weighted average remaining contractual life of approximately 5.1 years.

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

12. Employee Stock Purchase Plan

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

13. Employee 401(k) Plan

The Company maintains a 401(k) plan for employees under which the Company currently matches 50% of a plan participant's contribution up to 6% of the employee's annual salary. A plan participant may contribute up to a maximum of 15% of their compensation but not in excess of \$12 for the year ended December 31, 2003. The Company contributed \$110, \$115, and \$135 for the years ended December 31, 2003, 2002 and 2001, respectively.

14. Dividends and Distributions Payable

On December 9, 2003, the Company declared a cash dividend for the quarter ended December 31, 2003 of \$0.16 per Common Share. The dividend was paid on January 15, 2004 to shareholders of record as of December 31, 2003.

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

	For the years ended December 31,		
	2003	2002	2001
Ordinary income	100%	44%	79%
Long-term capital gain	0%	56%	21%
	100%	100%	100%

15. Income Taxes

The Company believes it qualifies as a REIT and therefore is not liable for income taxes at the federal level or in most states for the current year as well as for future years. Accordingly, for the years ended December 31, 2003, 2002 and 2001, no provision was recorded for federal or substantially all state income taxes.

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

	For the years ended December 31,		
	2003 Estimate	2002 Actual	2001 Actual
Book net income	\$ 7,853	\$ 19,399	\$ 9,802
Book/tax difference in depreciation and amortization	3,828	(6,802)	2,091
Book/tax difference on gains/losses from capital transactions	—	904	2,595
Other book/tax differences, net	(326)	1,380	815
REIT taxable income before dividends paid deduction	\$ 11,355	\$ 14,881	\$ 15,303

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

16. Financial Instruments

Fair Value of Financial Instruments

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

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, 2003 and 2002 and is determined using interest rate market pricing models.

Mortgage Notes Payable – As of December 31, 2003 and 2002, the Company has determined the estimated fair value of its mortgage notes payable are approximately \$193,619 and \$208,083, 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.

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

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

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 of the Crossroads mortgage debt.

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

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

The following table summarizes the notional values and fair values of the Company's derivative financial instruments as of December 31, 2003. 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	\$ (1,217)
LIBOR Swap (1)	5,000	6.48%	6/16/07	(599)
				(1,816)
LIBOR Swap	30,000	4.80%	4/1/05	(1,227)
LIBOR Swap	20,000	4.53%	10/1/06	(1,091)
LIBOR Swap	8,992	4.47%	6/1/07	(472)
LIBOR Swap	15,605	4.32%	1/1/07	(748)
LIBOR Swap	12,072	4.11%	1/1/07	(506)
				(4,044)
				\$ (5,860)

Notes:

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

As of December 31, 2003, the derivative instruments were reported at their fair value as derivative instruments of \$4,044 and as a reduction of investments in unconsolidated partnerships of \$1,816. As of December 31, 2003, unrealized losses totaling \$5,734 represented the fair value of the aforementioned derivatives, of which \$5,505 was reflected in accumulated other comprehensive loss and \$229 as a reduction of minority interest in Operating Partnership. For the years ended December 31, 2003 and 2002, the Company recorded in interest expense an unrealized gain (loss) of \$51 and (\$122), 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 \$3,462 of the current balance held in accumulated other comprehensive loss.

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

17. Earnings Per Common Share

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

	Years ended December 31,		
	2003	2002	2001
Numerator:			
Income from continuing operations – basic earnings per share	\$ 7,853	\$ 11,517	\$ 5,156
Effect of dilutive securities:			
Preferred OP Unit distributions	185	199	—
Numerator for diluted earnings per share	8,038	11,716	5,156
Denominator:			
Weighted average shares – basic earnings per share	26,589	25,321	28,313
Effect of dilutive securities:			
Employee stock options	615	190	—
Convertible Preferred OP Units	292	295	—
Dilutive potential Common Shares	907	485	—
Denominator for diluted earnings per share	27,496	25,806	28,313
Basic earnings per share from continuing operations	\$ 0.30	\$ 0.46	\$ 0.18
Diluted earnings per share from continuing operations	\$ 0.29	\$ 0.45	\$ 0.18

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
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts)

18. Summary of Quarterly Financial Information (unaudited)

The quarterly results of operations of the Company for the years ended December 31, 2003 and 2002 are as follows:

	March 31, 2003	June 30, 2003	September 30, 2003	December 31, 2003	Total for Year
Revenue	\$ 18,125	\$ 16,465	\$ 16,704	\$ 18,151	\$ 69,445
Income from continuing operations	\$ 3,463	\$ 2,443	\$ 2,424	\$ (477)	\$ 7,853
Income from discontinued operations	\$ —	\$ —	\$ —	\$ —	\$ —
Net income	\$ 3,463	\$ 2,443	\$ 2,424	\$ (477)	\$ 7,853
Net income per Common Share – basic:					
Income from continuing operations	\$ 0.14	\$ 0.09	\$ 0.09	\$ (0.02)	\$ 0.30
Income from discontinued operations	\$ —	\$ —	\$ —	\$ —	\$ —
Net income	\$ 0.14	\$ 0.09	\$ 0.09	\$ (0.02)	\$ 0.30
Net income per Common Share – diluted:					
Income from continuing operations	\$ 0.14	\$ 0.09	\$ 0.09	\$ (0.02)	\$ 0.29
Income from discontinued operations	\$ —	\$ —	\$ —	\$ —	\$ —
Net income	\$ 0.14	\$ 0.09	\$ 0.09	\$ (0.02)	\$ 0.29
Cash dividends declared per Common Share	\$ 0.145	\$ 0.145	\$ 0.145	\$ 0.160	\$ 0.595
Weighted average Common Shares outstanding:					
Basic	25,377,095	26,387,010	27,235,707	27,334,649	26,589,432
Diluted	25,933,960	27,175,713	28,300,443	28,551,778	27,496,267

	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	\$ 6,286	\$ 1,770	\$ 1,990	\$ 1,471	\$ 11,517
Income from discontinued operations	\$ 180	\$ 2,052	\$ (108)	\$ 5,758	\$ 7,882
Net income	\$ 6,466	\$ 3,822	\$ 1,882	\$ 7,229	\$ 19,399
Net income per Common Share – basic:					
Income from continuing operations	\$ 0.24	\$ 0.07	\$ 0.08	\$ 0.06	\$ 0.46
Income from discontinued operations	\$ 0.01	\$ 0.08	\$ —	\$ 0.23	\$ 0.31
Net income	\$ 0.25	\$ 0.15	\$ 0.08	\$ 0.29	\$ 0.77
Net income per Common Share – diluted:					
Income from continuing operations	\$ 0.24	\$ 0.07	\$ 0.08	\$ 0.06	\$ 0.45
Income from discontinued operations	\$ 0.01	\$ 0.08	\$ —	\$ 0.22	\$ 0.31
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

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

19. Commitments and Contingencies

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

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

20. Subsequent Events

In January 2004, the Company formed a joint venture with Klaff Realty, LP ("Klaff") and Lubert Adler Management, Inc. for the purpose of making investments in surplus or underutilized properties owned or controlled by distressed retailers. The Company has also acquired Klaff's rights to provide asset management, leasing, disposition, development and construction services for an existing portfolio of retail properties and/or leasehold interests comprised of approximately 10 million square feet of retail space. The rights were acquired with the issuance of \$4.0 million in preferred Operating Partnership units.

In January 2004, the Company entered into a forward starting swap agreement which commences April 1, 2005. The swap agreement, which extends through January 1, 2011, provides for a fixed rate of 4.345% on \$37,667 of notional principal.

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

<u>Commencement Date</u>	<u>Maturity Date</u>	<u>Notional Principal</u>	<u>Rate</u>
10/2/2006	10/1/2011	\$11,410	4.895%
10/2/2006	1/1/2010	4,640	4.710%
6/1/2007	3/1/2012	8,434	5.140%

These swap agreements have been executed in contemplation of the finalization of the extension and modification of certain mortgage loans currently being negotiated.

On March 11, 2004, the Company invested approximately \$4.1 million in a mortgage loan secured by a shopping center property.

ACADIA REALTY TRUST
SCHEDULE III-REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2003

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	\$ 8,516	\$ 1,147	\$ 7,425	\$ 543	\$ 1,147	\$ 7,968	\$ 9,115	\$ 3,890	1984(a)
New Loudon Centre Latham, NY	(1)	505	4,161	10,565	505	14,726	15,231	6,865	1982(a)
Ledgewood Mall Ledgewood, NJ	(1)	619	5,434	32,755	619	38,189	38,808	22,218	1983(a)
Mark Plaza Edwardsville, PA	—	—	4,268	4,509	—	8,777	8,777	5,059	1968(c)
Luzerne Street Plaza Scranton, PA	—	35	315	1,208	35	1,523	1,558	1,028	1983(a)
Blackman Plaza Wilkes-Barre, PA	—	120	—	1,599	120	1,599	1,719	441	1968(c)
East End Centre Wilkes-Barre, PA	15,597	1,086	8,661	3,742	1,086	12,403	13,489	7,420	1986(c)
Greenridge Plaza Scranton, PA	—	1,335	6,314	1,009	1,335	7,323	8,658	4,003	1986(c)
Plaza 422 Lebanon, PA	—	190	3,004	719	190	3,723	3,913	2,489	1972(c)
Route 6 Mall Honesdale, PA	(1)	—	—	12,696	1,664	11,032	12,696	3,523	1995(c)
Pittston Mall Pittston, PA	—	1,500	—	5,956	1,521	5,935	7,456	1,741	1995(c)
Berlin Shopping Centre Berlin, NJ	(1)	1,331	5,351	219	1,331	5,570	6,901	1,893	1994(a)
Bradford Towne Centre Towanda, PA	(1)	—	—	16,100	817	15,283	16,100	5,105	1994(c)
Abington Towne Center Abington, PA	—	799	3,197	1,858	799	5,056	5,855	715	1998(a)
Bloomfield Town Square Bloomfield Hills, MI	13,308	3,443	13,774	1,479	3,443	15,253	18,696	2,197	1998(a)
Walnut Hill Plaza Woonsocket, RI	6,775	3,122	12,488	749	3,122	13,237	16,359	2,167	1998(a)
Elmwood Park Plaza Elmwood Park, NJ	—	3,248	12,992	14,671	3,800	27,111	30,911	2,789	1998(a)
Merrillville Plaza Hobart, IN	13,425	4,288	17,152	1,023	4,288	18,175	22,463	2,726	1998(a)
Soundview Marketplace Port Washington, NY	8,598	2,428	9,711	1,399	2,428	11,110	13,538	1,764	1998(a)
Marketplace of Absecon Absecon, NJ	—	2,573	10,294	2,467	2,573	12,758	15,331	1,778	1998(a)

ACADIA REALTY TRUST
SCHEDULE III-REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2003

Description	Encumbrances	Land	Buildings & Improvements	Costs capitalized Subsequent to Acquisition	Land	Buildings & Improvements	Total	Accumulated Depreciation	Date of Acquisition (a) Construction(c)
Hobson West Plaza Naperville, IL	—	1,793	7,172	661	1,793	7,833	9,626	1,224	1998(a)
Smithtown Shopping Center Smithtown, NY	8,993	3,229	12,917	1,027	3,229	13,944	17,173	2,377	1998(a)
Town Line Plaza Rocky Hill, CT	4,865	878	3,510	6,838	909	10,318	11,227	5,477	1998(a)
Branch Shopping Center Village of the Branch, NY	12,009	3,156	12,545	491	3,156	13,036	16,192	1,779	1998(a)
The Caldor Shopping Center Methuen, MA	—	956	3,826	—	956	3,826	4,782	514	1998(a)
Gateway Mall Burlington, VT	6,256	1,273	5,091	11,073	1,273	16,164	17,437	660	1999(a)
Mad River Station Dayton, OH	—	2,350	9,404	253	2,350	9,657	12,007	1,221	1999(a)
Pacesetter Park Shopping Center Ramapo, NY	—	1,475	5,899	476	1,475	6,375	7,850	767	1999(a)
239 Greenwich Greenwich, CT	16,000	1,817	15,846	213	1,817	16,059	17,876	1,768	1999(c)
Residential Properties									
Gate House, Holiday House, Tiger Village Columbia, MO	10,817	2,312	9,247	2,036	2,312	11,284	13,596	1,984	1998(a)
Village Apartments Winston Salem, NC	9,191	3,429	13,716	2,299	3,429	16,015	19,444	2,571	1998(a)
Colony Apartments Columbia, MO	5,409	1,118	4,470	1,147	1,118	5,617	6,735	937	1998(a)
Undeveloped land Properties under development	—	—	—	250	250	—	250	—	
	—	—	—	5,859	—	5,859	5,859	—	
	<u>\$ 190,444</u>	<u>\$ 51,555</u>	<u>\$ 228,184</u>	<u>\$ 147,889</u>	<u>\$ 54,890</u>	<u>\$ 372,738</u>	<u>\$ 427,628</u>	<u>\$ 101,090</u>	

Acadia Realty Trust
Notes To Schedule III
December 31, 2003

1. This property serves as collateral for the financing with Washington Mutual Bank, FA in the amount of \$50,685 (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 \$376,456 as of December 31, 2003.
4. (a) Reconciliation of Real Estate Properties:

The following table reconciles the real estate properties from January 1, 2001 to December 31, 2003:

	2003	for the year ended December 31, 2002	2001
Balance at beginning of year	\$ 413,878	\$ 398,416	\$ 387,729
Other improvements	13,750	15,794	10,687
Sale of property	—	—	—
Fully depreciated assets written off	—	(332)	—
Balance at end of year	\$ 427,628	\$ 413,878	\$ 398,416

(b) Reconciliation of Accumulated Depreciation:

The following table reconciles accumulated depreciation from January 1, 2001 to December 31, 2003:

	2003	for the year ended December 31, 2002	2001
Balance at beginning of year	\$ 85,062	\$ 72,805	\$ 60,947
Sale of property	—	—	—
Fully depreciated assets written off	—	(332)	—
Depreciation related to real estate	16,028	12,589	11,858
Balance at end of year	\$ 101,090	\$ 85,062	\$ 72,805

Exhibit A

Form of Registration Rights Agreement

REGISTRATION RIGHTS AND LOCK-UP AGREEMENT

THIS REGISTRATION RIGHTS AND LOCK-UP AGREEMENT (this "Agreement"), is made and entered into as of January __, 2004, by and among Acadia Realty Trust, a Maryland real estate investment trust (the "REIT"), Acadia Realty Limited Partnership, a Delaware limited partnership (the "Partnership"), and the undersigned Klaff Realty, LP, a Delaware limited Partnership ("Klaff"), which, at the Closing (the "Closing Date") of the transactions contemplated by the Agreement of Contribution by and among Klaff and Klaff Realty, Limited, the REIT, and the Partnership (the "Contribution Agreement"), are receiving preferred units of limited partnership interests in the Partnership ("Preferred Units") which are convertible into common units of limited partnership interest in the Partnership ("OP Units"), which in turn, are exchangeable for Conversion Shares (as defined below).

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, and intending to be legally bound hereby, the REIT, the Partnership and Klaff hereby agree as follows:

1. Certain Definitions. As used in this Agreement, the following terms shall have the following respective meanings:

(a) "Commission" means the Securities and Exchange Commission, or any other federal agency at the time administering the Securities Act.

(b) "Conversion Shares" means the Shares issuable upon exchange of the OP Units from time to time.

(c) "Exchange Act" means the Securities Exchange Act of 1934, as amended, or any successor federal statute, and the rules and regulations of the Commission issued under such Exchange Act, as they each may, from time to time, be in effect.

(d) "Holder(s)" means a holder of Registrable Shares entitled to the rights arising hereunder.

(e) "Participating Holder" means a Holder whose Registrable Shares are included in a Registration Statement.

(f) "Registration Expenses" means the expenses described in Section 4 hereof.

(g) "Registration Statement" means a registration statement filed by the REIT with the Commission for a public offering and sale of equity securities of the REIT (other than a registration statement on Form S-8 or Form S-4, or their successors, or any registration statement covering only securities proposed to be issued in exchange for securities or assets of another corporation).

(h) "Registrable Shares" means (i) the Conversion Shares, (ii) any other Shares issued in respect of Conversion Shares, and (iii) any other Shares issued with respect to the Shares issued in clauses (i) and (ii) (because of share splits, share dividends, reclassifications, recapitalizations, or similar events); provided, however, that Shares which are Registrable Shares shall cease to be Registrable Shares (x) upon any sale pursuant to a Registration Statement, or any other sale or transfer of the Registrable Shares in any manner to any person or entity other than a Permitted Transferee (as defined) or as otherwise expressly provided herein, or (y) in the event that Registrable Shares may be freely sold and/or transferred pursuant to Rule 144(k) under the Securities Act.

(i) "Securities Act" means the Securities Act of 1933, as amended, or any successor federal statute, and the rules and regulations of the Commission issued under such Securities Act, as they each may, from time to time, be in effect.

(j) "Shares" means Common Shares of Beneficial Interest of the REIT, par value \$.001 per share.

2. Certain Shelf Registration. Within ninety (90) days from the date of this Agreement, the REIT shall, at its expense, file a shelf Registration Statement pursuant to Rule 415 under the Securities Act to register the Registrable Shares for resale, including for issuance upon conversion or exchange of OP Units. The REIT shall, at its expense, use commercially reasonable efforts to maintain the effectiveness of such shelf Registration Statement until the earlier of (i) such time as when all of the Registrable Shares have been disposed of or (ii) three years after the conversion or exchange into Shares of all of the OP Units issued upon conversion of the Preferred Units issued under the Contribution Agreement.

3. Registration Procedures. If and whenever the REIT is required by the provisions of this Agreement to effect the registration of any of the Registrable Shares under the Securities Act, the REIT shall, at its expense:

(a) prepare and file with the Commission a Registration Statement with respect to such Registrable Shares and use best efforts to cause that Registration Statement to become effective;

(b) use commercially reasonable efforts to cause the Registration Statement to remain effective;

(c) subject to the provision of Section 2, promptly prepare and file with the Commission any amendments and supplements to the Registration Statement and the prospectus included in the Registration Statement as may be necessary to keep the Registration Statement effective for the period of time required by the Commission;

(d) promptly furnish to each Participating Holder such reasonable numbers of copies of the prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as the Participating Holders may reasonably request in order to facilitate the public sale or other disposition of the Registrable Shares owned by such Participating Holders and included in the Registration Statement; and

(e) promptly use commercially reasonable efforts to register or qualify the Registrable Shares covered by the Registration Statement under the securities or Blue Sky laws of states within the United States as the Participating Holders shall reasonably request; provided, however, that the REIT shall not be required in connection with this subsection 3(e) to: (i) qualify as a foreign corporation in any jurisdiction where, but for the requirements of this subsection 3(e), it would not be obligated to be so qualified; (ii) execute a general consent to service of process in any jurisdiction; (iii) subject itself to taxation in any such jurisdiction; or (iv) register in any state requiring, as a condition to registration, escrow or surrender of any REIT securities held by any security holder other than the Participating Holders.

If the REIT has delivered a preliminary or final prospectus to a Participating Holder and, after having done so, the prospectus is amended to comply with the requirements of the Securities Act, the REIT shall promptly notify such Participating Holder and, if requested, such Participating Holder shall immediately cease making offers of Registrable Shares and return all prospectuses to the REIT. The REIT shall promptly provide Participating Holders with revised prospectuses and, following receipt of the revised prospectuses, Participating Holders shall be free to resume making offers of the Registrable Shares.

Notwithstanding any other provisions of this Agreement to the contrary, upon receipt by a Participating Holder of a written notice signed by the Chief Executive Officer, General Counsel or Chief Financial Officer of the REIT, to the effect set forth below, the REIT shall not be obligated during a reasonable period of time thereafter to effect any registrations pursuant to this Agreement, and each such Participating Holder agrees that it will immediately suspend sales of Shares under any effective Registration Statement for a reasonable period of time, in either case not to exceed 90 days, at any time during which, in the REIT's reasonable judgment, (i) there is a development involving the REIT or any of its affiliates which is material but which has not yet been publicly disclosed or (ii) sales pursuant to the Registration Statement would materially and adversely affect an underwritten public offering for the account of the REIT or any other material financing project or where a proposed or pending material merger or other material acquisition or material business combination or material disposition of the REIT's assets, to which the REIT or any of its affiliates is, or is expected to be, a party. In the event a registration is postponed or sales by a Participating Holder pursuant to an effective Registration Statement are suspended in accordance with this paragraph, there shall be added to the period during which the REIT is obligated to keep a Registration Statement effective the number of days for which the Registration Statement was postponed or sales were suspended.

4. Expenses of Registration. The REIT will pay all Registration Expenses of all registrations under this Agreement. For purposes of this Agreement, the term "Registration Expenses" shall mean all expenses incurred by the REIT in complying with this Agreement, including without limitation, all registration and filing fees, exchange listing fees, printing expenses, the fees and disbursements of counsel for the REIT and the reasonable fees and disbursements of one counsel selected by the Participating Holders, the fees and disbursements of the REIT's accountants, state Blue Sky fees and expenses, and the expense of any special audits incident to or required by any such registration, but excluding underwriting discounts and selling commissions.

5. Indemnification.

(a) Indemnification of Participating Holders. In the event of any registration of any of the Registrable Shares under the Securities Act pursuant to this Agreement, the REIT will indemnify and hold harmless each Participating Holder, each of its directors and officers and each other person, if any, who controls such Participating Holder within the meaning of the Securities Act or the Exchange Act, against any losses, claims, damages or liabilities to which such Participating Holder or controlling person may become subject under the Securities Act, the Exchange Act, Blue Sky laws or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any Registration Statement under which such Registrable Shares were registered under the Securities Act, any preliminary prospectus or final prospectus contained in the Registration Statement, or any amendment or supplement to such Registration Statement, or arise out of or are based upon the omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading; and the REIT will reimburse such Participating Holder and each such controlling person for any legal or any other expenses reasonably incurred by such Participating Holder or controlling person in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the REIT will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any untrue statement or omission made in such Registration Statement, preliminary prospectus or prospectus, or any such amendment or supplement, in reliance upon and in conformity with information furnished to the REIT, in writing, by or on behalf of any Participating Holder or controlling person specifically for use in the preparation thereof; and provided further, however, that any indemnification contained in this paragraph with respect to any preliminary prospectus shall not inure to the benefit of any person who otherwise is entitled to indemnification hereunder on account of any loss, liability, claim, damage or expense if a copy of an amended or supplemental preliminary prospectus, or the final prospectus, shall have been delivered or sent to such person within the time required by the Securities Act, and the untrue statement or omission of a material fact was corrected in such amended or supplemental preliminary prospectus or final prospectus and provided that such person did not deliver such amended or supplemental preliminary prospectus or final prospectus on a timely basis.

(b) Indemnification of the REIT. In the event of any registration of any of the Registrable Shares under the Securities Act pursuant to this Agreement, each Participating Holder will indemnify and hold harmless the REIT, each of its directors and officers and each person, if any, who controls the REIT within the meaning of the Securities Act or the Exchange Act, against any losses, claims, damages or liabilities, joint or several, to which the REIT, such directors and officers or controlling persons may become subject under the Securities Act, Exchange Act, Blue Sky laws or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in any Registration Statement under which such Registrable Shares were registered under the Securities Act, any preliminary prospectus or final prospectus contained in the Registration Statement, or any amendment or supplement to the Registration Statement, or arise out of or are based upon any omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading, in each case only if such statement or omission was made in reliance upon and in conformity with information furnished in writing to the REIT by or on behalf of such Participating Holder or controlling person, specifically for use in connection with the preparation of such Registration Statement, prospectus, amendment or supplement. No Participating Holder shall be liable pursuant to this Section 5(b) for any amount in excess of the proceeds of the offering received by such Participating Holder.

(c) Notice of Claim. Each party entitled to indemnification under this Section 5 (the "Indemnified Party") shall give notice to the party required to provide indemnification (the "Indemnifying Party") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party to assume the defense of any such claim or any litigation resulting therefrom; provided that counsel for the Indemnifying Party, who shall conduct the defense of such claim or litigation, shall be approved by the Indemnified Party (whose approval shall not be unreasonably withheld); and, provided, further, that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under this Section 5 unless the failure to provide such notice materially prejudices the defense by the Indemnifying Party against such claim. The Indemnified Party may participate in such defense at such party's expense (provided that the counsel of the Indemnifying Party shall control the defense of such claim or proceeding); provided, however, that the Indemnifying Party shall pay such expense if representation of such Indemnified Party by the counsel retained by the Indemnifying Party would, in the opinion of counsel of the Indemnified Party, be inappropriate due to actual or potential differing interests between the Indemnified Party and any other party represented by such counsel in such proceeding, it being understood, however, that in such event, the Indemnifying Party shall be liable for the reasonable fees and expenses of only one counsel for the Indemnified Parties. No Indemnifying Party, in the defense of any such claim or litigation shall as to an Indemnified Party, except with the consent of such Indemnified Party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect of such claim or litigation, and no Indemnified Party shall consent to entry of any judgment or settle such claim or litigation without the prior written consent of the Indemnifying Party.

6. Rule 144. The REIT covenants that it will file the reports required to be filed by it under the Securities Act and the Exchange Act and the rules and regulations adopted by the Commission thereunder (or, if the REIT is not required to file such reports, it will, upon the request of the holders of the Registrable Securities, make publicly available such information as necessary to permit sales pursuant to Rule 144 under the Securities Act) and it will do all such other acts and things from time to time as reasonably requested by the holders of the Registrable Securities to the extent required from time to time to enable the holders of the Registrable Shares to sell Registrable Shares without registration under the Securities Act within the limitation of the exemptions provided by Rule 144 under the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereunder adopted by the Commission.

7. Cooperation. The Holders shall furnish to the REIT such information regarding the Holders and the distribution proposed by Participating Holders as the REIT may from time to time reasonably request in writing, and shall do such reasonable acts and things as the REIT may from time to time request, with respect to any registration, qualification or compliance referred to in this Agreement and in order to permit the REIT to comply with the requirements of law. Any failure by a Holder to make available such information or to do such acts and things shall constitute a waiver by such Holder of its rights to include such Holder's Registrable Shares in any such registration.

8. Restriction on Resale. Unless otherwise agreed by the REIT, until the date on which there are no Registrable Shares, each Holder agrees that it will not resell such Registrable Shares without registration under the Securities Act, compliance with Rule 144 under the Securities Act or an opinion of counsel for such Holder reasonably acceptable to the REIT, addressed to the REIT, to the effect that no such registration is required. All reasonable costs, fees and expenses of counsel in connection with such opinion shall be borne by the REIT.

9. Lock-Up Agreement. In consideration of the REIT's agreement to provide the Holders with the registration rights as set forth in this Agreement, Klaff agrees with the REIT and the Partnership that it will not for a period of three years commencing on the Closing Date or such lesser period if permitted pursuant to the Certificate of Designation of Series B Units of even date herewith (the "Lock-Up Period") (i) sell, assign, or otherwise transfer the Preferred Units to be issued at the Closing (or the OP Units issuable upon conversion of the Preferred Units) or (ii) convert any OP Units into Conversion Shares. Notwithstanding the foregoing, the aforementioned prohibition shall not apply to (x) conversion to OP Units; (y) a transfer of OP Units (which shall nonetheless comply with any requirements or conditions to transfer in the Partnership Agreement of the Partnership) to a Permitted Transferee; or (z) bona fide pledge of OP Units (provided that the pledgee agrees to be bound by the terms of this Agreement as if an original signatory thereto). For purposes of this Section 10, the term "Permitted Transferees" means (i) any partner or other equity owner of the Partnership or Klaff; (ii) any equity owner of any partner or other equity owner of the Partnership or Klaff; (iii) members of the Immediate Family (as defined below) of any person described in (i) or (ii); and (iv) trusts for the benefit of, or entities controlled by, one or more of the persons described in (i), (ii) or (iii); and/or (v) any public charity, public foundation or charitable institution as defined in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. For purposes of this Section 10, the term "Immediate Family" means, with respect to any natural person, such natural person's spouse, parents, parents-in-law, descendants, nephews, nieces, brothers, sisters, brothers-in-law, sisters-in-law and children-in-law (including adopted persons). A transfer to any Permitted Transferee shall not be deemed effective, and the REIT may issue stop transfer instructions to its transfer agent of the Shares in connection with a purported transfer, unless and until the transferor shall give the REIT written notice stating the name and address of the Permitted Transferee and identifying the securities which are being transferred and the REIT shall have received the written agreement of the Permitted Transferee to be bound by the terms of this Agreement as if an original signatory hereto.

10. Miscellaneous.

(a) Controlling Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

(b) Notices. All notices and other communications hereunder shall be in writing and shall be sent by certified mail, postage prepaid, return receipt requested; by an overnight express courier service that provides written confirmation of delivery; or by facsimile with written confirmation by the sending machine or with telephone confirmation of receipt, addressed as follows:

(i) If to REIT or Partnership:

Acadia Realty Trust
1311 Mamaroneck Avenue, Suite 260
White Plains, NY 10605
Attention: Robert Masters, Esq.
Telephone: 914-288-8139
Facsimile: 914-428-3646
Email: rmasters@acadiarealty.com

(ii) If to Klaff:

Klaff Realty, LP
122 South Michigan Avenue
Chicago, IL 60603
Attention: Hersch M. Klaff
Telephone: 312-360-3102
Facsimile: 312-360-0606
Email: hklaff@klaff.com

With a copy to:

Allan J. Reich, Esq.
Seyfarth Shaw LLP
55 E. Monroe Street, Suite 4200
Chicago, IL 60603
Telephone: 312-781-8650
Facsimile: 312-269-8869
Email: areich@seyfarth.com

Any party may alter the address to which communications or copies are to be sent by giving notice of such change of address in conformity with the provisions of this paragraph for the giving of notice. Notices given hereunder shall be deemed received upon actual receipt thereof or, in the case of notice by mail, upon two days from the date notice is first deposited in the mail in the manner provided above

(a) Binding Nature of Agreement. This Agreement shall be binding upon and inure to the benefit of (i) the REIT and its successors and assigns and (ii) each Holder and its heirs, successors and assigns.

(b) Transfer or Assignment of Registration Rights. Subject to Section 10 hereof, the rights with respect to any Registrable Shares to cause the REIT to register such securities granted to a Holder by the REIT under this Agreement may be transferred or assigned by a Holder, in whole or in part, to a transferee or assignee of any Registrable Shares (or any OP Units which are convertible, exercisable or redeemable, directly or indirectly, for Registrable Shares); provided that, in such case, the REIT shall be given written notice stating the name and address of said transferee or assignee and identifying the securities with respect to which such registration rights are being transferred or assigned and the REIT shall have received the written agreement of such transferee or assignee to be bound by the terms of this Agreement.

(c) Execution in Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original as against any party whose signature appears thereon, and all of which shall together constitute one and the same instrument. This Agreement shall become binding when one or more counterparts hereof, individually taken together, shall bear the signatures of all of the parties reflected hereon as the signatories.

(d) Provisions Separable. The provisions of this Agreement are independent of and separable from each other, and no provision shall be affected or rendered invalid or unenforceable by virtue of the fact that for any reason any other or others of them may be invalid or unenforceable in whole or in part.

(e) Entire Agreement. This Agreement contains the entire understanding among the parties hereto with respect to the subject matter hereof, and supersedes all prior and contemporaneous agreements and understandings, inducements or conditions, express or implied, oral or written, except as herein contained. This Agreement may not be modified or amended other than by an agreement in writing.

(f) Paragraph Headings. The paragraph headings in this Agreement are for convenience only; they form no part of this Agreement and shall not affect its interpretation.

IN WITNESS WHEREOF, the parties executed and delivered this Agreement on the date first above written.

ACADIA REALTY TRUST

By: _____
Name: Kenneth F. Bernstein
Title: President

ACADIA REALTY LIMITED PARTNERSHIP

By: Acadia Realty Trust,
its General Partner

By: _____
Name: Kenneth F. Bernstein
Title: President

KLAFF REALTY, LP

By: Klaff Realty, Limited

By: _____
Name:
Title:

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AGREEMENT OF CONTRIBUTION

by and among

ACADIA REALTY LIMITED PARTNERSHIP,
ACADIA REALTY TRUST

and

KLAFF REALTY, LP
KLAFF REALTY, LIMITED

January __, 2004

AGREEMENT OF CONTRIBUTION

THIS AGREEMENT OF CONTRIBUTION (the "Agreement") is entered into as of January __, 2004 by and among Acadia Realty Limited Partnership, a Delaware limited partnership ("Acadia"), Acadia Realty Trust, a Maryland real estate investment trust (the "REIT") and Klaff Realty, LP, a Delaware limited partnership, and Klaff Realty, Limited, an Illinois corporation (each a "Contributor," and collectively, the "Contributors").

RECITALS:

A. The Contributors are engaged in the retail management services business (the "Retail Services Business") and desire to become limited partners in Acadia by contributing to Acadia assets, including goodwill, related to the Retail Services Business, as a going concern (the "Contributed Property"), and Acadia has agreed to admit the Contributors as limited partners.

B. Acadia and Contributors desire to enter into the Agreement to set forth certain additional terms and conditions upon which Contributors will transfer the Contributed Property to Acadia.

ARTICLE I

CONTRIBUTION OF PROPERTY

I.1. Contribution and Acquisition of Contributed Property

Subject to the terms and conditions hereof, Contributors agree to contribute to Acadia, and Acadia agrees to acquire and accept from Contributors, all of Contributors' right, title and interest in and to the Contributed Property in exchange for Preferred Series B units of limited partnership interest in Acadia with rights, preferences and privileges as set forth in the Certificate of Designation attached as Exhibit E (the "Series B Units") (the foregoing, together with all other transactions contemplated by this Agreement being referred to herein as the "Contribution"). The Contribution shall be consummated, as set forth in Article II hereof, in a transaction intended to qualify for nonrecognition of gain to Contributors pursuant to Section 721 of the Internal Revenue Code of 1986, as amended (the "Code").

I.2. Closing

The closing of the transactions contemplated by this Agreement (the "Closing") shall occur on a date (the "Closing Date") and at a time (the "Closing Time") and a place (the "Closing Place") to be mutually agreed to by the parties hereto, upon satisfaction or waiver of the conditions set forth in Article VI hereof.

I.3. Contributor Representative

The Contributors hereby appoint Hersch M. Klaff as their representative in connection with this Agreement (the "Contributor Representative") and with respect to any decisions to be made by Contributors under this Agreement, Acadia and the REIT may rely exclusively on instructions from the Contributor Representative.

ARTICLE II

EXCHANGE AMOUNT

II.1. Exchange Amount

(a) Units Delivered at Closing. In exchange for the contribution of the Contributed Property, the Contributors shall receive in the aggregate, at the Closing, a number of Series B Units (rounded to the nearest whole number) equal to \$4,000,000 divided by \$1,000.00. Each Contributor shall be entitled to receive the number of Series B Units set forth in Schedule 5 hereto.

(b) Distribution of Units. At the Closing, Acadia shall issue the Series B Units to the Contributors in accordance with written instructions provided to Acadia by the Contributor Representative at least two business days prior to the Closing.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE CONTRIBUTORS

Contributors jointly and severally represent and warrant to Acadia as follows:

III.1. Organization and Standing

Each Contributor is a limited partnership, corporation or a limited liability company, duly formed, validly existing and in good standing under the laws of its jurisdiction of organization and is duly qualified to do business in each jurisdiction where the conduct of its business requires qualification. Each Contributor has the full and unrestricted power and authority to own, operate and lease its assets, to carry on its business as currently conducted, to execute and deliver this Agreement, and each other agreement, instrument or document relating hereto or contemplated hereby or thereby (the "Other Agreements") to which it is a party and to carry out the transactions contemplated hereby or thereby.

III.2. Authorization; No Conflicts

The execution and delivery of this Agreement and the Other Agreements by each Contributor and the performance by each Contributor of its covenants and agreements under this Agreement and the Other Agreements have been, or at Closing will have been, duly authorized by all necessary action on the part of such Contributor. Prior to the Closing, the Contributor shall have used commercially reasonable efforts to obtain, with respect to this transaction, the consents of the general partners or managers (such general partners and managers being hereafter referred to as the "Property Co-Managers") of the owning entities (the "Owner Entities") for which the Contributors' Retail Services Business is providing services (the "Consents"). The execution, delivery and performance by each Contributor of this Agreement and each Other Agreement to which such Contributor is a party, the fulfillment of and compliance with the respective terms and provisions hereof and thereof, and the consummation by such Contributor of the transactions contemplated hereby and thereby, do not and will not: (a) conflict with, or violate any provision of the organization documents of any Contributor; (b) conflict with, or violate any provision of, any statute, law, ordinance, regulation, rule, order, writ or injunction having applicability to any Contributor, any of its assets or the Contributed Property; (c) subject to obtaining the Consents, conflict with, result in any breach of, or constitute a default under the Contributed Property or any agreement to which any Contributor or any Contributor's equity owners is a party or by which it or they or any of its or their assets are bound; (d) subject to obtaining the Consents, result in or require the creation or imposition of or result in the acceleration of any indebtedness or of any encumbrance of any nature upon, or with respect to, the Contributed Property, Contributor or any Contributor's equity owners or any of the assets now owned or hereafter acquired by any Contributor; except (in the case of clauses (b), (c) and (d) above) for such conflicts, violations, breaches or defaults as will not have a material adverse effect on the Contributed Property or the business or financial condition of any Contributor or the consummation of this transaction.

III.3. Binding Obligations

This Agreement and each Other Agreement executed and delivered by each Contributor on or prior to the date hereof constitutes a valid and binding obligation of such Contributor, enforceable in accordance with its terms; and each Other Agreement to be executed by each Contributor pursuant hereto or thereto, when executed and delivered in accordance with the provisions hereof or thereof, shall be a valid and binding obligation of such Contributor, enforceable in accordance with its terms.

III.4. No Litigation

There are no actions, suits, claims, arbitrations, proceedings or investigations pending or, to the knowledge of any Contributor, threatened against, affecting or involving the Contributed Property, any Contributor or its businesses or assets, or the transactions contemplated by this Agreement, at law or in equity, or before or by any court, arbitrator or governmental authority, domestic or foreign, that could reasonably be expected to have a material adverse effect on the Contributed Property or the business or financial condition of any Contributor or to challenge or impair the ability of any Contributor to consummate the Contribution.

III.5. Contributed Property

(a) Attached hereto as Schedules 1 and 2 are a true, correct and complete lists respectively of the Owner Entities and the properties (the "Properties") for which the Contributors' Retail Services Business is providing services.

(b) Attached hereto as Schedule 3 is a true, correct and complete schedule of all documents comprising the Owner Entities and Contributed Property and the Contributors have delivered to Acadia true, correct and complete copies of all documents comprising the Owner Entities and the Contributed Property and a complete accounting of all Fees billed and received with respect to the Contributed Property for the last 12 months through November 30, 2003.

(c) To the Contributors' knowledge, the organization documents of the Owner Entities are in full force and effect.

(d) Attached hereto as Schedule 4 is a true, correct and complete schedule of all Fees to which the Contributors are entitled in connection with the performance of the Retail Services Business.

(e) Attached hereto as Schedule 6 is a true, correct and complete schedule of all partners and members of the Contributors.

(f) Upon receipt of the Consents, the Contributors have the right to transfer the Contributed Property in accordance with the terms of this Agreement.

(g) The Contributed Property is wholly owned by the Contributors, free and clear of all liens and encumbrances.

(h) The Contributed Property is in full force and effect and is the legal, valid and binding obligation of each of the parties thereto, enforceable against such parties in accordance with its terms. None of the Contributors is in default, and there exists no condition or act which with the giving of notice or passage of time or otherwise will cause a default with respect to the Contributed Property. Except as otherwise listed on Schedule 7, no Fees under the Contributed Property for any period after the Closing Date shall have been paid. In no event, however, do the Contributors represent, warrant, covenant or guaranty the payment of any Fees to Acadia or the amount of any Fees that Acadia may receive in the future.

III.6. Securities Law Matters

(a) Each Contributor acknowledges that Acadia intends the offer and issuance of the Series B Units to be exempt from registration under the Securities Act and applicable state securities laws by virtue of (i) the status of each Contributor and each equity owner of such Contributor as an Accredited Investor (as defined below), and (ii) Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act") and/or Regulation D promulgated under Section 4(2) of the Securities Act ("Regulation D"), and that Acadia will rely in part upon the representations and warranties made by each Contributor in this Agreement in making the determination that the offer and issuance of the Units qualify for exemption under Rule 506 of Regulation D as an offer and sale only to Accredited Investors (as defined below).

(b) Each Contributor, each of such Contributor's equity owners and each other person or entity who has a right to vote upon or approve the transactions contemplated hereby or who will receive a distribution of Series B Units pursuant to Section II.1(b) are "accredited investors" as defined in Regulation 501(a) under Regulation D ("Accredited Investors"). Each Contributor has provided to Acadia a true, correct and complete copy of such Contributor's organizational documents.

(c) Each Contributor and each other person or entity who will receive a distribution of Series B Units pursuant to Section II.1(b) will acquire the Units for their own account and not with a view to or for sale in connection with any "distribution" thereof within the meaning of the Securities Act.

(d) Each Contributor and its equity owners have sufficient knowledge and experience in financial, tax and business matters to enable them to evaluate the merits and risks of investment in the Series B Units. Each Contributor and its equity owners have the ability to bear the economic risk of acquiring the Series B Units. Each Contributor acknowledges that (i) the transactions contemplated by this Agreement and the Other Agreements involve complex tax consequences for each Contributor and its equity owners, and each Contributor and its equity owners are relying solely on the advice of their own tax advisors in evaluating such consequences, (ii) neither Acadia nor the REIT has made (or shall be deemed to have made) any representations or warranties as to the tax consequences of such transaction to any Contributor or any of its equity owners, and (iii) references in this Agreement to the intended tax effect of the Contribution and the other matters described herein shall not be deemed to imply any representation by Acadia or the REIT as to a particular tax effect that may be obtained by any Contributor or its equity owners. Each Contributor and its equity owners remain solely responsible for all tax matters relating to each Contributor and its equity owners.

(e) Each Contributor and each other person or entity who will receive a distribution of Series B Units pursuant to Section II.1(b) has been supplied with, or had access to, information to which a reasonable investor would attach significance in making an investment decision to acquire the Series B Units and any other information they have requested. Each Contributor and each other person or entity who will receive a distribution of Series B Units pursuant to Section II.1(b) has had an opportunity to ask questions of and receive information and answers from Acadia and the REIT concerning Acadia, the REIT, the Series B Units, the Common OP Units (defined below) into which the Series B Units may be exchanged, and the common shares of beneficial interest ("Common Shares") into which the Common OP Units may be exchanged, and to assess and evaluate any information supplied to them by Acadia or the REIT, and all such questions have been answered and all such information has been provided to their full satisfaction.

(f) Each Contributor and each other person or entity who will receive a distribution of Series B Units pursuant to Section II.1(b) acknowledges that the Series B Units are not registered under the Securities Act or any state securities laws and cannot be resold without registration thereunder or exemption therefrom.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF ACADIA AND THE REIT

A. Acadia Representations. Acadia represents and warrants to Contributors as follows:

IV.1. Organization and Standing

Acadia is a limited partnership duly organized, validly existing and in good standing under the laws of the State of Delaware and has the full and unrestricted partnership power and authority to own, operate and lease its assets and to carry on its business as currently conducted. Acadia is duly qualified to conduct business as a foreign limited partnership and is in good standing in each jurisdiction where the nature of the business conducted by Acadia or the character of the assets owned, leased or otherwise held by it makes any such qualification necessary, except where the failure to be so qualified would not have a material adverse effect upon the business of Acadia as currently conducted.

IV.2. Authorization; No Conflicts

The execution, delivery and performance by Acadia of this Agreement and each Other Agreement to which Acadia is a party, the fulfillment of and compliance with the respective terms and provisions hereof and thereof, and the consummation by Acadia of the transactions contemplated hereby and thereby, do not and will not: (a) conflict with, or violate any provisions of, the certificate of limited partnership or agreement of limited partnership of Acadia; (b) conflict with, or violate any provision of, any statute, law, ordinance, regulation, rule, order, writ or injunction having applicability to Acadia or any of its assets; or (c) conflict with, result in any breach of, or constitute a default under any agreement to which Acadia is a party or by which it or any of its assets are bound; except (in the case of clauses (b) and (c) above) for such conflicts, violations, breaches or defaults as will not have a material adverse effect on the business or financial condition of Acadia or the consummation of the Acquisition.

IV.3. Binding Obligations

This Agreement and each Other Agreement executed and delivered by Acadia constitutes a valid and binding obligation of Acadia, enforceable in accordance with its terms; and each Other Agreement to be executed by Acadia pursuant hereto or thereto, when executed and delivered in accordance with the provisions hereof or thereof, shall be a valid and binding obligation of Acadia, enforceable in accordance with its terms.

IV.4. No Litigation

There are no actions, suits, claims, arbitrations, proceedings or investigations pending or, to the knowledge of Acadia, threatened against, affecting or involving Acadia or its business or assets or the transactions contemplated by this Agreement, at law or in equity, or before or by any court, arbitrator or governmental authority, domestic or foreign, that could reasonably be expected to have a material adverse effect on the business or financial condition of Acadia or challenge or impair the ability of Acadia to consummate the Contribution.

IV.5. Series B Units

At the Closing, the Series B Units to be issued to Contributors pursuant to Article II hereof will be duly authorized for issuance by Acadia to Contributors and upon issuance in accordance with this Agreement will be validly issued, fully paid and non-assessable

IV.6. No Tax Audits

Acadia is not a party to any pending action, audit or proceeding by any taxing authority for any assessment or collection of any federal, state or local taxes.

IV.7. Tax Reporting

Acadia will treat the transfer of the Contributed Property to Acadia for federal income tax purposes as a contribution that qualifies for nonrecognition of gain pursuant to Section 721 of the Code. Acadia, however, makes no representation or warranty that these positions will be respected.

IV.8. Capitalization

As of September 30, 2003, 28,463,083 common units of limited partnership ("Common OP Units") were issued and outstanding, of which 27,321,766 Common OP Units are held by the REIT and 1,141,317 Common OP Units are held by the limited partners of Acadia. In addition, 2,212 Series A Preferred Units are issued and outstanding with an aggregate liquidation preference of \$2,212,000 and will rank pari passu with the Series B Preferred Units.

IV.9. Common OP Units

As of the Closing, the Common OP Units issuable upon conversion of the Series B Units will have been duly and validly authorized by Acadia and the REIT as General Partner and will have been duly reserved for issuance upon such conversion.

IV.10. Governmental Consents and Approvals

Acadia has obtained each and every consent, approval, permit or order of, and has made each and every filing with, any individual, partnership, corporation, trust or other entity, government agency or political subdivision required to be obtained or made in connection with: (A) its execution, delivery and performance of this Agreement and (B) its consummation of the transactions contemplated hereby.

IV.11. Absence of Certain Changes or Events; Undisclosed Liabilities and Agreements

Since September 30, 2003:

(a) there has not been any material adverse change in the financial position or results of operations of Acadia from that reflected in the consolidated financial statements of the REIT as of September 30, 2003, or any material adverse change in the business, assets or prospects of Acadia (including the imposition of any material adverse regulatory requirements or the loss of any material permits, licenses or franchises).

(b) there has not been any material damage, destruction or other casualty loss with respect to property owned or leased by Acadia not covered by insurance.

(c) Acadia has not conducted its business otherwise than in the ordinary course.

B. REIT Representations. The REIT hereby represents and warrants to the Contributors as follows:

(i) Organization, Good Standing, Corporate Power and Authorization. The REIT is a real estate investment trust duly organized, validly existing and in good standing under the laws of the State of Maryland and has full right, power and authority to enter into this Agreement and to assume and perform all of its obligations. The REIT is duly qualified to conduct business as a foreign real estate investment trust and is in good standing in each jurisdiction where the nature of the business conducted by the REIT or the character of the assets owned, leased or otherwise held by it makes any such qualification necessary, except where the failure to be so qualified would not have a material adverse effect upon the business of the REIT as currently conducted. The execution and delivery of this Agreement and the performance by the REIT of its obligations under this Agreement will require no further action, consent or approval of the REIT's shareholders or trustees, or of any other individuals or entities in order to constitute this Agreement as a binding and enforceable obligation of the REIT.

(ii) Non-contravention. The entry into, performance of, or compliance with this Agreement by the REIT has not resulted, and will not result, in any violation of, default under, or acceleration of any provision of the bylaws or declaration of trust of the REIT or any provision of, or result in the acceleration of or entitle any party to accelerate (whether after the filing of notice or lapse of time or both) any obligation under, or result in the creation or imposition of any lien, charge, pledge, security interest or other encumbrance upon any of the property of the REIT pursuant to any provision of any mortgage, lien, lease, agreement, license or instrument, or violate any law, regulation, order, arbitration award, judgment or decree to which the REIT is a party or by which it or its property is bound or violate or conflict with any other material restriction of any kind or character to which the REIT is subject.

(iii) Capitalization and Due Authorization. As of September 30, 2003, the authorized shares of beneficial interest of all classes of the REIT consisted of 100,000,000 shares of beneficial interest, par value \$.001 per share, all of such shares are initially classified as "Common Shares" and the issued and outstanding Common Shares of the REIT consisted of Common Shares.

(iv) Common Shares. As of the Closing, the Common Shares issuable upon conversion of the Common OP Units (which are issuable upon exchange of the Series B Units) will have been duly and validly authorized by the REIT and will have been duly reserved for issuance upon such conversion. The Common Shares issuable upon conversion of such Common OP Units, when issued upon such conversion in accordance with their terms, will be validly issued, fully paid and nonassessable.

(v) Governmental Consents and Approvals. The REIT has obtained each and every consent, approval, permit or order of, and has made each and every filing with, any individual, partnership, corporation, trust or other entity, government agency or political subdivision required to be obtained or made in connection with: (A) its execution, delivery and performance of this Agreement and (B) its consummation of the transactions contemplated hereby.

(vi) Binding Obligations. This Agreement and each Other Agreement executed and delivered by the REIT constitutes a valid and binding obligation of the REIT, enforceable in accordance with its terms; and each Other Agreement to be executed by the REIT pursuant hereto or thereto, when executed and delivered in accordance with the provisions hereof or thereof, shall be a valid and binding obligation of the REIT, enforceable in accordance with its terms.

(vii) SEC Filings. The REIT has filed all forms, reports, schedules, proxy materials, registration statements and related prospectuses and supplements and other documents required to be filed by the REIT with the SEC pursuant to the Securities Act or the Securities Exchange Act of 1934, as amended (the "Exchange Act") through the date hereof (collectively, the "REIT SEC Documents") and will cause to be delivered to Sellers copies of such additional documents as may be filed with the SEC by the REIT between the date hereof and the Closing Date. The REIT SEC Documents were, and those additional documents filed between the date hereof and the Closing will be, prepared and filed in all material respects in compliance with the rules and regulations promulgated by the SEC, and do not and will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein in order to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

(viii) Financial Statements. The consolidated financial statements included in the SEC Documents have been prepared in accordance with generally accepted accounting principles applied on a consistent basis during the period involved (except as may be indicated in the notes thereto or, in the case of the unaudited statements, as permitted by Form 10-Q and present fairly (subject in the case of the unaudited statements, to normal, recurring year-end audit adjustments) the consolidated financial position of Acadia or the REIT, as applicable, at the dates thereof and the consolidated results of operations and cash flows for the periods then ended.

(ix) Absence of Certain Changes or Events. Since September 30, 2003 there has not been:

(a) any material adverse change in the financial condition or results of operations of the REIT from that reflected in the financial statements as of September 30, 2003 included in the REIT SEC Documents or any material adverse change in the business, assets or prospects of the REIT (including the imposition of any material adverse regulatory requirements or the loss of any material permits, licenses or franchises);

(b) there has not been any material damage, destruction or other casualty loss with respect to property owned or leased by the REIT not covered by insurance; and

(c) the REIT has not conducted its business otherwise than in the ordinary course.

ARTICLE V

CONTRIBUTORS COVENANTS

V.1. Current Operating Covenants

The Contributors shall, from the date of this Agreement until the Closing Date:

(a) Perform their obligations with respect to the Contributed Property in accordance with past practice;

(b) Promptly deliver to Acadia copies of all written notices, and orally advise if notice is oral, from the Entities regarding defaults by the Contributors regarding their management services responsibilities with respect to the Contributed Property;

(c) Promptly deliver to Acadia, notice of any claims, actions, suits and the like, of which the Contributors have been notified in writing, pending or threatened with respect to the Contributed Property and the Properties or the management thereof;

(d) Maintain all permits or other legal authorizations in connection with the Contributed Property;

(e) Cooperate fully in providing any documentation or information reasonably requested by Acadia in connection with this transaction;

(f) Use commercially reasonable efforts to obtain the Consents of the Property Co-Managers of the Owner Entities with respect to consummation of the Contribution.

V.2. Long-term Covenants

The Contributors and Hersch M. Klaff, personally, shall:

(a) During the next three years, to the extent it is within their power, use reasonable efforts to refer to Acadia and its affiliates, for a right of first refusal, all future management services opportunities with respect to retail properties as to which any of the Contributors or their affiliates are acquiring or otherwise actively involved in any material respect therein, other than as a passive investor.

(b) Not modify, amend, alter or terminate the Contributed Property, including, without limitation, any management contracts or their rights to manage under the Entities' organizational documents; provided, however, that the foregoing shall not restrict (i) any of the Contributors', or any affiliates', right to sell or otherwise dispose of, refinance, transfer or assign any of the Properties, or (ii) any action with respect to any Contributed Property properly initiated by a Property Co-Manager, notwithstanding any effect that such action may have on any Contributed Property.

(c) Subject to the subsequent provisions of this subsection (c), not initiate or resume any retail management, leasing and development services business in the United States for three years from the Closing Date. This prohibition shall not include any right of the Contributors (i) to participate in the Co-Investment Agreement with Acadia, as defined in Section VII.B(g), (ii) to provide retail management, leasing and development services in accordance with the terms of the Sub-Management Agreement, as defined in Section VII.B(d), or (iii) to provide retail management, leasing and development services for any retail property that Acadia has elected not to manage. This prohibition shall include referring the retail management services associated with the Contributed Property to third parties or consenting to an assignment(s) of such management services to a third party. In no event shall the Contributors have any future economic interest in the Contributed Property, other than the rights contained in the Sub-Management Agreement.

(d) Not convert any Common OP Units, issuable upon exchange of the Series B Units into Common Shares for a period of the lesser of (i) three (3) years after the Closing Date, or (ii) until such time as the Contributors may first exercise their redemption rights under Section 5(a) of the Certificate of Designation of Series B Preferred Operating Partnership Units of Limited Partnership Interest in Acadia.

(e) Not transfer the ownership of any of the Series B Units held by a Contributor to another person or entity for a period of the lesser of (i) one (1) year after the Closing, or (ii) until such time as the Contributors may first exercise their redemption rights under Section 5(a) of the Certificate of Designation of Series B Preferred Operating Partnership Units of Limited Partnership Interest in Acadia.

V.3. Survival.

The covenants set forth in Article V.2 shall survive the Closing in accordance with their terms.

ARTICLE VI

CONDITIONS PRECEDENT TO THE CLOSING

VI.1. Conditions to Obligations of Contributors

The obligation of Contributors to consummate the Contribution is subject to the fulfillment, at or prior to the Closing, of each of the following conditions, and failure to satisfy any such condition shall excuse and discharge all obligations of Contributors to carry out the provisions of this Agreement unless such failure is waived in writing by Contributors:

(a) Representations and Warranties. The representations and warranties made by Acadia and the REIT in Article IV hereof and the statements contained in any document furnished by Acadia or the REIT in connection with the Closing pursuant to this Agreement shall be true in all material respects when made and on and as of the Closing Date as though such representations and warranties were made on and as of such date, except for any changes therein contemplated by this Agreement or any Other Agreement.

(b) Legal Proceedings. No action or proceeding by or before any governmental authority shall have been instituted or threatened (and not subsequently dismissed, settled or otherwise terminated) which is reasonably expected to restrain, prohibit or invalidate the transactions contemplated by this Agreement, other than an action or proceeding instituted or threatened by any Contributor.

(c) Documents at Closing. All documents required to be furnished to Contributors hereunder prior to or at the Closing shall have been so furnished.

VI.2. Conditions to Obligations of Acadia

The obligation of Acadia to consummate the Contribution is subject to the fulfillment, at or prior to the Closing, of each of the following conditions, and failure to satisfy any such condition shall excuse and discharge all obligations of Acadia to carry out the provisions of this Agreement unless such failure is waived in writing by Acadia:

(a) Representations and Warranties. The representations and warranties made by Contributors in Article III of this Agreement and the statements contained in any document furnished by Contributors or its equity owners in connection with the Closing pursuant to this Agreement shall be true in all material respects when made and on and as of the Closing Date as though such representations and warranties were made on and as of such date, except for any changes therein contemplated by this Agreement or any Other Agreement.

(b) Legal Proceedings. No action or proceeding by or before any governmental authority shall have been instituted or threatened (and not subsequently dismissed, settled or otherwise terminated) which is reasonably expected to restrain, prohibit or invalidate the transactions contemplated by this Agreement other than an action or proceeding instituted or threatened by Acadia.

(c) Documents at Closing. All documents required to be furnished to Acadia hereunder prior to or at the Closing shall have been so furnished.

ARTICLE VII

DELIVERIES

The Closing shall occur simultaneously with the delivery of the following documents:

A. The Contributors shall deliver:

(a) Authority Documents. Evidence satisfactory to Acadia that the persons executing the closing documents on behalf of the Contributors have full right, power and authority to do so, and the following documentation: (i) Certified copies of Klaff Realty, LP and Klaff Realty, Limited organizational documents which are true and correct, unamended, and continuing, and of the incumbency of its officers, (ii) Certificates of Existence and Good Standing from the Secretary of State of Delaware and the Secretary of State of Illinois and (iii) Opinion letter of counsel to Klaff Realty, LP and Klaff Realty, Limited substantially in the form attached hereto as Exhibit I as to the following: due authorization and authority of Klaff Realty, LP and Klaff Realty, Limited to enter into this Agreement and perform their obligations hereunder; and noncontravention of the transactions contemplated by this Agreement with Contributors' organizational documents.

(b) Series B Units Documents. The documents required in connection with the issuance of the Series B Units, including signature pages to the Partnership Agreement and the Registration Rights Agreement executed by each Contributor. Each Contributor shall execute and deliver any other documents as may be required under applicable federal or state securities laws, including a reiteration of the representations and covenants set forth in Article III hereof.

(c) Investor Questionnaires. Investor Questionnaires in the form attached hereto as Exhibit B.

(d) Consents. Consents from each Property Co-Manager of each Owner Entity approving the assignment of the Contributed Property to Acadia and the further assignment to a subsidiary of the REIT, in the form of Exhibit F.

(e) Assignments. Executed Assignments of Contributed Property in the form of Exhibit G.

(f) Certifications. Certificates from each of the Contributors certifying as to the continuing accuracy of the representations and warranties made by such party.

(g) Miscellaneous. Such other instruments as are reasonably requested by Acadia.

B. Acadia's Deliveries. At the Closing, Acadia shall deliver:

(a) Registration Rights Agreement. The Registration Rights Agreement, substantially in the form attached hereto as Exhibit A, executed by Acadia and Contributors;

(b) Certifications. Certificates of Acadia and the REIT certifying as to continued accuracy of the representations and warranties made by such party herein, executed by an officer or other authorized signatory of such party;

(c) Series B Units. Certificates representing the Series B Units in the form of Exhibit C;

(d) Sub-Management Agreement. A sub-management agreement substantially in the form of Exhibit K (the "Sub-Management Agreement");

(e) Authority Documents. Evidence reasonably satisfactory to the Contributors that the person or persons executing the closing documents on behalf of Acadia and the REIT has full right, power and authority to do so;

(f) Legal Opinion. An Opinion of Acadia and REIT's general counsel, substantially in the form attached hereto as Exhibit H;

(g) Co-Investment Agreement. A co-investment agreement substantially in the form of Exhibit L (the "Co-Investment Agreement"); and

(h) Miscellaneous. Such other documents as reasonably requested by the Contributors.

ARTICLE VIII

SURVIVAL; INDEMNIFICATION

VIII.1. Survival

All representations, warranties, covenants, indemnities and other agreements of the parties hereto made in this Agreement or in any document furnished pursuant hereto shall not be extinguished by the Closing, but shall survive the Closing, as specified in this Section VIII.1. All representations and warranties of the parties hereto made in this Agreement or in any document furnished pursuant hereto shall survive for a one (1) year period following the Closing and shall be extinguished from and after the first anniversary date of the Closing. Other than the covenants in Section V.1, which shall expire at the Closing, all covenants of the parties hereto made in this Agreement shall survive for the three (3) year period following the Closing and shall be extinguished from and after the third anniversary date of the Closing. No investigation, audit or inspection made by or on behalf of any party hereto shall affect the survival of the representations, warranties, covenants, indemnities and other agreements of the parties hereto. All representations and warranties of the parties hereto made in this Agreement or in any document delivered pursuant hereto shall also be deemed made on and as of the Closing Date.

VIII.2. Agreement of Contributors to Indemnify

Subject to the conditions and provisions of this Article VIII, Contributors hereby jointly and severally agree to indemnify, defend and hold harmless Acadia and its subsidiaries and affiliates (including, without limitation, the REIT) and each of their respective officers, directors, trustees, partners, members, employees, successors and assigns (collectively, the "Acadia Indemnified Persons") from and against and in respect of all demands, claims, actions or causes of action, assessments, losses, damages (including, without limitation, diminution in value), liabilities, costs and expenses, including, without limitation, interest, penalties and reasonable attorneys' fees and disbursements (the "Claims"), asserted against, resulting to, imposed upon or incurred by the Acadia Indemnified Persons, directly or indirectly, by reason of or resulting from (i) any breach of any representation or warranty in any material respect made by Contributors in this Agreement or in any document furnished by or on behalf of Contributors pursuant to this Agreement or (ii) the Contributed Property which accrued prior to the Closing Date.

VIII.3. Agreement of Acadia to Indemnify

Subject to the conditions and provisions of this Article VIII, Acadia hereby agrees to indemnify, defend and hold harmless each Contributor and its subsidiaries and affiliates and each of their respective officers, directors, trustees, partners, members, employees, successors and assigns (collectively, the "Contributor Indemnified Persons"), from and against and in respect of all Claims asserted against, resulting to, imposed upon or incurred by the Contributor Indemnified Persons, directly or indirectly, by reason of or resulting from (i) any breach of any representation or warranty in any material respect made by Acadia in this Agreement or in any document furnished by or on behalf of Acadia pursuant to this Agreement, or (ii) the Contributed Property which accrued on or after the Closing Date, except to the extent that such claims directly arise from actions of the Contributors prior to the closing date or the Contributors' actions under the Sub-Management Agreement as to which they are not entitled to indemnity thereunder.

VIII.4. Limitation of Liability.

Notwithstanding the foregoing or anything else to the contrary contained herein, subject to the provisions set forth in this Section VIII.4., in no event shall Hersch M. Klaff, individually, have any liability to Acadia Indemnified Persons in excess of \$1,000,000, or for any provision of this Agreement except for Section V.2. herein. Notwithstanding the foregoing or anything else to the contrary contained herein, in no event shall Hersch M. Klaff, individually, have any monetary liability to Acadia Indemnified Persons at any time while a Contributor is the record owner of either the Series B Units or the Common OP Units into which the Series B Units were converted. In addition, notwithstanding anything else to the contrary contained herein, in no event shall either (a) the Contributors, or (b) the Contributors and Hersch M. Klaff, collectively, have any liability to Acadia Indemnified Persons in excess of \$4,000,000, including Acadia's costs and expenses, in the aggregate. Furthermore, in no event shall any party hereto be liable for any Claims for any special, indirect, incidental, exemplary, consequential or punitive damages.

VIII.5. Conditions of Indemnification

The obligations and liabilities of Contributors and Acadia hereunder with respect to their respective indemnities pursuant to this Article VIII resulting from any Claim shall be subject to the following terms and conditions:

(a) The indemnified party shall give prompt written notice to the indemnifying party of any Claim which is asserted against, resulting to, imposed upon or incurred by such indemnified party and which may give rise to liability of the indemnifying party pursuant to this Article VIII, stating (to the extent known or reasonably anticipated) the nature and basis of such Claim and the amount thereof.

(b) If the facts pertaining to a Claim arise out of the Claim of any third party, or if there is any Claim against a third party available by virtue of the circumstances of the Claim, the indemnifying party may assume the defense of such action or proceeding at such indemnifying party's own expense with counsel chosen by the indemnifying party and approved by the indemnified party, which approval shall not be unreasonably withheld; provided, however, that the indemnifying party shall not agree to settlement of any such action or proceeding which provides for any relief other than the payment of monetary damages or which could have a material precedential impact or effect on the business or financial condition of the indemnified party without the prior written consent of the indemnified party; and provided, further, that if the indemnified party reasonably determines that a conflict of interest exists where it is advisable for the indemnified party to be represented by separate counsel or that, upon advice of counsel, there may be legal defenses available to it which are different from or in addition to those available to the indemnifying party, then the indemnifying party shall not be entitled to assume such defense and the indemnified party shall be entitled to separate counsel at the indemnifying party's expense. If the indemnifying party is not entitled to assume the defense of such action or proceeding as a result of the proviso to the preceding sentence, the indemnifying party's counsel shall be entitled to conduct the indemnifying party's defense and the indemnified party's counsel shall be entitled to conduct the indemnified party's defense, it being understood that both such counsel will cooperate with each other to conduct the

defense of such action or proceeding as efficiently as possible. If the indemnifying party is not so entitled to assume the defense of such action or does not assume such defense, after having received the notice referred to in subparagraph (a) above, the indemnifying party will pay the reasonable fees and expenses of counsel for the indemnified party. In such event, however, the indemnifying party will not be liable for any settlement effected without the written consent of the indemnifying party. If an indemnifying party is entitled to assume, and assumes, the defense of such action or proceeding in accordance with this paragraph, the indemnifying party shall not be liable for any fees and expenses of counsel for the indemnified party incurred thereafter in connection with such action or proceeding. Whether or not the indemnifying party chooses to so defend or prosecute such Claim, all the parties hereto shall cooperate in the defense or prosecution thereof and shall furnish such records, information and testimony, and attend such conferences, discovery proceedings, hearings, trials and appeals, as may be reasonably requested in connection therewith. The indemnifying party shall be subrogated to all rights and remedies of the indemnified party.

ARTICLE IX

TRANSITION

The parties hereto agree to cooperate and to transition operational responsibility for the management of the Properties over a two-year period. The division of responsibilities and fees shall be set forth in the Sub-Management Agreement substantially in the form of Exhibit K.

ARTICLE X

CONFIDENTIALITY; TAX MATTERS

X.1. Confidentiality

(a) Information. Before the Closing or if the Closing does not occur, all information provided by a party hereto (the "Disclosing Party") to another party hereto (the "Receiving Party") in connection with the transactions contemplated by this Agreement shall be kept strictly confidential by such Receiving Party and shall not, without the prior consent of the Disclosing Party, be disclosed by the Receiving Party or used for any purpose other than evaluating such transactions. The Receiving Party agrees that such information shall only be transmitted to such Receiving Party's partners, officers, directors, trustees, employees, attorneys, accountants, contractors, consultants, advisors and agents who need to know such information for purposes of evaluating such transactions and who agree to be bound by these confidentiality provisions, and each Receiving Party agrees that in the event the Closing does not take place for any reason, the Receiving Party shall return all such information to the Disclosing Party. The provisions of this section shall not apply to any information which is a matter of public record or lawfully obtainable from other sources and shall not prevent either party from complying with applicable laws, rules, regulations and court orders, including, without limitation, governmental regulatory, disclosure, tax and reporting requirements. Notwithstanding the foregoing, the parties may disclose the tax treatment and tax structure of the transactions contemplated by this Agreement and all materials of any kind related to such tax treatment and tax structure.

(b) Public Notices. Between the date hereof and for a period ending one (1) year after the Closing Date, no party hereto shall release or cause or permit to be released any press notices or advertising promotion or other publicity relating to this transaction without first giving reasonable notice to, and consulting with, each other party and, as required herein, obtaining the written consent of each other party. No provisions in this Section XI.1(b) shall preclude a party from discussing the substance or any relevant details of such transactions with any of its attorneys, accountants, professional consultants, lenders, partners, affiliates, investors, or any prospective lender, partner or investor, as the case may be, or prevent a party hereto, from complying with laws, rules, regulations and court orders, including without limitation, governmental regulatory, stock exchange, disclosure, tax and reporting requirements (including, in the case of Acadia and the REIT, disclosure by the REIT of information that it determines is necessary or appropriate in accordance with its obligations as a public company under rules of the New York Stock Exchange, the Securities and Exchange Commission or other regulatory body) or making an announcement or making any communication to its shareholders in accordance with its corporate policy.

X.2. No Representation with Regard to Tax Treatment

Notwithstanding any provision of this Agreement, no party hereto makes any representation regarding (and shall have no liability with respect to) the tax consequences to any other party hereto or to any of its direct or indirect partners of the transactions contemplated herein or in any Other Agreements.

ARTICLE XI

MISCELLANEOUS

XI.1. Additional Actions and Documents

Each of the parties hereto hereby agrees to take or cause to be taken such further actions, to execute, deliver and file or cause to be executed, delivered and filed such further documents, and will obtain such consents, as may be necessary or as may be reasonably requested in order to fully effectuate the purposes, terms and conditions of this Agreement; provided, however, that in no event shall Contributors be required to obtain consents or approvals from any partners, members or other owners of the Owner Entities other than the Property Co-Managers.

XI.2. Expenses

Each party hereto shall pay its own expenses incident to this Agreement and the transactions contemplated hereunder, including all legal and accounting fees and disbursements. The provisions of this Section XII.2 shall survive any termination of this Agreement.

XI.3. Assignment

No party hereto shall assign its rights and/or obligations under this Agreement, in whole or in part, whether by operation of law or otherwise, without the prior written consent of the other parties hereto. Notwithstanding anything to the contrary in the preceding sentence, at any time after the Closing Date, Acadia may assign its rights and/or obligations under this Agreement to an affiliate, or any other person or entity in connection with a merger, consolidation, sale or contribution of all or substantially all of its or the REIT's assets, or other similar corporate transaction; provided, that no assignment pursuant to the preceding clause shall release the assigning party from its respective liabilities and obligations hereunder.

XI.4. Entire Agreement; Amendment

This Agreement, including the Exhibits and other documents referred to herein or furnished pursuant hereto, constitute the entire agreement among the parties hereto with respect to the transactions contemplated herein, and supersede all prior oral or written agreements, commitments or understandings with respect to the matters provided for herein; provided, that nothing in this Section XI.4 shall have any effect on the Other Agreements. No amendment, modification or discharge of this Agreement shall be valid or binding unless set forth in writing and duly executed and delivered by the party against whom enforcement of the amendment, modification, or discharge is sought.

XI.5. Waiver

No delay or failure on the part of any party hereto in exercising any right, power or privilege under this Agreement or under any other documents furnished in connection with or pursuant to this Agreement shall impair any such right, power or privilege or be construed as a waiver of any default or any acquiescence therein. No single or partial exercise of any such right, power or privilege shall preclude the further exercise of such right, power or privilege, or the exercise of any other right, power or privilege. No waiver shall be valid against any party hereto unless made in writing and signed by the party against whom enforcement of such waiver is sought and then only to the extent expressly specified therein.

XI.6. Severability

If any part of any provision of this Agreement or any other agreement or document given pursuant to or in connection with this Agreement shall be invalid or unenforceable in any respect, such part shall be ineffective to the extent of such invalidity or unenforceability only, without in any way affecting the remaining parts of such provision or the remaining provisions of this Agreement.

XI.7. Governing Law

This Agreement, the rights and obligations of the parties hereto, and any claim or disputes relating thereto, shall be governed by and construed in accordance with the laws of the State of New York (excluding the choice of law rules thereof).

XI.8. Notices

All notices, demands, requests, or other communications which may be or are required to be given, served, or sent by any party to any other party pursuant to this Agreement shall be in writing and shall be hand delivered, sent by overnight courier or mailed by first-class, registered or certified mail, return receipt requested, postage prepaid, or transmitted by facsimile, telegram, telecopy or telex, addressed as follows:

(1) If to any Contributor:

Klaff Realty, LP
Klaff Realty, Limited
122 South Michigan Avenue
Chicago, IL 60603
Attention: Hersch M. Klaff
Telephone: 312-360-3102
Facsimile: 312-360-0606
Email: hklaff@klaff.com

With copies to:

Klaff Realty, LP
Klaff Realty, Limited
122 South Michigan Avenue
Chicago, IL 60603
Attention: Martha Amesbury
Telephone: 312-360-3116
Facsimile: 312-360-0606
Email: mamesbury@klaff.com

Allan J. Reich, Esq.
Seyfarth Shaw LLP
55 E. Monroe Street, Suite 4200
Chicago, IL 60603
Telephone: 312-781-8650
Facsimile: 312-269-8869
Email: areich@seyfarth.com

(2) If to Acadia:

Acadia Realty Trust
1311 Mamaroneck Avenue, Suite 260
White Plains, NY 10605
Attention: Joel Braun
Telephone: 914-288-8146
Facsimile: 914-428-3922
Email: jbraun@acadiarealty.com

With a copy to:

Robert Masters, Esq.
1311 Mamaroneck Avenue, Suite 260
White Plains, NY 10605
Telephone: 914-288-8139
Facsimile: 914-428-3646
Email: rmasters@acadiarealty.com

Each party may designate by notice in writing a new address to which any notice, demand, request or communication may thereafter be so given, served or sent. Each notice, demand, request, or communication which shall be hand delivered, sent, mailed, faxed, telecopied or telexed in the manner described above, or which shall be delivered to a telegraph company, shall be deemed sufficiently given, served, sent, received or delivered for all purposes at such time as it is delivered to the addressee (with the return receipt, the delivery receipt, the confirmation receipt (with respect to a facsimile), or (with respect to a telecopy or telex) the answerback being deemed conclusive, but not exclusive, evidence of such delivery) or at such time as delivery is refused by the addressee upon presentation.

XI.9. Headings

Section headings contained in this Agreement are inserted for convenience of reference only, shall not be deemed to be a part of this Agreement for any purpose, and shall not in any way define or affect the meaning, construction or scope of any of the provisions hereof.

XI.10. Execution in Counterparts

To facilitate execution, this Agreement may be executed in as many counterparts as may be required. It shall not be necessary that the signatures of, or on behalf of, each party, or that the signatures of all persons required to bind any party, appear on each counterpart; but it shall be sufficient that the signature of, or on behalf of, each party, or that the signatures of the persons required to bind any party, appear on one or more of the counterparts. All counterparts shall collectively constitute a single agreement. It shall not be necessary in making proof of this Agreement to produce or account for more than a number of counterparts containing the respective signatures of, or on behalf of, all of the parties hereto.

XI.11. Attorneys' Fees

Should either party employ attorneys to enforce any of the provisions hereof, the party against whom any final judgment is entered agrees to pay the prevailing party all reasonable costs, charges and expenses, including reasonable attorneys' fees, expended or incurred by the prevailing party in connection therewith.

XI.12. Waiver of Jury Trial

TO THE EXTENT PERMITTED BY APPLICABLE LAW, THE PARTIES HEREBY IRREVOCABLY WAIVE ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE ACQUISITION AGREEMENT, OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY. THE PROVISIONS OF THIS SECTION XI.12 SHALL SURVIVE ANY TERMINATION OF THIS AGREEMENT.

IN WITNESS WHEREOF, the parties hereto have caused this Contribution Agreement to be duly executed on their behalf as of the date first above written.

CONTRIBUTORS:

KLAFF REALTY, LP, a Delaware
limited partnership

By: Klaff Realty, Limited, General Partner

By: _____
Name: Hersch M. Klaff
Title: President

KLAFF REALTY, LIMITED, an Illinois
corporation

By: _____
Name: Hersch M. Klaff
Title: President

ACADIA:

ACADIA REALTY LIMITED PARTNERSHIP

By: Acadia Realty Trust, General
Partner

By: _____
Name: Kenneth F. Bernstein
Title: President

REIT:

ACADIA REALTY TRUST

By: _____
Name: Kenneth F. Bernstein
Title: President

The undersigned hereby joins in the execution of this Agreement to confirm his agreement with the covenants of Article V.2; which shall survive the Closing.

Hersch M. Klaff

FIRST AMENDMENT TO EMPLOYMENT AGREEMENT

This First Amendment to Employment Agreement is made as of January 1, 2001 but executed as of May __, 2001 by and between Acadia Realty Trust, a Maryland real estate investment trust with offices at 20 Soundview Marketplace, Port Washington, New York 11050 (the "Trust") and Kenneth Bernstein (the "Executive").

WHEREAS, the Trust and Executive have heretofore entered into that certain Employment Agreement dated as of October 28, 1998 pursuant to which the Executive is employed as President of the Trust (the "Employment Agreement");

WHEREAS, Executive has been appointed to the additional position of Chief Executive Officer, effective January 1, 2001 (the "Appointment");

WHEREAS, in connection with the Appointment, the Trust and the Executive desire to implement certain amendments to the Employment Agreement as hereinafter set forth;

NOW, THEREFORE, it is hereby agreed that the Employment Agreement be, and hereby is, amended as follows:

1. Paragraph 3(a) of the Employment Agreement is hereby amended and restated to read in its entirety as follows:

"3. Services/Place of Employment.

(a) Services. From January 1, 2001 and thereafter during the Employment Period, Executive shall hold the positions of President and Chief Executive Officer of the Trust and also serve as a member of the Board. Executive shall devote his best efforts and such business time, skill and attention to the business of the Trust (other than absences due to vacation, illness, disability or approved leave of absence) as in the reasonable business judgment of Executive is necessary to perform such duties as are customarily performed by similar executive officers and as may be more specifically enumerated from time to time by the Board or Executive Committee of the Board; provided, however, that the foregoing is not intended to (x) preclude Executive from (i) owning and managing personal investments, including real estate investments, subject to the restrictions set forth in Paragraph 13 hereof or (ii) engaging in charitable activities and community affairs, or (y) restrict or otherwise limit Executive from conducting real estate development, acquisition or management activities with respect to those properties described in Schedule A, attached hereto (the "Excluded Properties"), provided that the performance of the activities referred to in the preceding clauses (x) and (y) does not, in the reasonable business judgment of Executive, prevent Executive from devoting sufficient business time to the Trust to carry out Executive's duties as President, Chief Executive Officer and member of the Board."

2. Paragraph 4(a) of the Employment Agreement is hereby deleted in its entirety and replaced with the following:

"4. Compensation and Benefits.

(a) Salary. From January 1, 2001 and thereafter during the Employment Period, the Trust shall pay Executive a minimum annual base salary in the amount of \$300,000 (the "Annual Base Salary") payable in accordance with the Trust's regular payroll practices. Executive's Annual Base Salary shall be reviewed annually in accordance with the policy of the Trust from time to time and may be subject to upward adjustment based upon, among other things, Executive's performance, as determined in the sole discretion of the Compensation Committee of the Board (the "Compensation Committee"). In no event shall Executive's Annual Base Salary in effect at a particular time be reduced without his prior written consent."

3. Subparagraphs 7 (ii) and (iv) of the Employment Agreement are hereby deleted in its entirety and replaced with the following:

"7. Compensation Upon Termination of Employment Upon Death or Disability.

* * *

(ii) an amount computed at an annualized rate equal to the Executive's Annual Base Salary at the rate then in effect pro-rated for the period commencing on the day following the date of termination and ending on the later of (A) 18 months from the date of termination or (B) the final day of the Unexpired Employment Period (the "Severance Salary"); plus

* * *

(iv) a further amount computed at an annualized rate equal to the average of the Cash Incentive Bonuses awarded to the Executive for each of the last two (2) calendar years immediately preceding the year in which the Executive's employment is terminated, pro-rated for the period commencing on the day following the date of termination and ending on the later of (A) eighteen months from the date of termination or (B) the final day of the Unexpired Employment Period ("Severance Bonus"; plus"....

4. Except as amended by this First Amendment to Employment Agreement, the Employment Agreement shall remain unchanged and in full force and effect.

IN WITNESS WHEREOF, Executive has hereunto set his hand and, pursuant to the authorization of its Board of Trustees, the Company has caused this First Amendment to Employment Agreement to be executed in its name on its behalf, all as of the day and year first above written.

EXECUTIVE

Kenneth Bernstein

ACADIA REALTY TRUST

By:

Robert Masters
Senior Vice President

SEVERANCE AGREEMENT

THIS SEVERANCE AGREEMENT (the "Agreement") is entered into as of April 6, 2001, by and between Joseph M. Napolitano, 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 continue the employment of Senior Officer as Senior Vice President, Director of Retail Property Management, and Senior Officer desires to be employed by the Trust as Senior Vice President, Director of Retail Property Management; 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) 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; (B) willful misconduct or (C) 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; (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, (C) if the Trust relocates Senior Officer's office requiring the Senior Officer to increase his commuting time by more than one hour, then the Senior Officer shall have the right to terminate his employment, which termination shall be deemed for Good Reason.
- (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.
- (vi) Change in Control. The Senior Officer shall have the right to terminate his employment hereunder on or within three (3) months following a Change in Control. Such termination shall be deemed a termination for Good Reason hereunder. 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 thirty (30%) 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 any sale or other disposition of all or substantially all of its assets, or a sale or other disposition of at least 51% (based upon gross asset value) of the core assets (defined as those properties formerly marketed by Credit Suisse First Boston as the core portfolio of the Company) 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.

(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) an amount equal to one year's salary at the then current annual base salary (before any reductions) (the "Severance Salary"); plus
- (iii) reimbursement of expenses incurred prior to date of termination ("Expense Reimbursement"); plus
- (iv) the Senior Officer's car allowance, if any, for one year (the "Car Allowance"); plus
- (v) a pro rata portion of Senior Officer's bonus (based upon the average of the last two years' bonuses); plus

In the event of termination of or resignation by 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.

Notwithstanding anything to the contrary contained herein, if the Senior Officer's employment is terminated Without Cause, or the Senior Officer terminates his employment for Good Reason prior to a Change of Control and subsequently an event is announced within six months of his termination which, when consummated, would constitute a Change of Control, then the Senior Officer shall be entitled to the payment described in Section 3(vi) upon consummation.

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's 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 in the event he receives any compensation (other than compensation upon termination of employment by the Trust for Cause or voluntarily by the Senior Officer) pursuant to this Agreement, 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.

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: Joseph M. Napolitano
Title: Senior Vice President

SEVERANCE AGREEMENT

THIS SEVERANCE AGREEMENT (the "Agreement") is entered into as of April 6, 2001, by and between Robert Masters, 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 continue the employment of Senior Officer as Senior Vice President, General Counsel and Corporate Secretary, and Senior Officer desires to be employed by the Trust as Senior Vice President, General Counsel and Corporate Secretary; 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) 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; (B) willful misconduct or (C) 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; (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, (C) if the Trust relocates Senior Officer's office requiring the Senior Officer to increase his commuting time by more than one hour, then the Senior Officer shall have the right to terminate his employment, which termination shall be deemed for Good Reason.
- (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.
- (vi) Change in Control. The Senior Officer shall have the right to terminate his employment hereunder on or within three (3) months following a Change in Control. Such termination shall be deemed a termination for Good Reason hereunder. 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 thirty (30%) 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 any sale or other disposition of all or substantially all of its assets, or a sale or other disposition of at least 51% (based upon gross asset value) of the core assets (defined as those properties formerly marketed by Credit Suisse First Boston as the core portfolio of the Company) 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.

(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) an amount equal to one year's salary at the then current annual base salary (before any reductions) (the "Severance Salary"); plus
- (iii) reimbursement of expenses incurred prior to date of termination ("Expense Reimbursement"); plus
- (iv) the Senior Officer's car allowance, if any, for one year (the "Car Allowance"); plus
- (v) a pro rata portion of Senior Officer's bonus (based upon the average of the last two years' bonuses); plus

In the event of termination of or resignation by 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.

Notwithstanding anything to the contrary contained herein, if the Senior Officer's employment is terminated Without Cause, or the Senior Officer terminates his employment for Good Reason prior to a Change of Control and subsequently an event is announced within six months of his termination which, when consummated, would constitute a Change of Control, then the Senior Officer shall be entitled to the payment described in Section 3(vi) upon consummation.

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's 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 in the event he receives any compensation (other than compensation upon termination of employment by the Trust for Cause or voluntarily by the Senior Officer) pursuant to this Agreement, 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.

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: Robert Masters
Title: Senior Vice President

PROMISSORY NOTE

US \$16,000,000.00

May 30, 2003

FOR VALUE RECEIVED, the undersigned, 239 GREENWICH ASSOCIATES LIMITED PARTNERSHIP, a Connecticut limited partnership ("Borrower") having an address at c/o Acadia Realty Trust, 1311 Mamaroneck Avenue, White Plains, New York 10605, promises to pay GREENWICH CAPITAL FINANCIAL PRODUCTS, INC., a Delaware corporation ("Lender"), or order, at 600 Steamboat Road, Greenwich, Connecticut 06830, or such other place as the holder hereof may designate in writing, the principal sum of SIXTEEN MILLION AND NO/100 DOLLARS (US\$16,000,000.00) (the "Principal"), with interest on the unpaid principal balance from the date of this Note, until paid, at the rate of five and nineteen one-hundredths percent (5.19%) per annum (the "Interest Rate"). This Promissory Note may be referred to herein as the "Note," and the loan evidenced hereby may be referred to herein as the "Loan."

PAYMENTS OF PRINCIPAL AND INTEREST. On July 1, 2003 and on each Payment Date (as defined herein) thereafter through and including June 1, 2005, Borrower shall pay to Lender interest on the unpaid Principal at the Interest Rate which has accrued from the first day through the last day of the calendar month immediately preceding such Payment Date. The Principal and the interest thereon at the Interest Rate shall be due and payable by Borrower to Lender in consecutive monthly installments, each in the amount of \$87,758.93 (the "Monthly Debt Service Payment Amount") beginning on July 1, 2005 (herein "amortization commencement date") and on each Payment Date thereafter until the entire indebtedness evidenced hereby is fully paid, except that any remaining indebtedness, if not sooner paid, shall be due and payable on June 1, 2013 (the "Maturity Date").

Interest on the principal sum of this Note shall be calculated on the basis of a 360 day year, and shall be charged based on the actual number of days during each month or other applicable accrual period. Interest on this Note shall be paid in arrears.

The undersigned shall pay the holder hereof, in advance, on the date hereof, interest only on the outstanding principal balance of this Note, at the interest rate first mentioned above, from the date hereof through and including the last day of the calendar month in which this Note is executed.

The Monthly Debt Service Payment Amount due on any Payment Date shall first be applied to the payment of interest accrued during the preceding accrual period and the remainder of such Monthly Debt Service Payment Amount shall be applied to the reduction of the unpaid Principal. All accrued and unpaid interest shall be due and payable on the Maturity Date. If the Loan is repaid on any date other than on a Payment Date (whether prior to or after the Maturity Date), Borrower shall also pay interest that would have accrued on such repaid Principal to but not including the next Payment Date.

Borrower shall repay the entire outstanding principal balance of this Note in full on the Maturity Date, together with interest thereon to (but excluding) the date of repayment and any other amounts due and owing under the Loan Documents (as defined herein).

As used herein, the term "Payment Date" shall mean the first (1st) day of each calendar month or, upon Lender's exercise of its right to change the Payment Date in accordance with this paragraph, the New Payment Date (in either case, if such day is not a Business Day, the Payment Date shall be the first Business Day thereafter). The first Payment Date hereunder shall be July 1, 2003. Notwithstanding the foregoing, Lender shall have the right, to be exercised not more than once during the term of the Loan, to change the Payment Date to a date other than the first day of each month (a "New Payment Date"), on 30 days' written notice to Borrower; provided, however, that any such change in the Payment Date: (i) shall not modify the amount of regularly scheduled monthly principal and interest payments, except that the first payment of principal and interest payable on the New Payment Date shall be accompanied by interest at the interest rate herein provided for the period from the Payment Date in the month in which the New Payment Date first occurs to the New Payment Date, and (ii) shall extend the Maturity Date to the New Payment Date occurring in the month set forth in the definition of Maturity Date.

SECURITY; LOAN DOCUMENTS. The indebtedness evidenced by this Note is secured by, among other things, that certain Open-End Mortgage, Assignment of Rents and Security Agreement of even date herewith (the "Instrument"), executed by Borrower, encumbering real property more particularly described therein (the "Property"), and reference is made thereto for rights as to acceleration of the indebtedness evidenced by this Note. This Note, the Instrument, and all other documents or instruments given by Borrower or any guarantor and accepted by Lender for purposes of evidencing, securing, perfecting, or guaranteeing the indebtedness evidenced by this Note may be referred to as the "Loan Documents." Any capitalized term used but not otherwise defined herein shall have the meaning ascribed thereto in the Instrument.

DEFEASANCE.

A. Notwithstanding anything to the contrary contained in this Note, the Instrument or the Loan Documents, at any time (x) after the earlier of the 42nd month after the date hereof or the second (2nd) anniversary of the date that is the "startup day," within the meaning of Section 860G of the Internal Revenue Code of 1986, as amended from time to time or any successor statute (the "Code") of a "real estate mortgage investment conduit," within the meaning of Section 860D of the Code, that holds this Note and (y) before the date which is ninety (90) days prior to the Maturity Date (the "Permitted Prepayment Date"); and provided (unless Lender shall otherwise consent, in its sole discretion) no event of default has occurred and is continuing, Borrower shall have the right to obtain the release of the Property from the lien of the Instrument and the other Loan Documents (such release, the "Defeasance") upon the satisfaction of the following conditions precedent (all of which conditions shall become covenants upon occurrence of the Defeasance):

(i) Borrower shall provide to Lender not less than 30 days' prior written notice specifying a Payment Date on which the Defeasance Deposit (hereinafter defined) is to be made (the date so specified may be referred to as the "Defeasance Election Date").

(ii) Borrower shall pay to Lender on the Defeasance Election Date all interest accrued and unpaid on the outstanding principal amount of this Note to the Defeasance Election Date and the scheduled principal amortization payment due on such Defeasance Election Date, together with all other amounts then due and payable under this Note, the Instrument and the other Loan Documents.

(iii) Borrower shall irrevocably deposit with Lender an amount of U.S. Government Securities (hereinafter defined) which through the scheduled payment of principal and interest in respect thereof in accordance with their terms will provide, not later than the due dates of the payments owing hereunder, cash in an amount sufficient, without reinvestment, in the opinion of a nationally recognized firm of independent certified public accountants expressed in a written certification thereof delivered to Lender (the "CPA Certificate"), to pay and discharge the Scheduled Defeasance Payments (hereinafter defined). The securities so deposited, together with any interest or other increase from the issuer of the securities earned thereon and any replacements thereof, shall be referred to herein as the "Defeasance Deposit."

(iv) Borrower shall cause the following to be delivered to Lender on or prior to the Defeasance Election Date, all in form and substance satisfactory to Lender in its reasonable discretion:

(a) a security agreement, in form and substance satisfactory to Lender, creating a first priority lien on the Defeasance Deposit (the "Defeasance Security Agreement");

(b) the CPA Certificate;

(c) a certificate of Borrower certifying that all requirements for the Defeasance set forth herein have been satisfied;

(d) an opinion of counsel for Borrower in form and substance satisfactory to Lender to the effect that (i) Lender has a perfected first priority security interest in the Defeasance Deposit, and (ii) the holder of this Note will not recognize income, gain or loss for United States federal income tax purposes as a result of the defeasance and will be subject to United States federal income tax on the same amounts, in the same manner and at the same times as would have been the case if the Defeasance had not occurred, and (iii) any holder, trustee or custodian of this Note which is a "real estate mortgage investment conduit" within the meaning of Section 860D of the Code will not fail to maintain its status as such as a result of the Defeasance;

(e) evidence in writing from the applicable rating agencies for any securitization transaction of which this Note is a part, to the effect that the Defeasance will not result in a downgrading, withdrawal, or qualification of the ratings in effect immediately prior to such Defeasance for the then-outstanding securities issued in connection with such securitization;

(f) evidence satisfactory to Lender that suitable arrangements have been made to maintain the existence of Borrower during the time thereafter when the Note shall be outstanding; and

(g) such other certificates, documents or instruments as Lender may reasonably request or as may be required by the rating agencies referred to above.

(v) Either (i) Borrower shall deliver to Lender a certificate stating that at all times following the Defeasance, Borrower shall have no interest in any assets other than the Defeasance Deposit, or (ii) Borrower shall satisfy all of the requirements of Section C below.

(vi) Borrower shall pay to Lender all reasonable out-of-pocket costs and expenses (including, without limitation, attorneys' fees and disbursements) incurred or anticipated to be incurred by Lender in connection with the Defeasance.

B. Upon compliance with the requirements of Section A above, Lender shall cause the Property to be released from the lien of the Instrument, the obligations hereunder and under the other Loan Documents with respect to the Property shall no longer be applicable, the balance of each Subaccount shall be disbursed to Borrower and the Defeasance Deposit shall be the sole source of collateral securing this Note. Lender shall apply the Defeasance Deposit and the payments received therefrom to the payment of all scheduled principal and interest payments due on all successive payment dates under this Note after the Defeasance Election Date and the payment due on the maturity date specified in this Note (the "Scheduled Defeasance Payments"). Borrower, pursuant to the Defeasance Security Agreement or other appropriate document, shall direct that the payments received from the Defeasance Deposit shall be made directly to Lender and applied to satisfy the obligations of Borrower under this Note.

C. If, after the Defeasance, Borrower will own any assets other than the Defeasance Deposit, Borrower shall establish or designate a single-purpose, bankruptcy-remote successor entity acceptable to Lender (the "Successor Borrower"), with respect to which a non-consolidation opinion satisfactory in form and substance to Lender and any applicable rating agencies shall be delivered to Lender and such rating agencies (if such a non-consolidation opinion was required of Borrower in connection with the origination of the indebtedness secured hereby) in which case Borrower shall transfer and assign to the Successor Borrower all obligations, rights and duties under this Note and the Defeasance Security Agreement, together with the pledged Defeasance Deposit. The Successor Borrower shall assume the obligations of Borrower under this Note and the Defeasance Security Agreement, and Borrower shall be relieved of its obligations hereunder and thereunder. Borrower shall pay not less than \$1,000 to the Successor Borrower as consideration for assuming such Borrower obligations.

D. As used herein, the term "U.S. Government Securities" shall mean securities that are (i) direct obligations of the United States of America for the full and timely payment of which its full faith and credit is pledged or (ii) obligations of an entity controlled or supervised by and acting as an agency or instrumentality and guaranteed as a full faith and credit obligation which shall be fully and timely paid by the United States of America, which in either case are not callable or redeemable at the option of the issuer thereof (including a depository receipt issued by a bank (as defined in Section 3(a)(2) of the United States Securities Act)) as custodian with respect to any such U.S. Government Securities or a specific payment of principal of or interest on any such U.S. Government Securities held by such custodian for the account of the holder of such depository receipt, provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the securities or the specific payment of principal of or interest on the securities evidenced by such depository receipt.

E. If, after payment in full of all obligations evidenced by this Note or any other of the Loan Documents, any of the Defeasance Deposit remains, then on request by Borrower such remaining balance of the Defeasance Deposit shall be returned to Borrower (or to the Successor Borrower, as the case may be).

PREPAYMENT; PREPAYMENT CONSIDERATION. If any prepayment of all or any portion of the principal balance hereunder occurs, whether in connection with Lender's acceleration of the unpaid principal balance of this Note or in any other circumstances whatsoever, or if the Instrument is satisfied or released by foreclosure (whether by power of sale or judicial proceeding), deed in lieu of foreclosure or by any other means, then Borrower shall therewith pay the Prepayment Consideration. The foregoing shall not create any right of prepayment. Borrower shall have no right whatsoever to prepay all or any portion of the principal balance of this Note, except only as follows:

(i) Borrower shall have the right to prepay and shall not be required to pay any Prepayment Consideration with respect to prepayment required by Lender pursuant to the Instrument as a result of the application of insurance proceeds or condemnation awards under the Instrument or as a result of prepayment of the entire principal balance of this Note remaining due after the application of insurance proceeds or condemnation awards under the Instrument, provided that such prepayment of the entire principal balance of this Note remaining due is made within one hundred eighty (180) days following the date of such application; and

(ii) Further, provided Borrower is not in default hereunder or under any of the Loan Documents and provides not less than 30 days' prior written notice, Borrower shall have the right to pay all (but not less than all) obligations then outstanding under the Loan Documents, including the prepayment of all principal, from and after the Permitted Prepayment Date. In such case, there shall be no Prepayment Consideration due, except that if any such prepayment occurs on any day other than a Payment Date, then in addition to the prepayment amount Borrower also shall pay to Lender the amount of interest that would have accrued under the Note on the amount being prepaid from and including the prepayment date to the next Payment Date.

The "Prepayment Consideration" shall be the amount equal to the greater of (i) two percent of the Loan balance at the time of prepayment, or (ii) the sum of one percent of the Loan balance at the time of prepayment, plus the excess, if any, of (A) the amount of the monthly interest which would otherwise be payable on the principal balance being prepaid from the date of the first day of the calendar month immediately following the date of prepayment (unless prepayment is tendered on the first day of any calendar month during the term of this Note, in which case from the date of prepayment) to and including the Maturity Date; over (B) the amount of the monthly interest the Lender would earn if the principal balance being prepaid were reinvested for the period from the first day of the calendar month immediately following the date of prepayment (unless prepayment is tendered on the first day of any calendar month during the term of this Note, in which case from the date of prepayment) to and including the Maturity Date at the Treasury Rate (as hereinafter defined), such difference to be discounted to present value at the Treasury Rate.

The "Treasury Rate" shall be the annualized yield on securities issued by the United States Treasury having a maturity corresponding to the remaining term to the originally scheduled Maturity Date of this Note, as quoted in Federal Reserve Statistical Release [H. 15(519)] under the heading "U.S. Government Securities - Treasury Constant Maturities" for the Treasury Rate Determination Date (as defined below), converted to a monthly equivalent yield. If yields for such securities of such maturity are not shown in such publication, then the Treasury Rate shall be determined by Lender by linear interpolation between the yields of securities of the next longer and next shorter maturities. If said Federal Reserve Statistical Release or any other information necessary for determination of the Treasury Rate in accordance with the foregoing is no longer published or is otherwise unavailable, then the Treasury Rate shall be reasonably determined by Lender based on comparable data.

The term "Treasury Rate Determination Date" shall mean the date which is five banking days prior to the scheduled prepayment date. Lender shall notify Borrower of the amount and the basis of determination of the required Prepayment Consideration.

[NO FURTHER TEXT ON THIS PAGE; DOCUMENT CONTINUES ON NEXT PAGE]

BORROWER HEREBY EXPRESSLY WAIVES THE RIGHT TO PREPAY THE INDEBTEDNESS EVIDENCED HEREBY IN WHOLE OR PART WITHOUT PENALTY, AND EXPRESSLY AGREES TO PAY THE AMOUNTS REQUIRED HEREIN IN THE EVENT OF AN ACCELERATION. BORROWER AGREES THAT THE PREPAYMENT CONSIDERATION REQUIRED HEREIN IS REASONABLE. BORROWER HAS GIVEN INDIVIDUAL WEIGHT TO THE CONSIDERATION IN THIS TRANSACTION FOR THIS WAIVER AND AGREEMENT. BORROWER HEREBY EXPRESSLY WAIVES THE BENEFIT OF ANY APPLICABLE LAW TO THE CONTRARY.

239 GREENWICH ASSOCIATES LIMITED
PARTNERSHIP, a Connecticut limited
partnership

By: Acadia 239 Greenwich Avenue, LLC, a
Delaware limited liability company, its
general partner

By: Acadia Realty Limited Partnership, a
Delaware limited partnership, its sole
member

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

By: _____
Name:
Title:

[DOCUMENT CONTINUES FOLLOWING SIGNATURE]

EVENTS OF DEFAULT; ACCELERATION. The following shall constitute an "Event of Default" hereunder: (i) if any installment under this Note is not paid when due, or (ii) if any condition or event occurs as a consequence of which the holder hereof then has the right to accelerate the indebtedness hereunder pursuant to any of the other Loan Documents.

Upon and at any time following the occurrence of any Event of Default, then at the option of the holder hereof and without notice, the entire principal amount and all interest accrued and outstanding hereunder and all other amounts outstanding under any of the Loan Documents shall at once become due and payable, and the holder hereof may exercise any and all of its rights and remedies under any of the Loan Documents or pursuant to applicable law. The holder hereof may so accelerate such obligations and exercise such remedies at any time after the occurrence of any Event of Default, regardless of any prior forbearance.

LATE CHARGES; ADDITIONAL INTEREST ON DEFAULT. If any installment under this Note or any other amount owing hereunder or under any of the other Loan Documents is not received by the holder hereof within five days after the same is due, then the undersigned shall pay to the holder hereof a late charge of the lesser of (a) five percent of such installment and (b) the maximum amount permitted by applicable law, such late charge to be immediately due and payable without demand by the holder hereof.

In addition, after the occurrence and during the continuance of an Event of Default, the outstanding principal balance of this Note shall bear interest at the rate of five percent per annum in excess of the rate provided in the first paragraph of this Note, or, if such increased rate of interest may not be collected from the undersigned under applicable law, then at the maximum increased rate of interest which may be collected from the undersigned under applicable law (the "Default Rate").

Borrower agrees that such late charge and increased interest are reasonable and do not constitute a penalty.

LAWFUL INTEREST. The parties hereto intend to conform strictly to the applicable usury laws. In no event, whether by reason of demand for payment, prepayment, acceleration of the maturity hereof or otherwise, shall the interest contracted for, charged or received by the holder hereof hereunder or otherwise exceed the maximum amount permissible under applicable law. If from any circumstance whatsoever interest would otherwise be payable to the holder hereof in excess of the maximum lawful amount, the interest payable to the holder hereof shall be reduced automatically to the maximum amount permitted by applicable law. If the holder hereof shall ever receive anything of value deemed interest under applicable law which would apart from this provision be in excess of the maximum lawful amount, an amount equal to any amount which would have been excessive interest shall be applied to the reduction of the principal amount owing hereunder in the inverse order of its maturity and not to the payment of interest, or if such amount which would have been excessive interest exceeds the unpaid balance of principal hereof, such excess shall be refunded to the undersigned. All interest paid or agreed to be paid to the holder hereof shall, to the extent permitted by applicable law, be amortized, prorated, allocated, and spread throughout the full stated term (including any renewal or extension) of such indebtedness so that the amount of interest on account of such indebtedness does not exceed the maximum permitted by applicable law. The provisions of this paragraph shall control all existing and future agreements between the undersigned and the holder hereof.

CERTAIN RIGHTS AND WAIVERS. From time to time, without affecting the obligation of the undersigned or the successors or assigns of the undersigned to pay the outstanding principal balance of this Note and observe the covenants of the undersigned contained herein, in the Instrument or in any other Loan Document without affecting the guaranty of any person or entity for payment of the outstanding principal balance of this Note, without giving notice to or obtaining the consent of the undersigned, the successors or assigns of the undersigned or guarantors, and without liability on the part of the holder hereof, the holder hereof may, at the option of the holder hereof, extend the time for payment of said outstanding principal balance or any part thereof, reduce the payments thereon, release anyone liable on any of said outstanding principal balance, accept a renewal of this Note, modify the terms and time of payment of said outstanding principal balance, join in any extension or subordination agreement, release any security given herefor, take or release other or additional security, and agree in writing with the undersigned to modify the rate of interest or period of amortization of this Note or change the amount of the monthly installments payable hereunder.

Presentment, notice of dishonor, and protest are hereby waived by all makers, sureties, guarantors and endorsers hereof. This Note shall be the joint and several obligation of all makers, sureties, guarantors, and endorsers, and shall be binding upon them and their successors and assigns.

THE UNDERSIGNED HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES ANY RIGHT THE UNDERSIGNED MAY HAVE TO A TRIAL BY JURY IN RESPECT TO ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER OR IN CONJUNCTION WITH THIS NOTE, THE INSTRUMENT, ANY OTHER LOAN DOCUMENT, ANY OTHER AGREEMENT CONTEMPLATED TO BE EXECUTED IN CONNECTION HEREWITH, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF EITHER PARTY.

The holder hereof shall have the right to assign or transfer, in whole or in part (including the right to grant participation interests in) any or all of its obligations under this Note, the Instrument and any or all of the other Loan Documents. Lender shall be released of any obligations to the extent that the same are so assigned or transferred, and the rights and obligations of "Lender" hereunder shall become the rights and obligations of the transferee holder.

LIMITATION ON RECOURSE. Lender's rights of recourse for the obligations of Borrower hereunder are limited in accordance with the Instrument. This provision shall not limit any rights of Lender under any guaranty.

ATTORNEYS' FEES, COSTS OF COLLECTION. Borrower shall pay to Lender on demand all costs and expenses, including reasonable attorneys' fees and expenses, incurred by Lender in collecting the indebtedness arising hereunder or under any other Loan Documents or secured thereby, or in determining the rights and obligations of any parties hereto or thereto, or as a consequence of any breach or default by Borrower or any guarantor hereunder or thereunder, or otherwise as a consequence of any right evidenced or secured by this Note or the Loan Documents. Without limitation, such costs and expenses to be reimbursed by Borrower shall include attorneys' fees and expenses incurred in any Bankruptcy case or proceeding and in any appeal.

APPLICABLE LAW. THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK (WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS) AND THE APPLICABLE LAWS OF THE UNITED STATES OF AMERICA.

[NO FURTHER TEXT ON THIS PAGE]

IN WITNESS WHEREOF, the undersigned has executed this Promissory Note as of the date first written above.

BORROWER:

239 GREENWICH ASSOCIATES LIMITED
PARTNERSHIP, a Connecticut limited
partnership

By: Acadia 239 Greenwich Avenue, LLC, a
Delaware limited liability company, its
general partner

By: Acadia Realty Limited Partnership, a
Delaware limited partnership, its sole
member

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

By: -----
Name:
Title:

=====

239 GREENWICH ASSOCIATES LIMITED PARTNERSHIP,

as mortgagor

(Borrower)

to

GREENWICH CAPITAL FINANCIAL PRODUCTS, INC.,

as mortgagee

(Lender)

OPEN-END MORTGAGE, ASSIGNMENT OF
LEASES AND RENTS AND SECURITY
AGREEMENT

Dated: As of May 30, 2003

Location: 239 Greenwich Avenue, Greenwich, Connecticut

County: Fairfield

PREPARED BY AND UPON
RECORDATION RETURN TO:

Kaye Scholer LLP
425 Park Avenue,
New York, New York 10022
Attention: Stephen Gliatta, Esq.

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OPEN-END MORTGAGE, ASSIGNMENT OF LEASES AND RENTS AND SECURITY AGREEMENT

THIS OPEN-END MORTGAGE, ASSIGNMENT OF LEASES AND RENTS AND SECURITY AGREEMENT (herein "Instrument") is made as of May 30, 2003, and is given by the Mortgagor, 239 GREENWICH ASSOCIATES LIMITED PARTNERSHIP, a Connecticut limited partnership whose address is c/o Acadia Realty Trust, 1311 Mamaroneck Avenue, White Plains, New York 10605 (herein "Borrower"), to the Mortgagee, GREENWICH CAPITAL FINANCIAL PRODUCTS, INC., a corporation organized and existing under the laws of the state of Delaware, whose address is 600 Steamboat Road, Greenwich, Connecticut 06830, together with its successors, assigns and transferees (herein "Lender").

BORROWER, in consideration of the indebtedness herein recited, irrevocably grants, conveys, mortgages and assigns to Lender, WITH POWER OF SALE AND RIGHTS OF ENTRY AND POSSESSION, the following described property located in the County of Fairfield, State of Connecticut, and more particularly described on Exhibit "A" attached hereto and incorporated herein by reference for all purposes.

TOGETHER with all buildings, improvements and tenements now or hereafter erected on the property, and all heretofore or hereafter vacated alleys and streets abutting the property, and all easements, rights, appurtenances, rents (subject however to the assignment of rents to Lender herein), royalties, mineral, oil and gas rights and profits, water, water rights, and water stock appurtenant to the property, and all fixtures, machinery, equipment, engines, boilers, incinerators, building materials, appliances and goods of every nature whatsoever now or hereafter located in, or on, or used, or intended to be used in connection with the property, including, but not limited to, those for the purposes of supplying or distributing heating, cooling, electricity, gas, water, air and light; and all elevators, and related machinery and equipment, fire prevention and extinguishing apparatus, security and access control apparatus, plumbing, bath tubs, water heaters, water closets, sinks, ranges, stoves, refrigerators, dishwashers, disposals, washers, dryers, awnings, storm windows, storm doors, screens, blinds, shades, curtains and curtain rods, mirrors, cabinets, paneling, rugs, attached floor coverings, furniture, pictures, antennas, trees and plants, tax refunds, trade names, licenses, permits, Borrower's rights to insurance proceeds, unearned insurance premiums and chooses in action; all of which, including replacements and additions thereto and substitutions therefor, shall be deemed to be and remain a part of the real property covered by this Instrument; and all of the foregoing, together with said property are herein referred to as the "Property";

TOGETHER with all right, title and interest in, to and under any and all leases now or hereinafter in existence (as amended or supplemented from time to time) and covering space in or applicable to the Property (hereinafter referred to collectively as the "Leases" and singularly as a "Lease"), together with all rents, earnings, income, profits, benefits and advantages arising from the Property and from said Leases and all other sums due or to become due under and pursuant thereto, and together with any and all guarantees of or under any of said Leases, and together with all rights, powers, privileges, options and other benefits of Borrower as lessor under the Leases, including, without limitation, the immediate and continuing right to receive and collect all rents, income, revenues, issues, profits, condemnation awards, insurance proceeds,

moneys and security payable or receivable under the Leases or pursuant to any of the provisions thereof, whether as rent or otherwise, the right to accept or reject any offer made by any tenant pursuant to its Lease to purchase the Property and any other property subject to the Lease as therein provided and to perform all other necessary or appropriate acts with respect to such Leases as agent and attorney-in-fact for Borrower, and the right to make all waivers and agreements, to give and receive all notices, consents and releases, to take such action upon the happening of a default under any Lease, including the commencement, conduct and consummation of proceedings at law or in equity as shall be permitted under any provision of any Lease or by any law, and to do any and all other things whatsoever which the Borrower is or may become entitled to do under any such Lease together with all accounts receivable, contract rights, franchises, interests, estates or other claims, both at law and in equity, relating to the Property, to the extent not included in rent earnings and income under any of the Leases;

TOGETHER with all right, title and interest in, to and under any and all reserve, deposit or escrow accounts (the "Accounts") made pursuant to any loan document made between Borrower and Lender with respect to the Property, together with all income, profits, benefits and advantages arising therefrom, and together with all rights, powers, privileges, options and other benefits of Borrower under the Accounts, and together with the right to do any and all other things whatsoever which the Borrower is or may become entitled to do under the Accounts;

TOGETHER with all agreements, contracts, certificates, guaranties, warranties, instruments, franchises, permits, licenses, plans, specifications and other documents, now or hereafter entered into, and all rights therein and thereto, pertaining to the use, occupancy, construction, management or operation of the Property and any part thereof and any improvements or respecting any business or activity conducted on the Property and any part thereof and all right, title and interest of Borrower therein, including the right to receive and collect any sums payable to Borrower thereunder and all deposits or other security or advance payments made by Borrower with respect to any of the services related to the Property or the operation thereof;

TOGETHER with all tradenames, trademarks, servicemarks, logos, copyrights, goodwill, books and records and all other general intangibles relating to or used in connection with the operation of the Property; and

TOGETHER with any and all proceeds resulting or arising from any of the foregoing (the Property, the Leases, the Accounts, and all other property, whether real, personal, tangible, or intangible, described above, and all proceeds thereof, may be referred to collectively as the "Collateral").

THIS INSTRUMENT SECURES TO LENDER (a) the repayment of the indebtedness evidenced by Borrower's note dated of even date herewith ("Note") in the principal sum of SIXTEEN MILLION AND NO/100 DOLLARS (\$16,000,000) (the "Principal"), with interest thereon, with the balance of the indebtedness, if not sooner paid, due and payable on June 1, 2013 (the "Maturity Date"), and all renewals, extensions and modifications thereof; (b) the performance of the covenants and agreements of Borrower contained in an Environmental Indemnity Agreement (herein so-called) between Lender and Borrower dated of even date herewith; (c) the payment of all other sums, with interest thereon, advanced by

Lender in accordance herewith to protect the security of this Instrument; and (d) the performance of the covenants and agreements of Borrower herein contained, or contained in any other Loan Document, INCLUDING BORROWER'S COVENANT TO REPAY ALL FUTURE ADVANCES (the Note, this Instrument, and all other documents or instruments given by Borrower or others and accepted by Lender for purposes of evidencing, securing, perfecting, or guaranteeing the indebtedness evidenced by the Note may be referred to as the "Loan Documents"). Without limitation of the foregoing, the following documents and instruments of even date herewith are also Loan Documents: (i) Assignment of Leases and Rents from Borrower to Lender, (ii) Assignment of Agreements, Licenses, Permits and Contracts from Borrower to Lender, (iii) the Clearing Account Agreement (the "Clearing Account Agreement") among Borrower, Lender, Aberdeen Properties, Inc. ("Manager") and Wachovia Bank, National Association, (iv) the Deposit Account Agreement (the "Deposit Account Agreement") among Borrower, Lender, Manager and Deposit Bank, (v) the Guaranty of Recourse Obligations (the "Guaranty") made by Acadia Realty Limited Partnership, a Delaware limited partnership ("Guarantor"), (vi) the Certificate of Borrower and (vii) Environmental Indemnity Agreement made by Borrower for the benefit of Lender (the "Environmental Indemnity Agreement"), as each of the foregoing may be (and each of the foregoing defined terms shall refer to such documents as they may be) amended, restated, replaced, supplemented or otherwise modified from time to time.

Borrower covenants that Borrower is lawfully seized of the estate hereby conveyed and has the right to mortgage, grant, convey and assign the Property, that the Property is unencumbered, and that Borrower will warrant and defend generally the title to the Property against all claims and demands, subject to any easements and restrictions listed in a schedule of exceptions to coverage in any title insurance policy insuring Lender's interest in the Property.

Borrower represents, warrants, covenants and agrees in favor of Lender as follows:

SECTION 1. PAYMENT OF PRINCIPAL AND INTEREST. Borrower shall promptly pay when due the principal of and interest on the indebtedness evidenced by the Note, any prepayment and late charges provided in the Note and all other sums secured by this Instrument.

SECTION 2. INTENTIONALLY DELETED.

SECTION 3. APPLICATION OF PAYMENTS. Lender may apply any payments received from or on behalf of Borrower to any of the obligations of Borrower then due under the Loan Documents, in any order determined by Lender.

SECTION 4. CHARGES; LIENS. Borrower shall pay all rents, taxes, charges assessments and impositions attributable to the Property (collectively "Taxes") when due. Unless Lender is paying such Taxes in accordance with Section 25, Borrower shall promptly furnish to Lender all notices of amounts due under this Section, and in the event Borrower shall make payment directly, Borrower shall promptly furnish to Lender receipts evidencing such payments. Except only for the liens and security interests in favor of Lender under this Instrument and the other Loan Documents, which Borrower shall pay and discharge in accordance with the Loan Documents, Borrower shall promptly discharge any lien encumbering

all or any portion of or interest in the Property (unless such lien is bonded within 30 days after Borrower first receives notice of such lien), irrespective of the priority of the same. Borrower shall pay, when due, the claims of all persons supplying labor or materials to or in connection with the Property (unless such claims are the subject of a bona fide dispute in which Borrower is contesting the amount or validity thereof).

SECTION 5. HAZARD INSURANCE. Borrower shall at all times keep the improvements now existing or hereafter erected on the Property insured against all losses, hazards, casualties, liabilities and contingencies as Lender shall reasonably require and in such amounts and for such periods as Lender shall reasonably require. Borrower shall purchase and maintain policies of insurance with respect to the Property in such amounts and covering such risks as shall be satisfactory to Lender, including, but not limited to, the following:

(a) Property damage insurance covering loss or damage to the Property caused by fire, lightning, hail, windstorm, explosion, hurricane (to the extent available), vandalism, malicious mischief, and, if available and subject to subsection (i) below, coverage for damage or destruction caused by the acts of "Terrorists" (or such policies shall have no exclusion from coverage with respect thereto) and such other losses, hazards, casualties, liabilities and contingencies as are normally and usually covered by fire policies in effect where the Property is located endorsed to include all of the extended coverage perils and other broad form perils, including the standard "all risks" clauses. Such policy shall be in an amount not less than that necessary to comply with any coinsurance percentage stipulated in the policy, but not less than the greater of 100% of the full replacement cost of the improvements on the Property (without any deduction for depreciation) or the unpaid principal amount of the loan evidenced by the Note, and shall contain a replacement cost endorsement. The deductible under such policy, if any, shall not exceed the lesser of five percent (5%) of Net Operating Income or \$50,000. Further, if any of the improvements or the use of the Property shall at any time constitute legal nonconforming structures or uses under current zoning ordinances, such policy shall contain an "Ordinance or Law Coverage" or "Enforcement" endorsement providing coverage for demolition, increased cost of construction and inability to rebuild.

(b) Broad form boiler and machinery insurance in an amount equal to the lesser of 100% of the full replacement cost of the building (without any deduction for depreciation) in which the boiler or similar vessel is located, or \$2,000,000. In addition, Lender may require a rider to such policy to extend such coverage to electrical machinery and equipment, air conditioning, refrigeration, and mechanical objects.

(c) If the Property is in an area prone to geological phenomena, including, but not limited to, sinkholes, mine subsidence or earthquakes, insurance covering such risks in an amount equal to 100% of the full replacement cost of the improvements on the Property (without any deduction for depreciation), and with a maximum permissible deductible equal to the lesser of \$25,000 or 10% of the face value of the policy.

(d) Flood insurance if the Property is in an area now or hereafter designated by the Federal Emergency Management Agency as a Zone "A" & "V" Special Hazard Area, or such other Special Hazard Area if Lender so requires in its sole discretion. Such policy shall be in an amount equal to 100% of the full replacement cost of the improvements on the Property (without any deduction for depreciation), and shall have a maximum permissible deductible of \$3,000.

(e) Business interruption or rent loss insurance in an amount equal to the gross income or rentals from the Property for an indemnity period of eighteen months, such amount being adjusted annually.

(f) During any period of reconstruction, renovation or alteration of the Property in excess of 10% of the Note, a completed value, "All Risks" Builders Risk form or "Course of Construction" insurance policy in non-reporting form and in an amount satisfactory to Lender in Lender's sole discretion.

(g) Commercial General Liability insurance covering bodily injury and death in an amount not less than \$1,000,000 per occurrence and \$2,000,000 in the aggregate with no deductible. If Lender permits such liability coverage to be written on a blanket basis, then such policy shall provide that the aggregate limit of insurance applies separately to the Property.

(h) If required by applicable state laws, worker's compensation or employer's liability insurance in accordance with such laws.

(i) Notwithstanding anything in subsection (a) above to the contrary, Borrower shall be required to obtain and maintain coverage in its property insurance policy (or by a separate policy) against loss or damage by terrorist acts provided that such coverage is available. Borrower shall obtain such coverage from a carrier which otherwise satisfies the rating criteria specified in this Section 5 (a "Qualified Carrier") or in the event that such coverage is not available from a Qualified Carrier, Borrower shall obtain such coverage from the highest rated insurance company providing such coverage. If such coverage with respect to terrorist acts is available as aforesaid, Borrower shall obtain and maintain such coverage in an amount equal to 100% of the "Full Replacement Cost" of the Property.

(j) Such other insurance and endorsements, if any, as Lender may reasonably require from time to time, or which are required by the Loan Documents.

Each carrier providing any insurance, or portion thereof, required by this Section shall be issued by companies approved by Lender and licensed to do business in the State, with a claims paying ability rating of "AA" or better by S&P (and the equivalent by any other Rating Agency) and a rating of A:X or better in the current Best's Insurance Reports; provided, that, the liability insurance required under paragraph (g) of this Section shall be issued by companies approved by Lender and licensed to do business in the State, with a claims paying ability rating of "A+" or better by S&P (and the equivalent by any other Rating Agency) and a rating of A:X or better in the current Best's Insurance Reports. Borrower shall cause all insurance (except general public liability insurance) carried in accordance with this Section to be payable to Lender as a mortgagee and not as a coinsured, and, in the case of all policies of insurance carried by each lessee for the benefit of Borrower, if any, to cause all such policies to be payable to Lender as Lender's interest may appear. All premiums on insurance policies shall be paid, in the manner provided under Section 2 hereof, or in such other manner as Lender may designate in writing.

All insurance policies and renewals thereof (i) shall be in a form acceptable to Lender, (ii) shall provide for a term of not less than one year, (iii) shall provide by way of endorsement, rider or otherwise that such insurance policy shall not be canceled, endorsed, altered, or reissued to effect a change in coverage unless such insurer shall have first given Lender 30 days prior written notice thereof, (iv) shall include a standard mortgagee clause in favor of and in form acceptable to Lender, (v) shall provide for claims to be made on an occurrence basis, except that boiler and machinery coverage may be made on an accident basis, and (vi) shall contain an agreed value clause updated annually (if the amount of coverage under such policy is based upon the replacement cost of the Property). All property damage insurance policies (except for flood and earthquake policies) must automatically reinstate after each loss.

Any blanket insurance policy shall specifically allocate to the Property the amount of coverage from time to time required hereunder and shall otherwise provide the same protection as would a separate "stand-alone" policy insuring only the Property in compliance with the provisions of this Section 5.

Lender shall have the right to hold the policies, and Borrower shall promptly furnish to Lender all renewal notices and all receipts of paid premiums. Not less than five (5) days prior to the expiration date of any insurance policy required hereunder, a certificate of insurance evidencing the renewal of such policy, together with evidence satisfactory to Lender of payment in full of the annual premium therefor, shall be delivered by Borrower to Lender. Not more than forty-five (45) days after to the expiration date of any insurance policy required hereunder, Borrower shall deliver to Lender a renewal insurance policy in form satisfactory to Lender.

If the Property is damaged or destroyed, in whole or in part, by fire or other casualty (a "Casualty"), Borrower shall give immediate written notice thereof to Lender and to the insurance carrier. If a Casualty covered by any of the policies of insurance (an "Insured Casualty") occurs where the loss does not exceed \$1,000,000, provided no Event of Default has occurred and is continuing, Borrower may settle and adjust any claim without the prior consent of Lender; provided such adjustment is carried out in a competent and timely manner, and Borrower is hereby authorized to collect and receipt for the insurance proceeds. In the event of an Insured Casualty where the loss equals or exceeds \$1,000,000 (a "Significant Casualty"), Borrower may settle and adjust any claim with the prior consent of Lender (which consent shall not be unreasonably withheld or delayed) unless an Event of Default has occurred and is continuing in which case Lender may settle and adjust any claim without the consent of Borrower and agree with the insurer(s) on the amount to be paid on the loss, which settlement and adjustment shall be in Lender's sole and absolute discretion. The proceeds with respect to any Significant Casualty shall be due and payable solely to Lender and held by Lender in the Casualty/Condemnation Subaccount and disbursed in accordance herewith. If Borrower or any party other than Lender is a payee on any check representing insurance proceeds with respect to a Significant Casualty, Borrower shall immediately endorse, and cause all such third parties to endorse, such check payable to the order of Lender. Borrower hereby irrevocably appoints Lender as its attorney-in-fact, coupled with an interest, to endorse such check payable to the order of Lender. Borrower further authorizes Lender, at Lender's option, (a) to hold the balance of such proceeds with respect to any Significant Casualty to be used to reimburse Borrower for the cost of reconstruction or repair of the Property or (b) subject to the immediately following paragraph, to apply such proceeds to the payment of the sums secured by this Instrument whether or not then due, in any order. The

expenses incurred by Lender in the settlement, adjustment and collection of any insurance proceeds shall become part of the Debt and shall be reimbursed by Borrower to Lender upon demand.

Lender shall not exercise Lender's option to apply insurance proceeds to the payment of the sums secured by this Instrument if all of the following conditions are met: (i) no Event of Default has occurred which is then continuing; (ii) Lender determines that there will be sufficient funds to restore and repair the Property to the Pre-existing Condition (as hereinafter defined); (iii) Lender agrees in writing that the rental income of the Property, after restoration and repair of the Property to the Pre-existing Condition, will be sufficient to meet all operating costs and other expenses, payments for reserves and loan repayment obligations (including any obligations under any permitted subordinate financing) relating to the Property and maintain a Debt Service Coverage Ratio of at least 1.25 to 1.0; (iv) Lender determines that restoration and repair of the Property to the Pre-existing Condition will be completed within one year of the date of the loss or casualty to the Property, but in no event later than six months prior to the Maturity Date; (v) less than 30 percent of the total floor area of the improvements has been damaged, destroyed or rendered unusable as a result of such fire or other casualty; (vi) tenant leases for commercial or retail space at the Property in effect as of the date of the occurrence of such fire or other casualty remain in full force and effect during and after the completion of the restoration and repair of the Property, and Borrower furnishes to Lender evidence satisfactory to Lender that all commercial tenants at the Property shall continue to operate their respective businesses at the Property after completion of such restoration or repair, notwithstanding the occurrence of any such fire or other casualty; and (vii) Lender is reasonably satisfied that the Property can be restored and repaired as nearly as possible to the condition it was in immediately prior to such casualty and in compliance with all applicable zoning, building and other laws and codes (the "Pre-existing Condition"). If Lender elects to make the insurance proceeds available for the restoration and repair of the Property, Borrower agrees that, if at any time during the restoration and repair, the cost of completing such restoration and repair, as determined by Lender, exceeds the undisbursed insurance proceeds, Borrower shall, immediately upon demand by Lender, deposit the amount of such excess with Lender, and Lender shall first disburse such deposit to pay for the costs of such restoration and repair on the same terms and conditions as the insurance proceeds are disbursed.

If the insurance proceeds are held by Lender to reimburse Borrower for the cost of restoration and repair of the Property, then Borrower shall restore the Property to the equivalent of its original condition or such other condition as Lender may approve in writing, and Borrower shall promptly begin such restoration and at all times thereafter diligently prosecute such restoration to completion. Lender may, at Lender's option, condition disbursement of said proceeds on Lender's approval of such plans and specifications of an architect satisfactory to Lender, contractor's cost estimates, architect's certificates, waivers of liens, sworn statements of mechanics and materialmen and such other evidence of costs, percentage completion of construction, application of payments; and satisfaction of liens as Lender may reasonably require. If the insurance proceeds are applied to the payment of the sums secured by this Instrument, any such application of proceeds to principal shall not extend or postpone the due dates of the monthly installments due under the Note, under Section 2 hereof, or otherwise under the Loan Documents, or change the amounts of such installments. If the Property is sold at foreclosure or pursuant to power of sale or if Lender acquires title to the Property, Lender shall have all of the right, title and interest of Borrower in and to any insurance policies and unearned premiums thereon and in and to the proceeds resulting from any damage to the Property prior to such sale or acquisition.

SECTION 6. PRESERVATION AND MAINTENANCE OF PROPERTY. Borrower (a) shall not commit waste or permit impairment or deterioration of the Property, (b) shall not abandon the Property, (c) shall restore or repair promptly and in a good and workmanlike manner all or any part of the Property to the equivalent of its original condition, or such other condition as Lender may approve in writing, in the event of any damage, injury or loss thereto, whether or not insurance proceeds are available to cover in whole or in part the costs of such restoration or repair, (d) shall keep the Property, including improvements, fixtures, equipment, machinery and appliances thereon in good repair and shall replace fixtures, equipment, machinery and appliances on the Property when necessary to keep such items in good repair, (e) shall comply with all laws, ordinances, regulations and requirements of any governmental body applicable to the Property, (f) shall provide for management of the Property by Acadia Realty Limited Partnership or Aberdeen Properties, Inc., or otherwise provide for professional third-party management of the Property by a commercial property manager with substantial experience in managing properties of the applicable kind, and otherwise satisfactory to Lender, pursuant to a contract approved by Lender in writing, unless such requirement shall be waived by Lender in writing, (g) shall generally operate and maintain the Property in a manner to ensure maximum rentals, and (h) shall give notice in writing to Lender of and, unless otherwise directed in writing by Lender, appear in and defend any action or proceeding purporting to affect the Property, the security of this Instrument or the rights or powers of Lender. Neither Borrower nor any tenant or other person shall remove, demolish or alter any improvement now existing or hereafter erected on the Property or any fixture, equipment, machinery or appliance in or on the Property except when incident to the replacement of fixtures, equipment, machinery and appliances with items of like kind.

SECTION 7. USE OF PROPERTY. Unless required by applicable law or unless Lender has otherwise agreed in writing, Borrower shall not allow changes in the use for which all or any part of the Property was intended at the time this Instrument was executed. Borrower shall not subdivide the Property or initiate or acquiesce in a change in the zoning classification of the Property without Lender's prior written consent.

SECTION 8. PROTECTION OF LENDER'S SECURITY. If Borrower fails to perform the covenants and agreements contained in this Instrument, or if any action or proceeding is commenced which affects the Property or title thereto or the interest of Lender therein, including, but not limited to, eminent domain, insolvency, code enforcement, or arrangements or proceedings involving a bankrupt or decedent, Lender, at Lender's option, may make such appearances, disburse such sums and take such action as Lender deems necessary, in its sole discretion, to protect Lender's interest, including, but not limited to, (i) disbursement of attorney's fees, (ii) entry upon the Property to make repairs, (iii) procurement of satisfactory insurance as provided herein, (iv) the payment of any Taxes then due and payable, and (v) payment of any other amounts contemplated in any of the Loan Documents. Any amounts disbursed by Lender pursuant to this Section, with interest thereon, shall become additional indebtedness of Borrower secured by this Instrument. Unless Borrower and Lender agree to other terms of payment, such amounts shall be immediately due and payable upon demand and shall bear interest from the date of disbursement at the rate then applicable to principal under the Note unless collection from Borrower

of interest at such rate would be contrary to applicable law, in which event such amounts shall bear interest at the highest rate which may be collected from Borrower under applicable law. Nothing contained in this Section or elsewhere in any of the Loan Documents shall require Lender to incur any expense or take any action hereunder.

SECTION 9. INSPECTION. Lender may make or cause to be made reasonable entries upon and inspections of the Property including, but not limited to, Phase I and/or Phase II environmental audits and inspections.

SECTION 10. BOOKS AND RECORDS. Borrower shall keep and maintain at all times at Borrower's address stated herein, or such other place as Lender may approve in writing, complete and accurate books of accounts and records adequate to reflect correctly the results of the operation of the Property and copies of all written contracts, leases and other instruments which affect the Property. Such books, records, contracts, leases and other instruments shall be subject to examination and inspection at any reasonable time by Lender.

Borrower shall furnish to Lender annually, within 120 days after each calendar year, a complete copy of Borrower's annual financial statements prepared as a compilation (with a review) by a "big four" accounting firm or another independent certified public accountant (accompanied by an unqualified opinion from such accounting firm or other independent certified public accountant) reasonably acceptable to Lender, each in accordance with GAAP or a federal income tax basis of accounting, in either case, consistently applied, and containing balance sheets and statements of profit and loss for Borrower and the Property in such detail as Lender may reasonably request. Notwithstanding the foregoing, Lender hereby approves of Berdon LLP as the aforementioned independent certified public accountant, provided, however, that Lender reserves the right to disapprove of Berdon LLP as the aforementioned independent certified public accountant (and to require a "big four" accounting firm or another independent certified public accountant reasonably acceptable to Lender) if in Lender's reasonable opinion, Berdon LLP is not preparing the requisite financial statements substantially in accordance with the provisions contained herein. Each such statement (x) shall be in form and substance satisfactory to Lender, (y) shall set forth the financial condition and the income and expenses for the Property for the immediately preceding calendar year, including statements of annual Net Operating Income as well as (1) a list of commercial tenants, if any, occupying more than twenty percent of the rentable space of the Property, (2) a breakdown showing (a) the year in which each commercial Lease then in effect expires, and (b) the percentage of rentable space covered by such commercial Lease as stated in such Lease, and (z) shall be accompanied by an Officer's Certificate (as defined in Section 25 hereof) certifying (1) that such statement is true, correct, complete and accurate and presents fairly the financial condition of the Property and has been prepared in accordance with GAAP or a federal income tax basis of accounting, in either case, consistently applied, and (2) whether there exists an Event of Default, and if so, the nature thereof, the period of time it has existed and the action then being taken to remedy it.

On or before the 30th day after the end of each three-month fiscal quarter of Borrower (which may include months for which reports shall have been submitted under the prior sentence), Borrower shall deliver to Lender management prepared financial statements for such quarter. Each set of such financial statements (i) shall consist of an operating statement of income and expenses of the Property, (ii) shall be in form and detail reasonably satisfactory to Lender

and (iii) shall be accompanied by an Officer's Certificate certifying that the applicable statements are true, complete, and accurate and do not omit to state any material information. All of such financial statements shall provide information for the applicable month or quarter and on a year-to-date basis (and at the end of the fourth quarter, for the year).

Borrower shall furnish, together with the foregoing financial statements and at any other time upon Lender's request, a rent schedule for the Property, certified by Borrower, showing the name of each tenant, and for each tenant, the space occupied, the lease expiration date, the rent payable and the rent paid.

In addition to the above delivery of financial statements and rent schedule, Borrower shall deliver to Lender updated versions of such financial statements at any other time upon Lender's request, including operating statements of income and expenses of the Property. Borrower shall also furnish to Lender, during any Cash Management Period, the Annual Budget in accordance with Section 28(h) of this Instrument. Further, Borrower shall provide to Lender, as soon as the same are available to Borrower, all financial statements and sales reports received from any tenant at the Property.

SECTION 11. CONDEMNATION. Borrower shall promptly give Lender notice of the actual or threatened commencement of any condemnation or eminent domain proceeding affecting the Property (a "Condemnation") and shall deliver to Lender copies of any and all papers served in connection with such Condemnation. Following the occurrence of a Condemnation, Borrower, regardless of whether an Award is available, shall promptly proceed to restore, repair, replace or rebuild the Property in accordance with Legal Requirements to the extent practicable to be of at least equal value and of substantially the same character (and to have the same utility) as prior to such Condemnation. If a Condemnation occurs where the award or payment in respect thereof (an "Award") does not exceed \$250,000 or which results in the taking of 5% or less of the Property, provided no Event of Default has occurred and is continuing, Borrower may make any compromise, adjustment or settlement in connection with such Condemnation with the prior consent of Lender, not to be unreasonably withheld or delayed; provided such adjustment is carried out in a competent and timely manner, and Borrower is hereby authorized to collect and receipt for the Award. In the event of a Condemnation where the Award is in excess of \$250,000 or which results in the taking of more than 5% of the Property, Lender is hereby irrevocably appointed as Borrower's attorney-in-fact, coupled with an interest, with exclusive power to collect, receive and retain any Award and, so long as no Event of Default is continuing, with Borrower's consent (which consent shall not be unreasonably withheld or delayed) to make any compromise, adjustment or settlement in connection with such Condemnation. Borrower shall cause any Award that is payable to Borrower to be paid directly to Lender. Lender shall hold such Award in the Casualty/Condemnation Subaccount and disburse such Award in accordance with the terms hereof.

Borrower authorizes Lender to apply such Award, after the deduction of Lender's expenses incurred in the collection of such amounts, at Lender's option, to restoration or repair of the Property or to payment of the sums secured by this Instrument, whether or not then due, in the order determined by Lender, with the balance, if any, to Borrower. Unless Borrower and Lender otherwise agree in writing, any application of proceeds to principal shall not

extend or postpone the due date of the monthly installments due hereunder or under any of the Loan Documents or change the amount of such installments. Borrower agrees to execute such further evidence of assignment of any awards, proceeds, damages or claims arising in connection with such condemnation or taking as Lender may require.

SECTION 12. BORROWER AND LIEN NOT RELEASED. From time to time, Lender may, at Lender's option, without giving notice to or obtaining the consent of Borrower, Borrower's successors or assigns or of any junior lienholder or guarantors, without liability on Lender's part and notwithstanding Borrower's breach of any covenant or agreement of Borrower in this Instrument, extend the time for payment of said indebtedness or any part thereof, reduce the payments thereon, release anyone liable on any of said indebtedness, accept a renewal note or notes therefor, modify the terms and time of payment of said indebtedness, release from the lien of this Instrument any part of the Property, take or release other or additional security, reconvey any part of the Property, consent to any map or plan of the Property, consent to the granting of any easement, join in any extension or subordination agreement, and agree in writing with Borrower to modify the rate of interest or period of amortization of the Note or change the amount of the monthly installments payable thereunder. Any actions taken by Lender pursuant to the terms of this Section shall not affect the obligation of Borrower or Borrower's successors or assigns to pay the sums secured by this Instrument and to observe the covenants of Borrower contained herein, shall not affect the guaranty of any person, corporation, partnership or other entity for payment of the indebtedness secured hereby, and shall not affect the lien or priority of lien hereof on the Property. Borrower shall pay Lender a reasonable service charge, together with such title insurance premiums and attorney's fees as may be incurred at Lender's option, for any such action if taken at Borrower's request.

SECTION 13. UNIFORM COMMERCIAL CODE SECURITY AGREEMENT. This Instrument is intended to be a security agreement pursuant to the Uniform Commercial Code for any of the items specified above as part of the Collateral which, under applicable law, may be subject to a security interest pursuant to the Uniform Commercial Code, and Borrower hereby grants Lender a security interest in said items. Borrower agrees that Lender may file this Instrument, or a reproduction thereof, in the real estate records or other appropriate index, as a financing statement for any of the items specified above as part of the Collateral. Any reproduction of this Instrument or of any other security agreement or financing statement shall be sufficient as a financing statement. In addition, Borrower agrees to execute and deliver to Lender, upon Lender's request, any financing statements, as well as extensions, renewals and amendments thereof, and reproductions of this Instrument in such form as Lender may require to perfect a security interest with respect to said items. Borrower shall pay all costs of filing such financing statements and any extensions, renewals, amendments and releases thereof, and shall pay all reasonable costs and expenses of any record searches for financing statements Lender may reasonably require. Without the prior written consent of Lender, Borrower shall not create or suffer to be created pursuant to the Uniform Commercial Code any other security interest in said items, including replacements and additions thereto. Upon Borrower's breach of any covenant or agreement of Borrower contained in this Instrument, including the covenants to pay when due all sums secured by this Instrument, Lender shall have the remedies of a secured party under the Uniform Commercial Code and, at Lender's option, may also invoke the remedies provided herein or in any of the Loan Documents, or pursuant to any applicable law as to such items. In exercising any of said remedies, Lender may proceed against the items of real

property and any items of personal property specified above as part of the Collateral separately or together and in any order whatsoever, without in any way affecting the availability of Lender's remedies under the Uniform Commercial Code or of the remedies provided herein or in any of the Loan Documents. For purposes of the Security Agreement and the fixture filing, the Borrower shall constitute the "Debtor" and shall have the address specified in the first paragraph of this Instrument and the Lender shall constitute the "Security Party" and shall have the address specified in the first paragraph of this Instrument.

SECTION 14. LEASES OF THE PROPERTY. Borrower shall comply with and observe Borrower's obligations as landlord under all leases of the Property or any part thereof. Borrower will not lease any portion of the Property for any use contrary to the existing character of the Property except with the prior written approval of Lender. Borrower may execute or modify, without Lender's prior written consent, any lease of space at the Property now existing or hereafter made which affects (A) residential space at the Property or (B) less than 4,000 square feet of space at the Property and provided the term of such lease is less than five years (an "Exempt Lease") provided such lease:

(i) is on a standard lease form pre-approved by Lender;

(ii) is at a net effective rent (after taking into account any free rent, construction allowances or other concessions granted by landlord) no less than the current actual rent or fair market rent then prevailing for similar properties and leases in the market area;

(iii) contains rent or other concessions which are legally required or are otherwise customary and reasonable for similar properties and leases in the market area;

(iv) represents a bona fide arm's length transaction;

(v) does not permit any use which would violate any provision of any existing lease or is otherwise inconsistent with the uses and quality of existing tenants;

(vi) is provided to Lender within ten days after execution;

(vii) as modified or amended does not become a lease which fails to satisfy the criteria for an Exempt Lease pursuant to this Section;

(viii) as modified or amended does not materially modify the financial terms of Borrower's standard form of lease or materially reduce the rights and remedies of the Borrower or Lender under said standard lease;

(ix) is subordinate by its terms to this Instrument provided that for commercial and retail tenants at the Property, Lender shall have agreed to provide such tenant with a non-disturbance agreement in form and substance reasonably acceptable to Lender; provides that the tenant thereunder is required to attorn to Lender, such attornment to be effective upon Lender's acquisition of title to the Property; that the tenant agrees to execute such further evidences of attornment as Lender may from time to time request; that the attornment of the tenant shall not be terminated by foreclosure; that in no event shall Lender, as holder of this Instrument or as successor landlord, be liable to the tenant for any act or omission of any prior landlord or for any

liability or obligation of any prior landlord occurring prior to the date that Lender or any subsequent owner acquire title to the Property; and that Lender may, at Lender's option, accept or reject such attornment.

Borrower shall be required to obtain Lender's consent, which shall not be unreasonably withheld, for the creation of any lease and subleases at the Property other than an Exempt Lease. The request for approval of each such proposed lease shall be made to Lender in writing and Borrower shall furnish to Lender (and any loan servicer specified from time to time by Lender): (i) such biographical and financial information about the proposed tenant as Lender may reasonably require in conjunction with its review, (ii) a copy of the proposed form of lease, and (iii) a summary of the material terms of such proposed lease (including, without limitation, rental terms and the term of the proposed lease and any options). Lender's failure to approve or disapprove any such lease or sublease within ten (10) Business Days after Lender's receipt of such request shall be deemed to constitute Lender's approval thereof.

As to all leases other than Exempt Leases, Borrower shall not, without the prior written consent of Lender (which shall not be unreasonably withheld), (i) cancel, amend or modify any such lease, (ii) approve any assignment, sublease or underlease of any such lease, or (iii) cancel or modify any guaranty, or release any security deposit or letter of credit constituting security pertaining to any such lease. Lender's failure to approve or disapprove any of the matters described in the preceding sentence within ten (10) Business Days after Lender's receipt of such request shall be deemed to constitute Lender's approval thereof.

Borrower shall promptly send Lender copies of any notices of default received from the tenant under any lease; and will enforce (short of terminating such lease) the performance by the tenant of the tenant's obligations under any lease.

Except for security deposits, no lease, whether an Exempt Lease or otherwise, shall provide for payment of rent more than one month in advance, and Borrower shall not under any circumstances collect any such rent more than one month in advance.

Borrower, at Lender's request, shall furnish Lender with executed copies of all leases hereafter made of all or any part of the Property, and all leases hereafter entered into (other than Exempt Leases) will be in form and substance subject to the approval of Lender. All leases of the Property or a separate agreement in recordable form and substance satisfactory to Lender shall specifically provide that such leases are subordinate to this Instrument; that the tenant attorns to Lender, such attornment to be effective upon Lender's acquisition of title to the Property; that the tenant agrees to execute such further evidences of attornment as Lender may from time to time request; that the attornment of the tenant shall not be terminated by foreclosure; that in no event shall Lender, as holder of this Instrument or as successor landlord, be liable to the tenant for any act or omission of any prior landlord or for any liability or obligation of any prior landlord occurring prior to the date that Lender or any subsequent owner acquire title to the Property; and that Lender may, at Lender's option, accept or reject such attornment. Notwithstanding the foregoing, Lender agrees to enter into a non-disturbance agreement with any tenant of commercial or retail space at the Property, which agreement shall be in form and substance and on terms and conditions reasonably acceptable to Lender. Except as otherwise provided in this Section, Borrower shall not, without Lender's written consent, (1) execute, modify, surrender or terminate,

either orally or in writing, any lease of commercial or retail space at the Property now existing or hereafter made of all or any part of the Property, (2) surrender or terminate, either orally or in writing, any lease of residential space at the Property (except in the exercise of Borrower's commercially reasonable judgment in connection with a tenant default under such lease of residential space), (3) permit an assignment or sublease of a lease, or (4) request or consent to the subordination of any lease of all or any part of the Property to any lien subordinate to this Instrument. If Borrower becomes aware that any tenant proposes to do, or is doing, any act or thing which may give rise to any right of set-off against rent, Borrower shall (i) take such steps as shall be reasonably calculated to prevent the accrual of any right to a set-off against rent, (ii) notify Lender thereof and of the amount of said set-offs, and (iii) within ten days after such accrual, reimburse the tenant who shall have acquired such right to set-off or take such other steps as shall effectively discharge such set-off and as shall assure that rents thereafter due shall continue to be payable without set-off or deduction.

Upon Lender's request, Borrower shall absolutely assign to Lender, by written instrument satisfactory to Lender, all leases now existing or hereafter made of all or any part of the Property and all security deposits made by tenants in connection with such leases of the Property. Upon assignment by Borrower to Lender of any leases of the Property, Lender shall have all of the rights and powers possessed by Borrower prior to such assignment and Lender shall have the right to modify, extend or terminate such existing leases and to execute new leases, in Lender's sole discretion.

SECTION 15. TRANSFERS OF THE PROPERTY OR BENEFICIAL INTERESTS IN BORROWER.

(a) As used in this Section 15 and elsewhere in this Instrument, the following capitalized terms shall have the respective meanings set forth below:

(i) "Approved Control Party": James Cummings; provided, however, at the time in question (i) such Approved Control Party shall (1) be solvent, (2) have never been convicted of a felony, (3) have never been the subject of a voluntary or involuntary (to the extent the same has not been discharged) bankruptcy proceeding, (4) have no outstanding judgments against him, and (ii) Lender shall have received a credit check and background investigation against such Approved Control Party reasonably acceptable to Lender.

(ii) "Control": with respect to any Person, either (i) ownership directly or indirectly of 49% or more of all equity interests in such Person or (ii) the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, through the ownership of voting securities, by contract or otherwise.

(iii) "Key Principals": Acadia Realty Limited Partnership, a Delaware limited partnership, and Acadia Realty Trust, a Maryland real estate investment trust.

(iv) "Permitted Encumbrances": (i) the liens created by the Loan Documents, (ii) all liens and other matters disclosed in Lender's title insurance policy, (iii) liens, if any, for Taxes not yet due and payable and not delinquent and (iv) any workers', mechanics' or other similar liens on the Property provided that any such Lien is bonded or discharged within 30 days

after Borrower first receives notice of such lien and (v) such other title and survey exceptions as Lender approves in writing in Lender's discretion.

(v) "Permitted Transfers": (i) a Lease entered into in accordance with the Loan Documents, (ii) a Permitted Encumbrance, (iii) a Transfer and Assumption, (iv) provided that no Event of Default shall then exist, (1) a Transfer of an interest in Borrower other than the general partnership interest held by the Managing Entity (as defined in Section 29 hereof), or (2) a Transfer of an interest in the Managing Entity to any Person, in either case, provided that (A) such Transfer shall not (x) cause the transferee (other than any Key Principal, Approved Control Party or any Person Controlled by Approved Control Party), together with its Affiliates, to acquire Control of Borrower or the Managing Entity or to increase its direct or indirect interest in Borrower or in the Managing Entity to an amount which equals or exceeds 49% or (y) result in Borrower or the Managing Entity no longer being Controlled by any Key Principal, Approved Control Party or any Person Controlled by Approved Control Party, (B) after giving effect to such Transfer, Key Principals (in the aggregate), Approved Control Party or any Person Controlled by Approved Control Party shall continue to own at least 51% of all equity interests (direct or indirect) in Borrower, (C) Borrower shall give Lender notice of such Transfer together with copies of all instruments effecting such Transfer not less than 10 days prior to the date of such Transfer, (D) the legal and financial structure of Borrower and its members and the single purpose nature and bankruptcy remoteness of Borrower and its members after such Transfer, shall satisfy Lender's then current applicable underwriting criteria and requirements and (E) in the event that the transferee is Approved Control Party or any Person Controlled by Approved Control Party, Approved Control Party, as replacement guarantor, shall execute and deliver to Lender a replacement guaranty of recourse obligations in favor of Lender on the same form as the Guaranty, provided that such replacement guaranty shall require Approved Control Party to maintain a minimum Net Worth (as such term is defined in the Guaranty) in excess of \$5,000,000 until all of the Guaranteed Obligations (as such term is defined in the Guaranty) have been paid in full, after the execution and delivery of which replacement guaranty, the then current Guarantor shall be released from all liabilities and obligations under the Guaranty, (v) provided that no Event of Default shall then exist, a Transfer of a direct or indirect interest in Borrower or Managing Entity that occurs by devise or bequest or by operation of law upon the death of a natural person that was the holder of such interest to a member of the immediate family of such interest holder or a trust established for the benefit of such immediate family member, provided that (A) no such Transfer shall result in a change of the day to day operations of the Property, (B) Borrower shall give Lender notice of such Transfer together with copies of all instruments effecting such Transfer not less than 20 days after the date of such Transfer, (C) the legal and financial structure of Borrower and Managing Entity, and the single purpose nature and bankruptcy remoteness of Borrower and Managing Entity after such Transfer, shall satisfy Lender's then current applicable underwriting criteria and requirements, (D) if any such Transfer would result in a change of Control of Borrower or Managing Entity and occurs prior to the occurrence of a Secondary Market Transaction, such Transfer is approved by Lender in writing within 30 Business Days after any such Transfer, and (E) if any such Transfer would result in a change of Control of Borrower or Managing Entity and occurs after the occurrence of a Secondary Market Transaction, Borrower, at Borrower's sole cost and expense, shall, within 30 Business Days after any such Transfer, (a) deliver (or cause to be delivered) if required by Lender or any Rating Agency (x) a Rating Comfort Letter to Lender, and (y) a substantive non-consolidation opinion to Lender and the Rating Agencies with respect to Borrower and such transferee in

form and substance satisfactory to Lender and the Rating Agencies, (b) obtain the prior written consent of Lender which shall not be unreasonably withheld and (c) reimburse Lender for all reasonable expenses incurred by Lender in connection with such Transfer, or (vi) provided that no Event of Default shall then exist, a Transfer of a direct or indirect interest in Borrower or Managing Entity to any Person (other than any Key Principal, Approved Control Party or any Person Controlled by Approved Control Party) (the "New Sponsor"), pursuant to which, after giving effect to such Transfer, the New Sponsor, together with its Affiliates, acquires Control of Borrower or the Managing Entity or holds a direct or indirect interest in Borrower or in Managing Entity in an amount equaling or exceeding 49% provided that (A) Lender consents to such Transfer, which consent shall not be unreasonably withheld, (B) Borrower delivers to Lender evidence reasonably satisfactory to Lender showing that, after giving effect to such Transfer, Borrower and Managing Entity remain in full compliance with Section 29 hereof, as the provisions thereof may be modified by Lender taking into account the ownership structure of New Sponsor and its Affiliates, (C) if the Loan (as defined in Section 32(e) hereof), by itself or together with other loans, has been the subject of a Secondary Market Transaction, then Lender shall have received a Rating Comfort Letter from the applicable Rating Agencies, (D) if the Loan has not been the subject of a Secondary Market Transaction, then Lender shall have determined in its reasonable discretion (taking into consideration such factors as Lender may determine, including the attributes of the loan pool in which the Loan might reasonably be expected to be securitized) that no rating for any securities that would be issued in connection with such securitization will be diminished, qualified, or withheld by reason of such Transfer to New Sponsor, (E) the identity, experience, and financial condition of the New Sponsor shall be satisfactory to Lender in its reasonable discretion, (F) a replacement guarantor(s) (the identity, experience and financial condition of which shall be satisfactory to Lender in its reasonable discretion) shall execute and deliver to Lender any and all documents reasonably required by Lender, in form and substance reasonably required by Lender, in Lender's sole discretion, after which Guarantor shall be released from all liabilities and obligations under the Guaranty, and (G) counsel to New Sponsor and replacement guarantor(s) shall deliver to Lender opinions in form and substance satisfactory to Lender as to such matters as Lender shall reasonably require, which may include opinions as to substantially the same matters as were required in connection with the origination of the Loan.

(vi) "Person": any individual, corporation, partnership, limited liability company, joint venture, estate, trust, unincorporated association, any other person or entity, and any federal, state, county or municipal government or any bureau, department or agency thereof and any fiduciary acting in such capacity on behalf of any of the foregoing.

(vii) "Rating Agency": each of Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), Moody's Investors Service, Inc. ("Moody's"), and Fitch IBCA Duff & Phelps ("Fitch") or any other nationally-recognized statistical rating organization to the extent any of the foregoing have been engaged by Lender or its designee in connection with or in anticipation of any Secondary Market Transaction.

(viii) "Rating Comfort Letter": a letter issued by each of the applicable Rating Agencies which confirms that the taking of the action referenced to therein will not result in any qualification, withdrawal or downgrading of any existing ratings of Securities created in a Secondary Market Transaction.

(ix) "Secondary Market Transaction": any of (i) the sale, assignment, or other transfer of all or any portion of the loan evidenced by the Note and this Instrument or the Loan Documents or any interest therein to one or more investors, (ii) the sale, assignment, or other transfer of one or more participation interests in the loan evidenced by the Note and this Instrument or Loan Documents to one or more investors, or (iii) the transfer or deposit of all or any portion of the loan evidenced by the Note and this Instrument or Loan Documents to or with one or more trusts or other entities which may sell certificates or other instruments to investors evidencing an ownership interest in the assets of such trust or the right to receive income or proceeds therefrom.

(x) "Transfer": any sale, conveyance, transfer, lease or assignment, or the entry into any agreement to sell, convey, transfer, lease or assign, whether by law or otherwise, of, on, in or affecting (i) all or part of the Property (including any legal or beneficial direct or indirect interest therein), (ii) any direct or indirect interest in Borrower (including any profit interest), or (iii) any direct or indirect interest in the Managing Entity.

(xi) "Transfer and Assumption": is defined in paragraph (c) of this Section 15.

(b) Borrower shall not directly or indirectly make, suffer or permit the occurrence of any Transfer other than a Permitted Transfer.

(c) Notwithstanding the foregoing, Borrower shall have a one-time right to Transfer the Property to another party (the "Transferee Borrower") and have the Transferee Borrower assume all of Borrower's obligations under the Loan Documents, and have replacement guarantors and indemnitors assume all of the obligations of the indemnitors and guarantors of the Loan Documents (collectively, a "Transfer and Assumption"). Borrower may make a written application to Lender for Lender's consent to the Transfer and Assumption, subject to the conditions set forth in subparagraphs (i) and (ii) of this paragraph (c). Together with such written application, Borrower will pay to Lender the reasonable review fee then required by Lender. Borrower also shall pay on demand all of the reasonable costs and expenses incurred by Lender, including reasonable attorneys' fees and expenses, and including the fees and expenses of Rating Agencies and other outside entities, in connection with considering any proposed Transfer and Assumption, whether or not the same is permitted or occurs.

(i) Lender's consent, which may be withheld in Lender's reasonable discretion, to a Transfer and Assumption shall be subject to the following conditions:

(1) No Event of Default has occurred and is continuing;

(2) Borrower has submitted to Lender true, correct and complete copies of any and all information and documents of any kind reasonably requested by Lender concerning the Property, Transferee Borrower, replacement guarantors and indemnitors and Borrower;

(3) Evidence reasonably satisfactory to Lender has been provided showing that the Transferee Borrower and such of its Affiliates as shall be designated by Lender comply and will comply with Section 29 hereof, as those provisions may be modified by Lender taking into account the ownership structure of Transferee Borrower and its Affiliates;

(4) If the Loan (as defined in Section 32(e) hereof), by itself or together with other loans, has been the subject of a Secondary Market Transaction, then Lender shall have received a Rating Comfort Letter from the applicable Rating Agencies;

(5) If the Loan has not been the subject of a Secondary Market Transaction, then Lender shall have determined in its reasonable discretion (taking into consideration such factors as Lender may determine, including the attributes of the loan pool in which the Loan might reasonably be expected to be securitized) that no rating for any securities that would be issued in connection with such securitization will be diminished, qualified, or withheld by reason of the Transfer and Assumption;

(6) Borrower shall have paid all of Lender's reasonable costs and expenses in connection with considering the Transfer and Assumption, and shall have paid the amount reasonably requested by Lender as a deposit against Lender's costs and expenses in connection with effecting the Transfer and Assumption;

(7) Borrower, the Transferee Borrower, and the replacement guarantors and indemnitors shall have indicated in writing in form and substance reasonably satisfactory to Lender their readiness and ability to satisfy the conditions set forth in subsection (ii) below; and

(8) The identity, experience, and financial condition of the Transferee Borrower and the replacement guarantors and indemnitors shall be satisfactory to Lender in its reasonable discretion.

(ii) If Lender consents to the Transfer and Assumption, the Transferee Borrower and/or Borrower as the case may be, shall immediately deliver the following to Lender:

(1) Borrower shall deliver to Lender an assumption fee in the amount of 1.00% of the then unpaid Principal;

(2) Borrower, Transferee Borrower and the original and replacement guarantors and indemnitors shall execute and deliver to Lender any and all documents reasonably required by Lender, in form and substance reasonably required by Lender, in Lender's sole discretion;

(3) Counsel to the Transferee Borrower and replacement guarantors and indemnitors shall deliver to Lender opinions in form and substance satisfactory to Lender as to such matters as Lender shall reasonably require, which may include opinions as to substantially the same matters as were required in connection with the origination of the Loan;

(4) Borrower shall cause to be delivered to Lender, an endorsement (relating to the change in the identity of the vestee and execution and delivery of the Transfer and Assumption documents) to Lender's title insurance policy in form and substance acceptable to Lender, in Lender's reasonable discretion (the "Endorsement"); and

(5) Borrower shall deliver to Lender a payment in the amount of all remaining unpaid costs incurred by Lender in connection with the Transfer and Assumption, including but not limited to, Lender's reasonable attorneys fees and expenses, all recording fees, and all fees payable to the title company for the delivery to Lender of the Endorsement.

SECTION 16. FURTHER ENCUMBRANCES. Except only for the liens and security interests in favor of Lender under this Instrument and the other Loan Documents, without Lender's prior written consent, which Lender may withhold in its sole discretion, Borrower shall not execute, cause, allow or suffer any mortgage, deed of trust, deed to secure debt, assignment of leases or rents, statutory lien, mechanic's lien or other similar involuntary lien (with respect to any such statutory lien, mechanic's lien or other similar involuntary lien, unless such lien is bonded or discharged within 30 days after Borrower first receives notice of such lien), irrespective of its priority, to encumber all or any portion of the Property or the leases, rents or profits thereof, or any interest in any of the foregoing.

SECTION 17. GENERAL INDEMNITY. In addition to any other indemnification obligation set forth elsewhere in the Loan Documents, Borrower shall, at its sole cost and expense, protect, defend, indemnify, release and hold harmless the Lender and its shareholders, directors, officers, agents, employees, contractors, attorneys, servicers, and successors and assigns (the "Indemnified Parties") from and against any and all claims, suits, liabilities (including, without limitation, strict liabilities), actions, proceedings, obligations, debts, damages, losses, costs, expenses, diminutions in value, fines, penalties, charges, fees, expenses, judgments, awards, amounts paid in settlement, or punitive damages, of whatever kind or nature (including, but not limited to attorneys' fees and other costs of defense) (the "Losses") imposed upon or incurred by or asserted against any Indemnified Parties and directly or indirectly arising out of or in any way relating to any one or more of the following (but excluding Losses arising out of Lender's gross negligence or willful misconduct): (a) ownership of this Instrument or any of the Loan Documents, or ownership of the Property or any interest therein, or demand for or receipt of any Rents; (b) any amendment to, or restructuring of, any of the Loan Documents or the obligations evidenced or secured thereby; (c) any and all lawful action that may be taken by Lender in connection with the enforcement of the provisions of any of the Loan Documents, whether or not suit is filed in connection with same, or in connection with Borrower, any guarantor or indemnitor and/or any member, partner, joint venturer or shareholder thereof becoming a party to a voluntary or involuntary federal or state bankruptcy, insolvency or similar proceeding; (d) any accident, injury to or death of persons or loss of or damage to property occurring in, on or about the Property or any part thereof or on the adjoining sidewalks, curbs, adjacent property or adjacent parking areas, streets or ways; (e) any use, nonuse or condition in, on or about the Property or any part thereof or on the adjoining sidewalks, curbs, adjacent property or adjacent parking areas, streets or ways; (f) any failure on the part of Borrower to perform or be in compliance with any of the terms of any of the Loan Documents; (g) performance of any labor or services or the

furnishing of any materials or other property in respect of the Property or any part thereof; (h) the failure of any person to file timely with the Internal Revenue Service an accurate Form 1099-B, Statement for Recipients of Proceeds from Real Estate, Broker and Barter Exchange Transactions, which may be required in connection with this Instrument, or to supply a copy thereof in a timely fashion to the recipient of the proceeds of the transaction in connection with which this Instrument is made; (i) any failure of the Property to be in compliance with any applicable laws; (j) the enforcement by any Indemnified Party of the provisions of this Section; (k) any and all claims and demands whatsoever which may be asserted against Lender by reason of any alleged obligations or undertakings on its part to perform or discharge any of the terms, covenants, or agreements contained in any Lease; (l) the payment of any commission, charge or brokerage fee to anyone which may be payable in connection with the funding of the loan evidenced by the Note; or (m) any misrepresentation made by Borrower in any of the Loan Documents. Any amounts payable to any Indemnified Party by reason of the application of this Section shall become immediately due and payable upon demand and shall bear interest at rate then applicable to principal outstanding under the Note.

SECTION 18. ASSIGNMENT OF RENTS; APPOINTMENT OF RECEIVER; LENDER IN POSSESSION. As part of the consideration for the indebtedness evidenced by the Note, Borrower hereby absolutely and unconditionally assigns and transfers to Lender all the rents and revenues of the Property, including those now due, past due, or to become due by virtue of any lease or other agreement for the occupancy or use of all or any part of the Property, regardless of to whom the rents and revenues of the Property are payable. Borrower hereby authorizes Lender or Lender's agents to collect the aforesaid rents and revenues and hereby directs each tenant of the Property to pay such rents to Lender or Lender's agents; provided, however, that prior to written notice given by Lender to Borrower of an Event of Default, Borrower shall collect and receive all rents and revenues of the Property as trustee for the benefit of Lender and Borrower, to apply the rents and revenues so collected to the sums secured by this Instrument in any order determined by Lender, so long as no such Event of Default has occurred, to the account of Borrower, it being intended by Borrower and Lender that this assignment of rents constitutes an absolute assignment and not an assignment for additional security only. Upon delivery of written notice by Lender to Borrower of an Event of Default, and without the necessity of Lender entering upon and taking and maintaining full control of the Property in person, by agent or by a court-appointed receiver, Lender shall immediately be entitled to possession of all rents and revenues of the Property as specified in this Section as the same become due and payable, including, but not limited to, rents then due and unpaid, and all such rents shall immediately upon delivery of such notice and during the continuance of such Event(s) of Default be held by Borrower as trustee for the benefit of Lender only; provided, however, that the written notice by Lender to Borrower of such Event(s) of Default shall contain a statement that Lender exercises its rights to such rents. Borrower agrees that commencing upon delivery of such written notice of Borrower's breach by Lender to Borrower, each tenant of the Property shall make such rents payable to and pay such rents to Lender or Lender's agents on Lender's written demand to any tenant therefor, delivered to such tenant personally, by mail or by delivering such demand to the tenant at its location in the Property, without any liability on the part of said tenant to inquire further as to the existence of a default by Borrower. Borrower hereby covenants that Borrower has not executed any prior assignment of said rents, that Borrower has not performed, and will not perform, any acts or has not executed, and will not execute, any instrument which would

prevent Lender from exercising its rights under this Section, and that at the time of execution of this Instrument there has been no anticipation or prepayment of any of the rents of the Property for more than one month prior to the due dates of such rents. Borrower covenants that Borrower will not hereafter collect or accept payment of any rents of the Property more than one month prior to the due dates of such rents. Borrower further covenants that Borrower will execute and deliver to Lender such further assignments of rents and revenues of the Property as Lender may from time to time request.

Upon an Event of Default, or upon Borrower's breach of any material covenant of Borrower as landlord or lessor under any lease beyond applicable notice and cure periods, Lender shall be entitled to the appointment of a receiver for the Property, without notice to Borrower or any other person or entity and Lender may in person, by agent or by a court-appointed receiver, regardless of the adequacy of Lender's security, enter upon and take and maintain full control of the Property in order to perform all acts necessary and appropriate for the operation and maintenance thereof including, but not limited to, the execution, cancellation or modification of leases, the collection of all rents and revenues of the Property, the enforcement or fulfillment of any terms, condition or provision of any lease, the making of repairs to the Property and the execution or termination of contracts providing for the management or maintenance of the Property, all on such terms as are deemed best to protect the security of this Instrument. In the event Lender elects to seek the appointment of a receiver for the Property upon Borrower's breach of any covenant or agreement of Borrower in this Instrument, Borrower hereby expressly consents to the appointment of such receiver. Lender or the receiver shall be entitled to receive a reasonable fee for so managing the Property.

All rents and revenues collected subsequent to delivery of written notice by Lender to Borrower that an Event of Default has occurred and during the continuance of such Event of Default shall be applied first to the costs, if any, of taking control of and managing the Property and collecting the rents, including, but not limited to, attorney's fees, receiver's fees, premiums on receiver's bonds, costs of repairs to the Property, premiums on insurance policies, Taxes, and the costs of discharging any obligation or liability of Borrower as lessor or landlord of the Property and then to the sums secured by this Instrument. Lender or the receiver shall have access to the books and records used in the operation and maintenance of the Property and shall be liable to account only for those rents actually received. Other than for Lender's gross negligence or willful misconduct under this Section, Lender shall not be liable to Borrower, anyone claiming under or through Borrower or anyone having an interest in the Property by reason of anything done or left undone by Lender under this Section.

If the rents of the Property are not sufficient to meet the costs, if any, of taking control of and managing the Property and collecting the rents, any funds expended by Lender for such purposes shall become indebtedness of Borrower to Lender secured by this Instrument pursuant to Section 8 hereof. Unless Lender and Borrower agree in writing to other terms of payment, such amounts shall be payable upon notice from Lender to Borrower requesting payment thereof and shall bear interest from the date of disbursement at the rate stated in the Note unless payment of interest at such rate would be contrary to applicable law, in which event such amounts shall bear interest at the highest rate which may be collected from Borrower under applicable law.

Any entering upon and taking and maintaining of control of the Property by Lender or the receiver and any application of rents as provided herein shall not cure or waive any default hereunder or invalidate any other right or remedy of Lender under applicable law or provided herein. This assignment of rents of the Property shall terminate at such time as this Instrument ceases to secure indebtedness held by Lender.

SECTION 19. DEFAULTS; ACCELERATION; REMEDIES.

Each of the following shall constitute an "Event of Default" under this Instrument:

(a) Any failure of Borrower to pay any money as and when due under the Note or under any of the other Loan Documents;

(b) Any breach of Sections 5, 15, 16, or 29 of this Instrument, or the Environmental Indemnity Agreement;

(c) Other than as specified in items (a) or (b) above, any breach of any covenant, representation, warranty, or other obligation of Borrower or any guarantor or indemnitor under the Note, this Instrument, or any of the other Loan Documents, which breach is not completely cured on or before the 30th day after notice of the same from Lender to Borrower; provided however that if the default is capable of cure but with diligence cannot be cured within such period of 30 days, and if Borrower shall have given Lender evidence satisfactory to Lender that Borrower has commenced the cure within 10 days after the first notice of default and at all times after such commencement has pursued such cure diligently, then such period shall be extended for so long as is reasonably necessary, but in no event beyond the 60th day after the original notice of default.

If Lender shall have the right to exercise any of its remedies by reason of any default as to which there is no grace period or by reason of expiration of any grace period without cure of any applicable default, then there shall be no requirement of notice and time to cure for any other or subsequent default.

Upon the occurrence and during the continuance of any Event of Default, Lender may, at Lender's option, declare all of the sums secured by this Instrument to be immediately due and payable without further demand, and may exercise any and all remedies permitted hereunder, under any of the Loan Documents, or pursuant to applicable law. Without limitation of the foregoing, Lender may invoke the power of sale granted herein. Borrower acknowledges that the power of sale herein granted may be exercised by Lender without prior judicial hearing. Borrower has the right to bring an action to assert the non-existence of a breach or any other defense of Borrower to acceleration and sale. Lender shall be entitled to collect from Borrower all costs and expenses incurred in pursuing such remedies, including, but not limited to, reasonable attorney's fees and costs of environmental reports, appraisals, documentary evidence, abstracts, and title reports.

Any deed delivered to the purchaser at any sale pursuant hereto may be without any covenant or warranty, expressed or implied. The recitals in the deed shall be prima facie evidence of the truth of the statements made therein. The proceeds of the sale shall be applied in the following order: (a) to all costs

and expenses of the sale, including, but not limited to, fees for any foreclosure services, attorney's fees and costs of title evidence; (b) to all sums secured by this Instrument in such order as Lender, in Lender's sole discretion, directs; and (c) the excess, if any, to the person or persons legally entitled thereto.

SECTION 20. ACCELERATION IN CASE OF BORROWER'S INSOLVENCY.

If Borrower shall voluntarily file a petition under Title 11 of the U.S. Code (the "Act"), as such Act may from time to time be amended, or under any similar or successor Federal statute relating to bankruptcy, insolvency, arrangements or reorganizations, or under any state bankruptcy or insolvency act, or file an answer in any involuntary proceeding admitting insolvency or inability to pay debts, or if Borrower shall fail to obtain a vacation of involuntary proceedings brought for the reorganization, dissolution or liquidation of Borrower, within 120 days of the filing of such involuntary proceeding, or if Borrower shall be adjudged a bankrupt, or if a trustee or receiver shall be appointed for Borrower or Borrower's property, or if the Property shall become subject to the jurisdiction of a Federal bankruptcy court or similar state court, or if Borrower shall make an assignment for the benefit of Borrower's creditors, or if there is an attachment, execution or other judicial seizure of any portion of Borrower's assets and such seizure is not discharged within 10 days, then Lender may, at Lender's option, declare all of the sums secured by this Instrument to be immediately due and payable without prior notice to Borrower, and Lender may invoke any remedies permitted or provided for herein or in any of the Loan Documents or pursuant to applicable law. Any attorney's fees and other expenses incurred by Lender in connection with Borrower's bankruptcy or any of the other aforesaid events shall be additional indebtedness of Borrower secured by this Instrument pursuant to Section 8 hereof.

SECTION 21. REMEDIES CUMULATIVE. Each remedy provided in this Instrument is distinct and cumulative to all other rights or remedies under this Instrument or afforded by law or equity, and may be exercised concurrently, independently, or successively, in any order whatsoever.

SECTION 22. WAIVER OF STATUTE OF LIMITATIONS. Borrower hereby waives the right to assert any statute of limitations as a bar to the enforcement of the lien of this Instrument or to any action brought to enforce the Note or any other obligation secured by this Instrument.

SECTION 23. WAIVER OF MARSHALLING. Notwithstanding the existence of any other security interest in the Property held by Lender or by any other party, Lender shall have the right to determine the order in which any or all of the Property shall be subjected to the remedies provided herein. Lender shall have the right to determine the order in which any or all portions of the indebtedness secured hereby are satisfied from the proceeds realized upon the exercise of the remedies provided herein. Borrower, any party who consents to this Instrument and any party who now or hereafter acquires a security interest in the Property and who has actual or constructive notice hereof hereby waives any and all right to require the marshalling of assets in connection with the exercise of any of the remedies permitted by applicable law or provided herein.

SECTION 24. RELEASE. Upon payment of all sums secured by this Instrument, Lender shall release this Instrument. Borrower shall pay Lender \$100 for the release of this Instrument.

SECTION 25. CASH MANAGEMENT ARRANGEMENTS.

(a) As used in this Section 25 and elsewhere in this Instrument and the other Loan Documents, the following capitalized terms shall have the respective meanings set forth below:

Alternative Escrow Amount: on the date hereof, an amount equal to \$6,500, which represents an amount estimated by Lender as being necessary for at least one quarterly payment of insurance premiums that Lender estimates will be payable for the purchase of a separate "stand-alone" policy providing the coverage afforded by the insurance policies required under this Instrument upon the expiration thereof. The Alternative Escrow Amount is subject to change from time to time based upon any actual increases, as determined by Lender in its reasonable discretion, after the date hereof in the amount of such insurance premiums.

"Approved Capital Expenses": Capital Expenses incurred by Borrower; provided, that, during a Cash Management Period, such Capital Expenses shall either be (i) included in the Approved Capital Budget (as defined in Section 28(h) hereof) for the current calendar month or (ii) approved by Lender.

"Approved Leasing Expenses": actual out-of-pocket expenses incurred by Borrower and payable to third parties (including Affiliates of Borrower or Guarantor, provided that, such expenses payable to Affiliates of Borrower or Guarantor shall satisfy the conditions set forth below) in leasing space at the Property pursuant to Leases entered into in accordance with the Loan Documents, including brokerage commissions and tenant improvements, which expenses (i) are (A) specifically approved by Lender in connection with approving the applicable Lease, (B) incurred in the ordinary course of business and on market terms and conditions in connection with Leases which do not require Lender's approval under the Loan Documents, or (C) otherwise approved by Lender, which approval shall not be unreasonably withheld or delayed, and (ii) are substantiated by executed Lease documents and brokerage agreements.

"Approved Operating Expenses": during a Cash Management Period, operating expenses incurred by Borrower which (i) are included in the Approved Operating Budget (as defined in Section 28(h) hereof) for the current calendar month, (ii) are for real estate taxes, insurance premiums, electric, gas, oil, water, sewer or other utility service to the Property or (iii) have been approved by Lender.

"Available Cash": as of each Payment Date during the continuance of Cash Management Period, the amount of Rents, if any, remaining in the Deposit Account after the application of all of the payments required under clauses (i) through (v) of paragraph (1) of this Section 25.

"Business Day": any day other than a Saturday, Sunday or any day on which commercial banks in New York, New York are authorized or required to close.

"Calculation Date": the last day of each calendar quarter.

"Cash Management Period": shall commence upon Lender giving notice to the Clearing Bank of the occurrence of any of the following: (i) the Maturity Date, (ii) an Event of Default, (iii) if, as of any Calculation Date, the Debt Service Coverage Ratio is less than 1.00:1, or (iv) the commencement of a Rollover Sweep Period; and shall end upon Lender giving notice to the Clearing Bank that the sweeping of funds into the Deposit Account may cease, which notice Lender shall only be required to give if (1) the Loan and all other obligations under the Loan Documents have been repaid in full or (2) the Maturity Date has not occurred and (A) with respect for the matters described in clause (ii) above, such Event of Default has been cured and no other Event of Default has occurred and is continuing or (B) with respect to the matter described in clause (iii) above, Lender has determined that the Property has achieved a Debt Service Coverage Ratio of at least 1.00:1 for two consecutive Calculation Dates or (C) with respect to the matter described in clause (iv) above, the subject Rollover Sweep Period has ended.

"Clearing Account": the account maintained by Borrower at the Clearing Bank as more fully described in the Clearing Account Agreement.

"Debt": the unpaid Principal, all interest accrued and unpaid thereon, any Prepayment Consideration (as defined in the Note) and all other sums due to Lender in respect of the loan evidenced by the Note and this Instrument or under any Loan Document.

"Debt Service": with respect to any particular period, the scheduled principal and interest payments due under the Note in such period.

"Debt Service Coverage Ratio": as of any date, the ratio calculated by Lender of (i) the Net Operating Income for the 12-month period ending with the most recently completed calendar month to (ii) the Debt Service with respect to such period.

"Default Rate": the rate of five percent per annum in excess of the rate provided in the first paragraph of the Note, or, if such increased rate of interest may not be collected from Borrower under applicable law, then at the maximum increased rate of interest which may be collected from Borrower under applicable law, if either (a) any installment under the Note or any other amount owing thereunder or under any of the other Loan Documents is not received by the holder hereof within five calendar days after the same is due, or (b) any other Event of Default occurs, in each case, only while such installment remains past due or such other Event of Default remains uncured.

"Deposit Account": an Eligible Account at the Deposit Bank controlled by Lender.

"Deposit Bank": Wachovia Bank, National Association, or such other bank or depository selected by Lender in its discretion.

"Eligible Institution": a depository institution insured by the Federal Deposit Insurance Corporation the short term unsecured debt obligations or commercial paper of which are rated at least A-1 by S&P, P-1 by Moody's and F-1+ by Fitch. in the case of accounts in which funds are held for

thirty (30) days or less or, in the case of letters of credit or accounts in which funds are held for more than thirty (30) days, the long term unsecured debt obligations of which are rated at least "AA" by Fitch and S&P and "Aa2" by Moody's.

"Interest Period": (i) the period from the date hereof through the first day thereafter that is the last day of a calendar month and (ii) each period thereafter from the 1st day of each calendar month through the last day of each such calendar month; except that the Interest Period, if any, that would otherwise commence before and end after the Maturity Date shall end on the Maturity Date.

"Governmental Authority": any court, board, agency, commission, office or authority of any nature whatsoever for any governmental unit (federal, state, county, district, municipal, city or otherwise) now or hereafter in existence.

"Legal Requirements": statutes, laws, rules, orders, regulations, ordinances, judgments, decrees and injunctions of Governmental Authorities affecting Borrower, any Loan Document or all or part of the Property or the construction, ownership, use, alteration or operation thereof, whether now or hereafter enacted and in force, and all permits, licenses and authorizations and regulations relating thereto, and all covenants, agreements, restrictions and encumbrances contained in any instrument, either of record or known to Borrower, at any time in force affecting all or part of the Property.

"Net Operating Income": for any period, the underwritten net cash flow of the Property determined by Lender in its sole and absolute discretion in accordance with Lender's then current underwriting standards for loans of this type and the then current underwriting standards of the Rating Agencies (including adjustments for market vacancy, bankrupt tenants, leasing costs and capital items).

"Officer's Certificate": a certificate delivered to Lender by Borrower which is signed by a senior executive officer of the Managing Entity.

"Payment Date": the 1st day of each calendar month or, upon Lender's exercise of its right to change the Payment Date in accordance with the terms and conditions of the Note, the New Payment Date (as defined in the Note) (in either case, if such day is not a Business Day, the Payment Date shall be the first Business Day thereafter). The first Payment Date hereunder shall be July 1, 2003.

"Permitted Investments": any investment suitable for the investment of escrows and reserves established under mortgage loans included in a Securitization in which some or all of the certificates issued are rated "AAA" (or the equivalent rating) by the Rating Agencies, as the standards therefor are established from time to time, or such investments which are otherwise reasonably acceptable to Lender. If the Loan is subject to a Securitization, then the Rating Agencies referred to immediately above shall be the Rating Agencies that have rated the securities issued in such Securitization.

"Rents": all rents, rent equivalents, moneys payable as damages (including payments by reason of the rejection of a lease in a bankruptcy proceeding) or in lieu of rent or rent equivalents, royalties (including all oil and gas or other mineral royalties and bonuses), income,

fees, receivables, receipts, revenues, deposits (including security, utility and other deposits), accounts, cash, issues, profits, charges for services rendered, and other payment and consideration of whatever form or nature received by or paid to or for the account of or benefit of Borrower, Manager or any of their agents or employees from any and all sources arising from or attributable to the Property, including all receivables, customer obligations, installment payment obligations and other obligations now existing or hereafter arising or created out of the sale, lease, sublease, license, concession or other grant of the right of the use and occupancy of the Property or rendering of services by Borrower, Manager or any of their agents or employees and proceeds, if any, from business interruption or other loss of income insurance.

"Rollover Sweep Event": if any commercial tenant at the Property (A) shall discontinue its business at its premises (i.e., "goes dark") or give notice that it intends to discontinue its business or (B) is the subject of a bankruptcy or insolvency proceeding (and the subject lease has not been affirmed or assumed and assigned).

"Rollover Sweep Period": shall commence upon the occurrence of a Rollover Sweep Event, and shall end upon the earlier to occur of (A) such time as the aggregate amount deposited into the Rollover Reserve Subaccount pursuant to paragraph (f) of this Section 25 equals or exceeds an amount equal to \$25.00 multiplied by the aggregate square feet of space demised under the Lease which was the subject of the Rollover Sweep Event or (B) if the portion of the Property which was the subject of the Rollover Sweep Event has been leased to a new tenant pursuant to a Lease entered into in accordance with the provisions of this Instrument (1) the receipt by Lender of evidence reasonably satisfactory to Lender that all Approved Leasing Expenses in connection therewith have been paid in full and (2) the receipt by Lender of an estoppel certificate from such new tenant in which such new tenant certifies that the Lease is in full force and effect, all conditions precedent to the commencement of rent under such Lease have been satisfied, such new tenant has accepted delivery of the demised premises and the payment of rent under such Lease has commenced. Notwithstanding the foregoing, if any Rollover Sweep Period is triggered by the occurrence of an event described in clause (B) of the definition of Rollover Sweep Event, such Rollover Sweep Period shall also end upon the assumption of the applicable lease by the tenant thereunder pursuant to Section 365 of the Bankruptcy Code.

(b) Cash Management Arrangements. Borrower shall cause all Rents to be transmitted directly by non-residential tenants of the Property into a trust account (the "Clearing Account") maintained by Borrower at a local bank selected by Borrower, which shall at all times be an Eligible Institution (the "Clearing Bank") as more fully described in the Clearing Account Agreement. Without in any way limiting the foregoing, all Rents received by Borrower or Manager shall be deposited into the Clearing Account within one Business Day of receipt. Funds deposited into the Clearing Account shall be swept by the Clearing Bank on a daily basis into Borrower's operating account at the Clearing Bank, unless a Cash Management Period is continuing, in which event such funds shall be swept on a daily basis into an Eligible Account (as defined in the Deposit Account Agreement) at the Deposit Bank controlled by Lender (the "Deposit Account") and applied and disbursed in accordance with this Instrument. Funds in the Deposit Account shall be invested at Lender's discretion only in Permitted Investments. Lender will also establish subaccounts of the Deposit Account which shall at all times be Eligible Accounts (and may be ledger or book entry accounts and not actual accounts) (such subaccounts are referred to herein

as "Subaccounts"). The Deposit Account and any Subaccount will be under the sole control and dominion of Lender, and Borrower shall have no right of withdrawal therefrom. Borrower shall pay for all expenses of opening and maintaining all of the above accounts.

(c) Intentionally Deleted.

(d) Taxes and Insurance.

(i) Borrower shall pay to Lender on each Payment Date (1) one-twelfth of the yearly Taxes that Lender estimates will be payable during the next 12 months in order to accumulate with Lender sufficient funds to pay all such Taxes at least 30 days prior to their respective due dates and (2) one-twelfth of the insurance premiums that Lender estimates will be payable for the renewal of a separate "stand-alone" policy providing the coverage afforded by the insurance policies required under this Instrument upon the expiration thereof in order to accumulate with Lender sufficient funds to pay all such insurance premiums at least 30 days prior to the expiration of the insurance policies. Such amounts will be transferred by Lender to a Subaccount (the "Tax and Insurance Subaccount"). Provided that no Event of Default has occurred and is continuing, Lender will (a) apply funds in the Tax and Insurance Subaccount to payments of Taxes required to be made by Borrower pursuant to this Instrument, provided that Borrower has promptly supplied Lender with notices of all Taxes due, or (b) reimburse Borrower for payments of (x) Taxes and (y) insurance premiums paid in connection with the purchase of a separate "stand-alone" policy providing the coverage afforded by the insurance policies required under this Instrument upon the expiration thereof, in each case, due upon presentation of evidence acceptable to Lender of such payment by Borrower; subject, however, to Borrower's right to contest Taxes in accordance with this Instrument. In making any payment or reimbursement relating to Taxes and insurance premiums, Lender may do so according to any bill, statement or estimate procured from the appropriate public office (with respect to taxes) or insurer or agent (with respect to insurance premiums), without inquiry into the accuracy of such bill, statement or estimate or into the validity of any tax, assessment, sale, forfeiture, tax lien or title or claim thereof. If Lender determines in its reasonable judgment that the funds in the Tax and Insurance Subaccount will be insufficient to pay (or in excess of) the Taxes or insurance premiums next coming due, Lender may increase (or decrease) the monthly contribution required to be made by Borrower to the Tax and Insurance Subaccount.

(ii) Alternative Escrow.

(1) Notwithstanding anything to the contrary contained in paragraph (i) above, in lieu of the requirements set forth therein with respect to Borrower's obligations to make monthly deposits on account of insurance premiums into the Tax and Insurance Escrow Fund, Borrower has deposited with Lender on the date hereof an amount equal to the Alternative Escrow Amount, which amount has been transferred by Lender into a Subaccount (the "Alternative Escrow Subaccount"). From time to time, upon Lender's request, Borrower shall deposit such additional funds into the Alternative Escrow Subaccount to reflect any actual increases, as determined by Lender in its reasonable discretion, after the date hereof in the amount of such insurance premiums.

(2) At all times that the Alternative Escrow Subaccount is being held by Lender, then, notwithstanding anything to the contrary contained elsewhere in this Instrument, Borrower shall pay (or cause to be paid) such insurance premiums as the same become due and payable, and (ii) upon reasonable request, promptly furnish to Lender receipts for the payment of all such amounts or other evidence of such payment reasonably satisfactory to Lender.

(3) Upon any non-payment of such insurance premiums, Lender shall have the right to withdraw funds from the Alternative Escrow Subaccount for the purpose of making such required payments on behalf of Borrower.

(4) Notwithstanding the above, Borrower's obligations to make the payments required under Section 25(d)(i)(2) shall immediately resume and shall continue until the end of the Term in the event that (i) all or any portion of the Alternative Escrow Subaccount is applied in accordance with subparagraph (3) above, (ii) Borrower fails to deposit additional funds into the Alternative Escrow Subaccount in accordance with the last sentence of subparagraph (1) above within 5 days of demand or (iii) Borrower purchases a separate "stand-alone" policy providing the coverage afforded by the insurance policies required under this Instrument upon the expiration thereof.

(e) Capital Expense Reserves. Borrower shall pay to Lender on each Payment Date an amount initially equal to the sum of (i) one-twelfth of the product obtained by multiplying \$250 by the number of residential units at the Property and (ii) one-twelfth of the product obtained by multiplying \$0.15 by the aggregate number of rentable square feet of commercial space in the Property. Lender will transfer such amounts into a Subaccount (the "Capital Reserve Subaccount"). Provided that no Event of Default has occurred and is continuing, Lender shall disburse funds held in the Capital Reserve Subaccount to Borrower, within 15 days after the delivery by Borrower to Lender of a request therefor (but not more often than once per month), in increments of at least \$5,000 provided that (i) such disbursement is for an Approved Capital Expense; (ii) Lender shall have (if it desires) verified (by an inspection conducted at Borrower's expense) performance of the work associated with such Approved Capital Expense; and (iii) the request for disbursement is accompanied by (A) an Officer's Certificate certifying (1) that such funds will be used to pay or reimburse Borrower for Approved Capital Expenses and a description thereof, (2) that all outstanding trade payables (other than those to be paid from the requested disbursement or those constituting Permitted Indebtedness) have been paid in full, (3) that the same has not been the subject of a previous disbursement, and (4) that all previous disbursements have been used to pay the previously identified Approved Capital Expenses, and (B) for any such disbursement of more than \$25,000, at Lender's option (which option shall be exercised in Lender's reasonable judgment), a title search for the Property indicating that the Property is free from all Liens, claims and other encumbrances not previously approved by Lender and (C) such other evidence as Lender shall reasonably request that the Approved Capital Expenditures at the Property to be funded by the requested disbursement have been completed and are paid for or will be paid upon such disbursement to Borrower.

(f) Rollover Reserves. If a Rollover Sweep Period has commenced, and no other Cash Management Period is then continuing, then on the immediately succeeding Payment Date and on each Payment Date thereafter during the continuance of such Rollover Sweep Period, all Available Cash shall be paid to Lender. Lender will transfer such amounts into a Subaccount (the "Rollover Reserve Subaccount"). Borrower shall also pay to Lender for transfer into the Rollover Reserve Subaccount all payments received from tenants in connection with the early termination or cancellation of any Leases, including fees, penalties and commissions. Provided that no Event of Default has occurred and is continuing, Lender shall disburse funds held in the Rollover Reserve Subaccount to Borrower, within 15 days after the delivery by Borrower to Lender of a request therefor (but not more often than once per month), in increments of at least \$5,000, provided (i) such disbursement is for an Approved Leasing Expense; (ii) Lender shall have (if it desires) verified (by an inspection conducted at Borrower's expense) performance of any construction work associated with such Approved Leasing Expense; and (iii) the request for disbursement is accompanied by (A) an Officer's Certificate certifying (1) that such funds will be used only to pay (or reimburse Borrower for) Approved Leasing Expenses and a description thereof, (2) that all outstanding trade payables (other than those to be paid from the requested disbursement or those constituting Permitted Indebtedness) have been paid in full, (3) that the same has not been the subject of a previous disbursement, and (4) that all previous disbursements have been used only to pay (or reimburse Borrower for) the previously identified Approved Leasing Expenses, and (B) reasonably detailed supporting documentation as to the amount, necessity and purpose therefor. Provided that no Event of Default has occurred and is continuing, the remaining funds in the Rollover Reserve Subaccount (to the extent not drawn upon pursuant to this Section 25(f)) allocable to any specific portion of the commercial space at the Property which is the subject of the Rollover Sweep Event will be disbursed to Borrower within 10 days after written request therefor, provided that Borrower has delivered (i) evidence reasonably satisfactory to Lender that (y) such commercial space has been re-let pursuant to Leases entered into in accordance with this Instrument and (z) all Approved Leasing Expenses which have been incurred or which Lender anticipates will be incurred with respect to such space have been paid in full and (ii) an estoppel certificate from the applicable tenant occupying such portion of the commercial space at the Property in a form reasonably satisfactory to Lender pursuant to which such tenant certifies to Lender that (1) such tenant has taken occupancy of its demised premises, (2) all of the conditions precedent to such tenant's obligation to commence the payment of rent under its Lease have been satisfied (including Borrower's contribution to the cost of any tenant improvement work) and (3) such tenant has commenced the payment of rent under its Lease.

(g) Operating Expense Subaccount. During a Cash Management Period, Borrower shall pay to Lender on or before each Payment Date the monthly amount set forth in the Approved Operating Budget for the following month as being necessary for payment of Approved Operating Expenses at the Property for such month, which amounts shall be transferred into a Subaccount for the payment of Approved Operating Expenses (the "Operating Expense Subaccount"). Provided no Event of Default has occurred and is continuing, Lender shall disburse funds held in the Operating Expense Subaccount to Borrower, within 15 days after delivery by Borrower to Lender of a request therefor (but not more often than once per month), in increments of at least \$1,000, provided (i) such disbursement is for an Approved Operating Expense; and (ii) such disbursement is accompanied by (A) an Officer's Certificate certifying (1) that such funds will be used to pay Approved Operating Expenses and a description thereof, (2) that

all outstanding trade payables (other than those to be paid from the requested disbursement or those constituting Permitted Indebtedness) have been paid in full, (3) that the same has not been the subject of a previous disbursement, and (4) that all previous disbursements have been or will be used to pay the previously identified Approved Operating Expenses, and (B) reasonably detailed documentation satisfactory to Lender as to the amount, necessity and purpose therefor.

(h) Casualty/Condemnation Subaccount. Borrower shall pay, or cause to be paid, to Lender all insurance proceeds or Awards due to any Casualty or Condemnation which Borrower is required to deposit with Lender to be transferred to a Subaccount (the "Casualty/Condemnation Subaccount") in accordance with the provisions of Sections 5 and 11. All amounts in the Casualty/Condemnation Subaccount shall be disbursed in accordance with the provisions of Sections 5 and 11.

(i) Security Deposits. Borrower shall keep all security deposits under Leases at a separately designated account under Borrower's control at the Clearing Bank (and in the case of a letter of credit, assigned with full power of attorney and executed sight drafts to Lender) so that the security deposits shall not be commingled with any other funds of Borrower (such account, the "Security Deposit Account"). Upon the occurrence and during the continuance of an Event of Default, Borrower shall, upon Lender's request, if permitted by applicable Legal Requirements, turn over to Lender the security deposits (and any interest theretofore earned thereon) under Leases, to be held by Lender in a Subaccount (the "Security Deposit Subaccount") subject to the terms of the Leases. Security deposits held in the Security Deposit Subaccount will be released by Lender upon notice from Borrower together with such evidence as Lender may reasonably request that such security deposit is required to be returned to a tenant pursuant to the terms of a Lease or may be applied as Rent pursuant to the rights of Borrower under the applicable Lease. Any letter of credit or other instrument that Borrower receives in lieu of a cash security deposit under any Lease entered into after the date hereof shall (i) be maintained in full force and effect in the full amount unless replaced by a cash deposit as hereinabove described and (ii) if permitted pursuant to any Legal Requirements, name Lender as payee or mortgagee thereunder (or at Lender's option, be fully assignable to Lender).

(j) Cash Collateral Subaccount. If a Cash Management Period shall have commenced, then on the immediately succeeding Payment Date and on each Payment Date thereafter during the continuance of such Cash Management Period, all Available Cash shall be paid to Lender, which amounts shall be transferred by Lender into a Subaccount (the "Cash Collateral Subaccount") as cash collateral for Borrower's obligations under the Loan Documents. At Lender's option, any funds that have been deposited into the Cash Collateral Subaccount may be transferred by Lender into the Rollover Reserve Subaccount, to be applied and disbursed in accordance with the provisions of Section 25(f) hereof. Any funds in the Cash Collateral Subaccount Account and not previously disbursed or applied shall be disbursed to Borrower upon the termination of such Cash Management Period. Lender shall have the right, but not the obligation, at any time whether or not an Event of Default has occurred and is continuing, in its sole and absolute discretion to apply all sums then on deposit in the Cash Collateral Subaccount to Borrower's obligations under the Loan Documents, in such order and in such manner as Lender shall elect in its sole and absolute discretion, including to make a prepayment of Principal (together with Prepayment Consideration (as defined in the Note) applicable thereto).

(k) Grant of Security Interest; Application of Funds. As security for payment of the Loan and the performance by Borrower of all other terms, conditions and provisions of the Loan Documents, Borrower hereby pledges and assigns to Lender, and grants to Lender a security interest in, all Borrower's right, title and interest in and to all Rents and in and to all payments to or monies held in the Clearing Account, the Deposit Account, all Subaccounts created pursuant to this Instrument (collectively, the "Cash Management Accounts"). Borrower hereby grants to Lender a continuing security interest in, and agrees to hold in trust for the benefit of Lender, all Rents in its possession prior to the (i) payment of such Rents to Lender or (ii) deposit of such Rents into the Clearing Account. Borrower shall not, without obtaining the prior written consent of Lender, further pledge, assign or grant any security interest in any Cash Management Account, or permit any lien to attach thereto, or any levy to be made thereon, or any UCC Financing Statements, except those naming Lender as the secured party, to be filed with respect thereto. This Instrument is, among other things, intended by the parties to be a security agreement for purposes of the UCC. Upon the occurrence and during the continuance of an Event of Default, Lender may apply any sums in any Cash Management Account in any order and in any manner as Lender shall elect in Lender's discretion without seeking the appointment of a receiver and without adversely affecting the rights of Lender to foreclose the Lien of the Instrument or exercise its other rights under the Loan Documents. Cash Management Accounts shall not constitute trust funds and may be commingled with other monies held by Lender. All interest which accrues on the funds in any Cash Management Account (other than the Tax and Insurance Subaccount) shall accrue for the benefit of Borrower and shall be taxable to Borrower and shall be added to and disbursed in the same manner and under the same conditions as the principal sum on which said interest accrued. Upon repayment in full of Borrower's obligations under the Loan Documents, all remaining funds in the Subaccounts, if any, shall be promptly disbursed to Borrower.

(1) Property Cash Flow Allocation.

(i) During any Cash Management Period, all Rents deposited into the Deposit Account during the immediately preceding Interest Period shall be applied on each Payment Date as follows in the following order of priority: (i) First, to make payments into the Tax and Insurance Subaccount as required under paragraph (d) of this Section 25; (ii) Second, to pay the monthly portion of the fees charged by the Deposit Bank in accordance with the Deposit Account Agreement; (iii) Third, to Lender to pay the principal and interest due under the Note on such Payment Date (plus, if applicable, interest at the Default Rate and all other amounts, other than those described under other clauses of this paragraph (1) of this Section 25, then due to Lender under the Loan Documents); (iv) Fourth, to make payments into the Capital Reserve Subaccount as required under paragraph (e) of this Section 25; (v) Fifth, to make payments for Approved Operating Expenses as required under paragraph (g) of this Section 25; (vi) Sixth, during the continuance of a Rollover Sweep Period (and if no other Cash Management Period is then continuing) to make payments in an amount equal to all remaining Available Cash on such Payment Date into the Rollover Reserve Subaccount as required under paragraph (f) of this Section 25; and (vii) Lastly, during the continuance of a Cash Management Period described in clauses (i), (ii) or (iii) of the defined term "Cash Management Period", to make payments in an amount equal to all remaining Available Cash on such Payment Date into the Cash Collateral Subaccount in accordance with paragraph (j) of this Section 25. Upon the termination of any Cash Management Period, provided no Event of Default is then continuing, any funds in the Operating Expense Subaccount and not previously disbursed or applied shall be fully disbursed to Borrower.

(ii) The failure of Borrower to make all of the payments required under clauses (i) through (vii) of paragraph (i) above in full on each Payment Date shall constitute an Event of Default under this Instrument; provided, however, if adequate funds are available in the Deposit Account for such payments, the failure by the Deposit Bank to allocate such funds into the appropriate Subaccounts shall not constitute an Event of Default.

Notwithstanding anything to the contrary contained in this Section 25, after the occurrence and during the continuance of an Event of Default, Lender may apply all Rents deposited into the Deposit Account and other proceeds of repayment in such order and in such manner as Lender shall elect.

SECTION 26. NONRECOURSE LOAN. Subject to the provisions of this Section, and notwithstanding any provision of the Loan Documents other than this Section, the personal liability of Borrower, and of any general partner of Borrower, to pay the principal of and interest on the debt evidenced by the Note and any other agreement evidencing Borrower's obligations under the Note shall be limited to (a) the Collateral, (b) the personal property described in and pledged under any Loan Document other than this Instrument, and (c) the rents, profits, issues, products and income of the Property, including any received or collected by or on behalf of Borrower after an Event of Default.

Except as provided in this Section, Lender shall not seek (a) any judgment for a deficiency against Borrower, any general partner or member of Borrower, or Borrower's successors or assigns, in any action to enforce any right or remedy under the Note, this Instrument or the other Loan Documents, or (b) any judgment on the Note except as may be necessary in any action brought under the Instrument to enforce the lien against the Property or any other Collateral.

Notwithstanding the foregoing, Borrower and any general partner of Borrower shall be fully and personally liable for payment and performance of all obligations set forth in the Loan Documents, including the payment of all principal, interest, and other amounts under the Note, in the event of (i) the occurrence of an uncured default under Sections 15, 16 or 29 of this Instrument, or (ii) the occurrence of any condition or event described in Section 20 (except that in the event of involuntary proceedings described therein, neither Borrower nor any general partner of Borrower shall be fully and personally liable under this Section 26 unless either Borrower or any general partner of Borrower or any Person owning an interest (directly or indirectly) in Borrower or any general partner of Borrower consents to, aids, solicits, supports, or otherwise cooperates or colludes to cause such event or fails to contest such event).

Further, Borrower and any general partner of Borrower shall be personally liable in the amount of any loss, damage or cost resulting from (a) fraud or intentional misrepresentation by Borrower in connection with obtaining the loan evidenced by the Note, (b) insurance proceeds, condemnation awards, or other sums or payments attributable to the Property not applied in accordance with the provisions of the Loan Documents (except to the extent that Borrower did not have the legal right, because of a bankruptcy, receivership or similar judicial proceeding, to direct disbursement of such sums or payments), (c) all

rents, profits, issues, products and income of the Property received or collected by or on behalf of Borrower after and during an Event of Default and not applied to payment of principal and interest due under the Note, and to the payment of actual and reasonable operating expenses of the Property, as they become due or payable (except to the extent that such application of such funds is prevented by bankruptcy, receivership, or similar judicial proceeding in which Borrower is legally prevented from directing the disbursement of such sums), (d) misappropriation (including failure to turn over to Lender on demand following an Event of Default) of tenant security deposits and rents collected in advance, or of funds held by Borrower for the benefit of another party, or (e) Borrower's failure to pay transfer fees and charges due Lender under the Loan Documents in connection with any subordinate financing or any transfer of all or any part of the Property, or any interest therein, from Borrower to Borrower's transferee, or transfer of any beneficial interest in Borrower (if Borrower is not a natural person or persons but is a corporation, partnership, limited liability company, trust or other legal entity) other than a Permitted Transfer, or (f) failure by Borrower, any general partner of Borrower, or any indemnitor or guarantor to comply with the covenants, obligations, liabilities, warranties and representations contained in the Environmental Indemnity Agreement or otherwise pertaining to environmental matters, or (g) in the event Lender has waived (or Borrower has failed to pay) the monthly collection for real and personal property taxes, assessments, insurance premiums, or ground rents, then failure by Borrower to pay any or all such taxes, assessments, premiums and rents, or (h) in the event that Lender has waived (or Borrower has not complied with) the requirement for third party property management, then any management fee taken by Borrower or any principal or affiliate of Borrower after an Event of Default, or (i) breach of any of Sections 15, 16 or 29 of this Instrument, or (j) the occurrence of any condition or event described in Section 20 (except that in the event of involuntary proceedings described therein, neither Borrower nor any general partner of Borrower shall be fully and personally liable under this Section 26 unless either Borrower or any general partner of Borrower or any Person owning an interest (directly or indirectly) in Borrower or any general partner of Borrower consents to, aids, solicits, supports, or otherwise cooperates or colludes to cause such event or fails to contest such event).

No provision of this Section shall (i) affect the enforcement of the Environmental Indemnity Agreement or any guaranty or similar agreement executed in connection with the debt evidenced by the Note, (ii) release or reduce the debt evidenced by the Note, (iii) impair the lien of this Instrument, (iv) impair the rights of Lender to enforce any provisions of this Instrument, (v) limit Lender's ability to obtain a deficiency judgment or judgment on the Note or otherwise against Borrower to the extent necessary to obtain any amount for which Borrower may be liable in accordance with this Section.

SECTION 27. REPRESENTATIONS OF BORROWER. The Borrower hereby represents and warrants to Lender the following:

(a) Organization. Borrower is a limited partnership duly organized, validly existing and in good standing under the laws of Connecticut. There are no proceedings or actions pending, threatened or contemplated for the liquidation, termination or dissolution of Borrower.

(b) Rent Roll. Borrower has delivered to Lender a certified rent roll (the "Rent Roll"), a copy of which is attached hereto as Schedule 1, which constitutes a true, correct, and complete list of each and every lease affecting the Property (for each commercial tenant, together with all extensions and amendments thereof) (the "Existing Leases"); Borrower has delivered to Lender a true, correct, and complete copy of each of the Existing Leases which are entered into by commercial or retail tenants; and there are no other leases, assignments, modifications, extensions, renewals, or other agreements of any kind whatsoever (written or oral) outstanding with respect to the leases or the Property.

(c) Leases. Unless otherwise specified in the Rent Roll:

(i) the Existing Leases are in full force and effect;

(ii) Borrower has not given any notice of default to any tenant under an Existing Lease (an "Existing Tenant") which remains uncured;

(iii) no Existing Tenant has any set off, claim or defense to the enforcement of any Existing Lease;

(iv) no Existing Tenant is in arrears in the payment of rent for more than 30 days, additional rent or any other charges whatsoever due under any Existing Lease; or, to the knowledge of Borrower, is materially in default in the performance of any other obligations of such Existing Tenant under the applicable Existing Lease; and

(v) Borrower has completed all work or alterations required of the landlord or lessor under each Existing Lease; and all of the other obligations of landlord or lessor under the Existing Leases have been performed.

(d) Rents. The Rent Roll truly and completely discloses all annual and monthly rents payable by all Existing Tenants, including all percentage rents, if any, expiration dates of the Existing Leases, and the amount of security deposit being held by Borrower under each Existing Lease, if any; and Borrower has not granted any Existing Tenant any rent concessions (whether in form of cash contributions, work agreements, assumption of an Existing Tenant's other obligations, or otherwise) or extensions of time whatsoever not reflected in such Rent Roll.

(e) Lease Issues. There are no legal proceedings commenced (or, to the best of the knowledge of the Borrower, threatened) against Borrower by any Existing Tenant; no rental in excess of one month's rent has been prepaid under any of the Existing Leases; each of the Leases is valid and binding on the parties thereto in accordance with its terms; and the execution of this Instrument and the other Loan Documents will not constitute an event of default under any of the Existing Leases.

(f) Security Deposits. Borrower currently holds the security deposits (if any) specified in the Existing Leases and has not given any credit, refund, or set off against such security deposits to any person.

(g) Intentionally Deleted.

(h) No Undisclosed Tenants. Except for Borrower, there are no persons or entities occupying space in the Property as tenants other than the persons or entities specifically named in the Existing Leases.

(i) Title. Except as specifically listed in the schedule of exceptions to coverage in the title policy insuring Lender's interest in the Property, Borrower is now in possession of the Property; Borrower's possession of the Property is peaceable and undisturbed; Borrower does not know any facts by reason of which any claim to the Property, or any part thereof, might arise or be set up adverse to Borrower; and the Property is free and clear of (i) any lien for Taxes (except real property taxes not yet due and payable for the calendar year in which this Instrument is being executed), and (ii) any easements, rights-of-way, restrictions, encumbrances, liens or other exceptions to title by mortgage, decree, judgment, agreement, instrument, or, to the knowledge of Borrower, proceeding in any court. The Permitted Encumbrances (as defined in Section 15 hereof) do not materially and adversely affect the value, operation or use of the Property, or Borrower's ability to repay the Loan. This Instrument when properly recorded in the appropriate records, together with any UCC Financing Statements required to be filed in connection therewith, will create (i) a valid, perfected first priority lien on the Borrower's interest in the Property and (ii) valid and perfected first priority security interests in and to, and perfected collateral assignments of, all personalty (including the Leases), all in accordance with the terms thereof, in each case subject only to any applicable Permitted Encumbrances. There are no pending or proposed special or other assessments for public improvements or otherwise affecting the Property, or any contemplated improvements to the Property that may result in such special or other assessments.

(j) Liens. All charges for labor, materials or other work of any kind furnished in connection with the construction, improvement, renovation or rehabilitation of the Property or any portion thereof have been paid in full, and no unreleased affidavit claiming a lien against the Property, or any portion thereof, for the supplying of labor, materials or services for the construction of improvements on the Property has been executed or recorded in the mechanic's lien or other appropriate records in the county in which the Property is located.

(k) Compliance with Law. The Property and the current and contemplated uses of the Property are in compliance with all applicable federal, state and municipal laws, rules, regulations and ordinances, applicable restrictions, zoning ordinances, building codes and regulations, building lines and easements, including, without limitation, federal and state environmental protection law and the Americans with Disabilities Act of 1990, the Fair Housing Amendments Act of 1988, all state and local laws or ordinances related to handicapped access, and any statute, rule, regulation, ordinance, or order of governmental bodies or regulatory agencies, or any order or decree of any court adopted or enacted with respect thereto; no governmental authority having jurisdiction over any aspect of the Property has made a claim or determination that there is any such violation; the Property is not included in any area identified by the Secretary of Housing and Urban Development pursuant to the Flood Disaster Protection Act of 1973, as amended, as an area having special flood hazards; and all permits, licenses and the like which are necessary for the operation of the Property have been issued and are in full force and effect.

(l) Adverse Changes; Full and Accurate Disclosure. There have been no material adverse changes, financial or otherwise, in the condition of Borrower from that disclosed to Lender in the loan application submitted to Lender by Borrower, or in any supporting data submitted in connection with the Loan, and all of the information contained therein was true and correct when submitted and is now substantially and materially true and correct on the date hereof. No statement of fact made by Borrower in any Loan Documents contains any untrue statement of a material fact or omits to state any material fact necessary to make statements contained therein not misleading. There is no material fact presently known to Borrower that has not been disclosed to Lender which adversely affects, or, as far as Borrower can foresee, might adversely affect, the Property or the business, operations or condition (financial or otherwise) of Borrower. All financial data, including the statements of cash flow and income and operating expense, that have been delivered to Lender in respect of Borrower and the Property (i) are true, complete and correct in all material respects, (ii) accurately represent the financial condition of Borrower and the Property as of the date of such reports, and (iii) to the extent prepared by an independent certified public accounting firm, have been prepared in accordance with GAAP or federal income tax basis of accounting, in either case, consistently applied throughout the periods covered, except as disclosed therein. Borrower has no contingent liabilities, liabilities for taxes, unusual forward or long-term commitments, unrealized or anticipated losses from any unfavorable commitments or any liabilities or obligations not expressly permitted by this Instrument. Since the date of such financial statements, there has been no materially adverse change in the financial condition, operations or business of Borrower or the Property from that set forth in said financial statements.

(m) Claims, Litigation. There is no claim, litigation or condemnation proceeding pending, or, to the knowledge of the Borrower, threatened, against the Property or Borrower, which would be likely to have a material adverse effect on the Property or Borrower's ability to perform its obligations in the connection with the Loan.

(n) Single Purpose. Borrower does not own any real property or assets other than the Property and does not operate any business other than the management and operation of the Property.

(o) Bankruptcy. No proceedings in bankruptcy or insolvency has ever been instituted by or against Borrower or any affiliate thereof, and no such proceeding is now pending or contemplated.

(p) Solvency. Borrower is, and if there are any general partners or members of Borrower, such partners or members are, solvent pursuant to the laws of the United States, as reflected by the entries in Borrower's books and records and as reflected by the actual facts.

(q) Enforceability of Loan Documents. The Loan Documents have been duly authorized, executed and delivered by Borrower and constitute valid and binding obligations of Borrower, enforceable against Borrower in accordance with their respective terms. No approval, consent, order or authorization of any governmental authority and no designation, registration, declaration or filing with any governmental authority is required in connection with the execution and delivery of the Note, this Instrument or any other Loan Document. Neither Borrower nor any guarantor or indemnitor has any defense or offset to the

enforcement of any Loan Document, or any claim against Lender. Neither Borrower nor any guarantor or indemnitor has any right whatsoever against Lender other than the express contractual obligations of Lender set forth in the Loan Documents. Any rights or claims contrary to this provision, whether known or unknown, are hereby expressly waived.

(r) Non-contravention. The execution and delivery of the Loan Documents will not violate or contravene in any way the articles of incorporation or bylaws or partnership agreement, articles of organization or operating agreement as the case may be, of Borrower or any indenture, agreement or instrument to which Borrower is a party or by which it or its property may be bound, or be in conflict with, result in a breach of or constitute a default under any such indenture, agreement or other instrument, result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of Borrower, except as contemplated by the provisions of such Loan Documents, and no action or approval with respect thereto by any third person is required.

(s) Homestead. No part of the Property is all or a part of Borrower's homestead or the homestead of anyone.

(t) Utilities. The Property is served by all utilities required for the current or contemplated use thereof. All utility service is provided by public utilities and the Property has accepted or is equipped to accept such utility service.

(u) Public Roads. All public roads and streets necessary for service of and access to the Property for the current or contemplated use thereof have been completed, are serviceable and all-weather and are physically and legally open for use by the public.

(v) Water and Sewers. The Property is serviced by public water and sewer systems.

(w) Damage. The Property is free from damage caused by fire or other casualty.

(x) Waste Disposal. All liquid and solid waste disposal, septic and sewer systems located on the Property are in a good and safe condition and repair and in compliance with all applicable laws.

(y) Agreements. Borrower is not a party to any agreement or instrument or subject to any restriction which might adversely affect Borrower or the Property, or Borrower's business, properties, operations or condition, financial or otherwise. Borrower is not in default in any material respect in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any Permitted Encumbrance or any other agreement or instrument to which it is a party or by which it or the Property is bound.

(z) No Plan Assets. As of the date hereof and throughout the entire term of the loan evidenced by the Note and this Instrument (the "Term") (i) Borrower is not and will not be an "employee benefit plan," as defined in Section 3(3) of ERISA, subject to Title I of ERISA, (ii) none of the assets of Borrower constitutes or will constitute "plan assets" of one or more such plans within the meaning of 29 C.F.R. Section 2510.3-101, (iii) Borrower is not and

will not be a "governmental plan" within the meaning of Section 3(32) of ERISA, and (iv) transactions by or with Borrower are not and will not be subject to state statutes regulating investment of, and fiduciary obligations with respect to, governmental plans.

(aa) Federal Reserve Regulations; Investment Company Act. No part of the proceeds of the loan evidenced by the Note, this Instrument and the other Loan Documents will be used for the purpose of purchasing or acquiring any "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System or for any other purpose that would be inconsistent with such Regulation U or any other regulation of such Board of Governors, or for any purpose prohibited by Legal Requirements (as defined in Section 25 hereof) or any Loan Document. Borrower is not (i) an "investment company" or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended; (ii) a "holding company" or a "subsidiary company" of a "holding company" or an "affiliate" of either a "holding company" or a "subsidiary company" within the meaning of the Public Utility Holding Company Act of 1935, as amended; or (iii) subject to any other federal or state law or regulation which purports to restrict or regulate its ability to borrow money.

(bb) Fraudulent Transfer. Borrower has not entered into the loan evidenced by the Note, this Instrument and the other Loan Documents, or any Loan Document with the actual intent to hinder, delay, or defraud any creditor, and Borrower has received reasonably equivalent value in exchange for its obligations under the Loan Documents. Giving effect to the transactions contemplated by the Loan Documents, the fair saleable value of Borrower's assets exceeds and will, immediately following the execution and delivery of the Loan Documents, exceed Borrower's total liabilities, including subordinated, unliquidated, disputed or contingent liabilities, including the maximum amount of its contingent liabilities or its debts as such debts become absolute and matured. Borrower's assets do not and, immediately following the execution and delivery of the Loan Documents will not, constitute unreasonably small capital to carry out its business as conducted or as proposed to be conducted. Borrower does not intend to, and does not believe that it will, incur debts and liabilities (including contingent liabilities and other commitments) beyond its ability to pay such debts as they mature (taking into account the timing and amounts to be payable on or in respect of obligations of Borrower).

(cc) No Other Debt. There is no indebtedness with respect to the Property or any excess cash flow or any residual interest therein, whether secured or unsecured, other than Permitted Encumbrances and Permitted Indebtedness (as defined in Section 28(i) hereof).

(dd) Flood Zone. No portion of the Property is located in an area as identified by the Federal Emergency Management Agency as an area having special flood hazards.

SECTION 28. BORROWER'S ADDITIONAL COVENANTS. Borrower hereby covenants, agrees and undertakes as follows:

(a) Alterations of Property. Borrower shall not undertake or commence any alterations of any improvements on the Property the cost of which is in excess of five percent of the then original principal amount of the Note, without the prior written consent of Lender, not to be unreasonably withheld; provided, however, that Lender may, in its sole and absolute discretion, withhold consent to any alteration the cost of which is reasonably estimated to exceed \$2,000,000.

(b) Further Assurances. Borrower shall from time to time, at the request of Lender, (i) promptly correct any defect, error or omission which may be discovered in the contents of this Instrument or in any other Loan Document or in the execution or acknowledgment thereof; (ii) execute, acknowledge, deliver and record and/or file such further documents or instruments (including, without limitation, further mortgages, security agreements, financing statements, continuation statements, assignments of rents or leases and environmental indemnity agreements) and perform such further acts and provide such further assurances as may be necessary, desirable or proper, in Lender's opinion, to carry out more effectively the purposes of this Instrument and such other instruments and to subject to the liens and security interests hereof and thereof any property intended by the terms hereof or thereof to be covered hereby or thereby, including specifically, but without limitation, any renewals, additions, substitutions, replacements, or appurtenances to the Property; provided that such documents or instruments do not materially increase Borrower's liability under the Loan Documents; and (iii) execute, acknowledge, deliver, procure, and file and/or record any document or instrument (including specifically, but without limitation, any financing statement) deemed advisable by Lender to protect the liens and the security interests herein granted against the rights or interests of third persons; provided that such documents or instruments do not materially increase Borrower's liability under the Loan Documents. Borrower will pay all reasonable costs connected with any of the foregoing in this paragraph.

(c) Mortgage Taxes. Borrower shall at any time any law shall be enacted imposing or authorizing the imposition of any tax upon this Instrument, or upon any rights, titles, liens or security interests created hereby, or upon the obligations secured hereby or any part thereof, immediately pay all such taxes; provided that, if such law as enacted makes it unlawful for Borrower to pay such tax, Borrower shall not pay nor be obligated to pay such tax, and in the alternative, Borrower may, in the event of the enactment of such a law, and must, if it is unlawful for Borrower to pay such taxes, prepay the obligations secured hereby in full within 60 days after demand therefor by Lender.

(d) Minerals. Borrower shall not permit any drilling or exploration for or extraction, removal or production of any mineral, natural element, compound or substance from the surface or subsurface of the Property regardless of the depth thereof or the method of mining or extraction thereof.

(e) Maintenance of Borrower and Managing Entity Names. Borrower shall not change, or permit Managing Entity to change, its name, identity (including its trade name or names) or employer identification number, in any such case, without notifying Lender of such change in writing at least thirty (30) days prior to the effective date of such change. Borrower shall deliver, or cause Managing Entity to deliver, to Lender, prior to or contemporaneously with the effective date of any such change, any financing statement or financing statement change reasonably required by Lender, if any, to establish or maintain the validity, perfection and priority of the security interests granted herein.

(f) Costs and Expenses. Borrower shall pay on demand all reasonable and bona fide out-of-pocket costs, fees and expenses and other expenditures, including, but not limited to, reasonable attorneys' fees and expenses, paid or incurred by Lender to third parties incident to this Instrument or any other Loan Document (including, but not limited to, reasonable attorneys' fees and expenses in connection with the negotiation, preparation and execution hereof and of any other Loan Document and any amendment hereto or thereto, any release hereof, any consent, approval or waiver hereunder or under any other Loan Document, the making of any advance under the Note, and any suit to which Lender is a party involving this Instrument or the Property) or incident to the enforcement of the obligations secured hereby or the exercise of any right or remedy of Lender under any Loan Document.

(g) Compliance with Laws. Borrower shall maintain and keep the Property in compliance with all applicable laws.

(h) Annual Budget. Borrower shall prepare and submit (or shall cause Manager to prepare and submit) to Lender within thirty (30) days after a Cash Management Period and by November 30th of each year thereafter during the Term until such Cash Management Period has ended, for approval by Lender, which approval shall not be unreasonably withheld or delayed, a proposed pro forma budget for the Property for the succeeding calendar year (the "Annual Budget", and each Annual Budget approved (or deemed approved pursuant to the terms of this Section 28(h)) by Lender is referred to herein as the "Approved Annual Budget"), and, promptly after preparation thereof, any revisions to such Annual Budget. Lender's failure to approve or disapprove any Annual Budget or revision within 30 days after Lender's receipt thereof shall be deemed to constitute Lender's approval thereof. The Annual Budget shall consist of (i) an operating expense budget showing, on a month-by-month basis, in reasonable detail, each line item of the Borrower's anticipated operating income and operating expenses (on a cash and accrual basis), including amounts required to establish, maintain and/or increase any monthly payments required hereunder (and once such Annual Budget has been approved (or deemed approved pursuant to the terms of this Section 28(h)) by Lender, such operating expense budget shall be referred to herein as the "Approved Operating Budget"), and (ii) a Capital Expense budget showing, on a month-by-month basis, in reasonable detail, each line item of anticipated Capital Expenses (and once such Annual Budget has been approved (or deemed approved pursuant to the terms of this Section 28(h)) by Lender, such Capital Expense budget shall be referred to herein as the "Approved Capital Budget"). Until such time that any Annual Budget has been approved (or deemed to have been approved pursuant to the terms of this Section 28(h)) by Lender, the prior Approved Annual Budget shall apply for all purposes hereunder (with such adjustments as reasonably determined by Lender (including increases for any non-discretionary expenses)).

(i) Indebtedness. Borrower shall not directly or indirectly create, incur or assume any indebtedness other than the indebtedness evidenced by the Loan Documents and unsecured trade payables incurred in the ordinary course of business relating to the ownership and operation of the Property which do not exceed, at any time, a maximum amount of 1% of the original amount of the Loan and are paid within sixty (60) days of the date incurred (collectively, "Permitted Indebtedness").

SECTION 29. COVENANTS WITH RESPECT TO SINGLE PURPOSE, INDEBTEDNESS, OPERATIONS, FUNDAMENTAL CHANGES OF BORROWER.

(a) PERTAINING TO BORROWER PARTIES. Borrower represents, warrants and covenants as of the date of hereof and until such time as the indebtedness secured hereby is paid in full, that each of Borrower and Acadia 239 Greenwich Avenue, LLC (the latter, or any permitted successor and assignee thereto in accordance with the terms of this Instrument, may be referred to as "Managing Entity," and both Borrower and Managing Entity may be referred to as "Borrower Parties"):

(i) does not own and will not own any assets other than the Property (including incidental personal property necessary for the operation thereof and proceeds therefrom) or direct or indirect ownership interests in Borrower (the "Ownership Interests");

(ii) is not engaged and will not engage in any business, directly or indirectly, other than the ownership, management and operation of the Property or the Ownership Interests;

(iii) will not enter into any contract or agreement with any partner, member, shareholder, trustee, beneficiary, principal or affiliate of any Borrower Party except upon terms and conditions that are intrinsically fair and substantially similar to those that would be available on an arms-length basis with third parties other than such affiliate;

(iv) has not incurred and will not incur any debt, secured or unsecured, direct or contingent (including guaranteeing any obligation), other than (i) the obligations secured by this Instrument, and (ii) trade payables or accrued expenses incurred in the ordinary course of business of operating the Property which (1) do not exceed, at any time, (a) with respect to Borrower, a maximum amount of 1% of the original amount of the Principal, and (b) with respect to Managing Entity, \$10,000 and (2) are paid within sixty (60) days of the date incurred;

(v) has not made and will not make any loan or advances to any person or entity;

(vi) is and reasonably expects to remain solvent and pay its own liabilities, indebtedness, and obligations of any kind from its own separate assets as the same shall become due;

(vii) has done or caused to be done and will do all things necessary to preserve its existence, and will not, nor will any partner, member, shareholder, trustee, beneficiary, or principal amend, modify or otherwise change its partnership certificate, partnership agreement, articles of incorporation, by-laws, articles of organization, operating agreement, or other organizational documents in any manner except as necessary to reflect Permitted Transfers;

(viii) shall continuously maintain its existence and be qualified to do business in all states necessary to carry on its business, specifically including in the case of Borrower, the state where the Property is located;

(ix) will conduct and operate its business as presently conducted and operated;

(x) will maintain books and records and bank accounts separate from those of its partners, members, shareholders, trustees, beneficiaries, principals, affiliates, and any other person or entity;

(xi) will be, and at all times will hold itself out to the public as, a legal entity separate and distinct from any other (including any of its partners, members, shareholders, trustees, beneficiaries, principals and affiliates), and not as a department or division of any entity;

(xii) will file its own tax returns;

(xiii) has and reasonably expects to maintain adequate capital for the normal obligations reasonably foreseeable in a business of its size and character and in light of its contemplated business operations;

(xiv) will not seek, acquiesce in, or suffer or permit its liquidation, dissolution or winding up, in whole or in part;

(xv) will not enter into any transaction of merger or consolidation, or acquire by purchase or otherwise all or substantially all of the business or assets of, or any stock of beneficial ownership of, any person or entity;

(xvi) will not commingle or permit to be commingled its funds or other assets with those of any other person or entity;

(xvii) has and will maintain its assets in such a manner that it is not costly or difficult to segregate, ascertain or identify its individual assets from those of any other person or entity;

(xviii) except as expressly provided for in the Loan Documents, does not and will not hold itself out to be responsible for the debts or obligations of any other person or entity;

(xix) except as expressly provided for in the Loan Documents, has not and will not guarantee or otherwise become liable on or in connection with any obligation of any other person or entity;

(xx) shall not do any act which would make it impossible to carry on its ordinary business;

(xxi) will not possess or assign the Property for other than a business or company purpose;

(xxii) shall not hold title to its assets other than in its name;

(xxiii) shall not institute proceedings to be adjudicated bankrupt or insolvent; consent to the institution of bankruptcy or insolvency proceedings against it; file a petition seeking, or consent to, reorganization or relief under any applicable federal or state law relating to bankruptcy; consent to the appointment of a receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of it or a substantial part of its property; or make any assignment for the benefit of creditors; or admit in writing its inability to pay its debts generally as they become due; and

(xxiv) shall comply with all (and shall not suffer to be inaccurate any) of the assumptions, statements, certifications, representations, warranties and covenants regarding or made by Borrower contained in or appended to any opinion of Borrower's legal counsel delivered in connection with the transaction in which the Loan Documents are executed.

(b) PERTAINING TO MANAGING ENTITY. Borrower also represents, warrants and covenants as of the date of hereof and until such time as the indebtedness secured hereby is paid in full, that Managing Entity:

(i) shall at all times act as the sole general partner with all of the rights, powers, obligations and liabilities thereof under the partnership agreement of Borrower and shall take any and all actions and do any and all things necessary or appropriate to the accomplishment of the same and will engage in no other business;

(ii) shall not, without the unanimous consent of its members, institute proceedings for itself or Borrower to be adjudicated bankrupt or insolvent; consent to the institution of a bankruptcy or insolvency proceedings against it or Borrower; file a petition seeking, or consent to, reorganization or relief under any applicable federal or state law relating to bankruptcy; consent to the appointment of a receiver, liquidator, assignee, trustee, sequestrator (or other similar official) for itself or Borrower or a substantial part of its or Borrower's property; make any assignment for the benefit of creditors; or admit in writing its inability to pay its debts generally as they become due; and

(iii) shall not, without the unanimous consent of its members, for itself or for Borrower (i) liquidate or dissolve, in whole or in part; (ii) consolidate, merge or enter into any form of consolidation with or into any other person or entity, nor convey, transfer or lease its or Borrower's assets substantially as an entirety to any person or entity nor permit any person or entity to consolidate, merge or enter into any form of consolidation with or into itself or Borrower; or (iii) amend any provisions of its or Borrower's organizational documents containing provisions similar to those contained in this Section 29, except as necessary to reflect Permitted Transfers.

SECTION 30. NOTICE. All notices given under this Instrument shall be in writing, and sent to the other party at its address set forth below or at such other address as such party may designate by notice to the other party and shall be deemed given on the earliest of (i) actual receipt, duly evidenced by any commercially reasonable means, (ii) three Business Days after mailing, by certified or registered U.S. Mail, return receipt requested, postage prepaid, (iii) one Business Day after timely delivery, fee prepaid, to a national overnight delivery service (such as FedEx, Purolater Courier, U.P.S. Next Day Air), (iv) the date of transmission of notice sent by telecopier or facsimile

machine (with a copy thereof sent in accordance with clause (ii) above) provided notice was transmitted on a Business Day, otherwise notice shall be deemed given on the next Business Day.

The applicable addresses are as follows:

To Borrower:

c/o Acadia Realty Trust
1311 Mamaroneck Avenue
White Plains, New York 10605
Attention: Robert Masters, Esq.
Telephone No.: (914) 288-8139
Facsimile No.: (914) 248-3646

With a Copy to:

Aberdeen Properties, Inc.
41 West Putnam Avenue
Greenwich, Connecticut 06830
Attention: James B. Cummings
Facsimile No.: (203) 629-8316

With a Copy to:

Esanu Katsky Korins & Siger, LLP
605 Third Avenue
New York, New York 10158
Attention: Randolph Amengual, Esq.
Telephone No.: (212) 716-3243
Facsimile No.: (212) 953-6899

To Lender:

Greenwich Capital Financial Products, Inc.
600 Steamboat Road
Greenwich, Connecticut 06830
Attention: Commercial Mortgage Loan Department
Telephone No.: (203) 618-2373
Facsimile No.: (203) 629-8363

With a Copy to:

Kaye Scholer LLP
425 Park Avenue
New York, New York 10022
Attention: Stephen Gliatta, Esq.
Telephone No.: (212) 836-8618
Facsimile No.: (212) 836-8689

Borrower hereby requests that any notice of default or notice of sale in any judicial or nonjudicial foreclosure proceeding be mailed to Borrower at its address as specified herein.

SECTION 31. UNIFORM INSTRUMENT; GOVERNING LAW; SEVERABILITY. This form of instrument combines uniform covenants for national use and non-uniform covenants with limited variations by jurisdiction to constitute a uniform security instrument covering real property and related fixtures and personal property. THIS INSTRUMENT WAS NEGOTIATED IN THE STATE OF NEW YORK, AND MADE BY BORROWER AND ACCEPTED BY LENDER IN THE STATE OF NEW YORK, WHICH STATE THE PARTIES AGREE HAS A SUBSTANTIAL RELATIONSHIP TO THE PARTIES AND TO THE UNDERLYING TRANSACTION EMBODIED HEREBY, AND IN ALL RESPECTS, INCLUDING, WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE, THIS INSTRUMENT AND THE OBLIGATIONS ARISING HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND PERFORMED IN SUCH STATE (WITHOUT REGARD TO PRINCIPLES OF CONFLICT LAWS) AND ANY APPLICABLE LAW OF THE UNITED STATES OF AMERICA, EXCEPT THAT AT ALL TIMES THE PROVISIONS FOR THE CREATION, PERFECTION, AND ENFORCEMENT OF THE LIENS AND SECURITY INTERESTS CREATED PURSUANT HERETO AND PURSUANT TO THE OTHER LOAN DOCUMENTS WITH RESPECT TO THE PROPERTY SHALL BE GOVERNED BY AND CONSTRUED ACCORDING TO THE LAW OF THE STATE IN WHICH THE PROPERTY IS LOCATED, IT BEING UNDERSTOOD THAT, TO THE FULLEST EXTENT PERMITTED BY THE LAW OF SUCH STATE, THE LAW OF THE STATE OF NEW YORK SHALL GOVERN THE CONSTRUCTION, VALIDITY AND ENFORCEABILITY OF ALL LOAN DOCUMENTS AND ALL OF THE OBLIGATIONS ARISING HEREUNDER OR THEREUNDER. TO THE FULLEST EXTENT PERMITTED BY LAW, BORROWER HEREBY UNCONDITIONALLY AND IRREVOCABLY WAIVES ANY CLAIM TO ASSERT THAT THE LAW OF ANY OTHER JURISDICTION GOVERNS THIS INSTRUMENT OR THE OTHER LOAN DOCUMENTS, AND THIS MORTGAGE AND THE OTHER LOAN DOCUMENTS SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK PURSUANT TO SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAW. In the event that any provision of this Instrument or the Note conflicts with applicable law, such conflict shall not affect other provisions of this Instrument or the Note which can be given effect without the conflicting provisions, and to this end the provisions of this Instrument and the Note are declared to be severable. In the event that any applicable law limiting the amount of interest or other charges permitted to be collected from Borrower is interpreted so that any charge provided for in this Instrument or in the Note, whether considered separately or together with other charges levied in connection with this Instrument and the Note, violates such law, and Borrower is entitled to the benefit of such law, such charge is hereby reduced to the extent necessary to eliminate such violation. The amounts, if any, previously paid to Lender in excess of the

amounts payable to Lender pursuant to such charges as reduced shall be applied by Lender to reduce the principal of the indebtedness evidenced by the Note. For the purposes of determining whether any applicable law limiting the amount of interest or other charges permitted to be collected from Borrower has been violated, all indebtedness which is secured by this Instrument or evidenced by the Note and which constitutes interest, as well as all other charges levied in connection with such indebtedness which constitute interest, shall be deemed to be allocated and spread over the stated term of the Note. Unless otherwise required by applicable law, such allocation and spreading shall be effected in such a manner that the rate of interest computed thereby is uniform throughout the stated term of the Note.

SECTION 32. RESTRUCTURING LOAN, SECONDARY MARKET TRANSACTIONS.

(a) SECONDARY MARKET TRANSACTIONS GENERALLY. Lender shall have the right to engage in one or more Secondary Market Transactions (as defined in Section 15 hereof), and to structure and restructure all or any part of the Loan, including without limitation in multiple tranches, as a wraparound loan, or for inclusion in a REMIC or other Securitization (as defined in Section 15 hereof). Without limitation, Lender shall have the right to cause the Note and this Instrument to be split into a first and a second mortgage loan in whatever proportion Lender determines, and thereafter to engage in Secondary Market Transactions with respect to all or any part of the indebtedness and loan documentation. Borrower acknowledges that it is the intention of the parties that all or a portion of the Loan will be securitized and that all or a portion of the Loan (either itself, or in combination with other loans) will be rated by one or more Rating Agencies (as defined in Section 15 hereof). Borrower further acknowledges that additional structural modifications may be required to satisfy issues raised by any Rating Agencies.

(b) COOPERATION; LIMITATIONS. Borrower shall use all reasonable efforts and cooperate reasonably and in good faith with Lender in effecting any such restructuring or Secondary Market Transaction. Such cooperation shall include without limitation, executing and delivering such reasonable amendments to the Loan Documents as Lender may request, provided however that no such amendment shall on an over-all basis modify (i) the interest rate payable under the Note; (ii) the stated maturity date of the Note, (iii) the amortization of the principal amount of the Note, (iv) any other economic terms of the Loan, or (v) the non-recourse provisions of the Loan. Such cooperation also shall include using best efforts to obtain such certificates and assurances from governmental entities and others as Lender may request. Borrower shall not be required to incur any cost in connection with such restructure or Secondary Market Transaction or to provide additional collateral that was not initially contemplated by the parties to effect any such restructuring or Secondary Market Transaction.

(c) INFORMATION. Borrower shall provide such information and documents relating to the Borrower and its principals, the manager of the Property, the Property and the business and operations of all of the foregoing as Lender may reasonably request in connection with any such Secondary Market Transaction. Lender shall be permitted to share all such information with the investment banking firms, Rating Agencies, accounting firms, law firms, other third party advisory firms, potential investors, and other parties involved in

any proposed Secondary Market Transaction. Any such information may be incorporated into offering documents for the Secondary Market Transactions. Lender and all of the aforesaid third-party advisors and professional firms and investors shall be entitled to rely upon such information, and Borrower shall indemnify, defend, and hold harmless Lender from and against any losses, claims, damages and liabilities that arise out of or are based upon any actual or alleged untrue or misleading statement of material fact contained in such information or the actual or alleged omission of any material fact without which such information is materially misleading. Lender may publicize the existence of the Loan in connection with Lender's Secondary Market Transaction activities or otherwise.

(d) ADDITIONAL PROVISIONS. In any Secondary Market Transaction, Lender may transfer its obligations under the Loan Documents (or may transfer the portion thereof corresponding to the transferred portion of the obligations of Borrower), and thereafter Lender shall be relieved of any obligations under the Loan Documents arising after the date of said transfer with respect to the transferred interest. Each transferee investor shall be deemed to be a "Lender" under the applicable Loan Documents.

(e) CERTAIN DEFINITIONS. As used herein, the following terms have the meanings indicated:

"Loan": all obligations of Borrower under the Loan Documents.

"Securitization": mean a rated offering of securities representing direct or indirect interests in one or more mortgage loans or the right to receive income therefrom.

SECTION 33. SUCCESSORS AND ASSIGNS BOUND. This Instrument and the other Loan Documents shall be binding upon and inure to the benefit of Borrower and Lender and their respective successors and assigns forever, subject to Section 15 hereof. Notwithstanding the foregoing, Lender shall have no liability under any of the Loan Documents for any matter arising after Lender transfers its interest in the Note to any successor. However, Lender shall continue to have the benefit of all rights having accrued under the Loan Documents theretofore, and all rights under all obligations of indemnification set forth in the Loan Documents for matters arising theretofore, then, and thereafter.

SECTION 34. FORBEARANCE BY LENDER NOT A WAIVER. Any forbearance by Lender in exercising any right or remedy hereunder, or otherwise afforded by applicable law, shall not be a waiver of or preclude the exercise of any right or remedy. The acceptance by Lender of payment of any sum secured by this Instrument after the due date of such payment shall not be a waiver of Lender's right to either require prompt payment when due of all other sums so secured or to declare a default for failure to make prompt payment. The procurement of insurance or the payment of taxes or other liens or charges by Lender shall not be a waiver of Lender's right to accelerate the maturity of the indebtedness secured by this Instrument, nor shall Lender's receipt of any awards, proceeds or damages, whether as proceeds of insurance or condemnation awards or otherwise, operate to cure or waive Borrower's default in payment of sums secured by this Instrument.

SECTION 35. ESTOPPEL CERTIFICATE. Borrower shall within ten days of a written request from Lender furnish Lender with a written statement, duly acknowledged, setting forth the sums secured by this Instrument and any right of set-off, counterclaim or other defense which exists against such sums and the obligations of this Instrument and attaching true, correct and complete copies of the Note, this Instrument and any other Loan Documents and any and all modifications, amendments and substitutions thereof.

SECTION 36. WAIVER OF JURY TRIAL. BORROWER HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES ANY RIGHT THE BORROWER MAY HAVE TO A TRIAL BY JURY IN RESPECT TO ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER OR IN CONJUNCTION WITH THE NOTE, THIS INSTRUMENT, ANY OTHER LOAN DOCUMENT, ANY OTHER AGREEMENT CONTEMPLATED TO BE EXECUTED IN CONNECTION HEREWITH, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF EITHER PARTY.

SECTION 37. MISCELLANEOUS.

(a) No Oral Change. No provision of this Instrument or any of the other Loan Documents may be modified, amended, waived, extended, changed, discharged or terminated orally or by any act or failure to act on the part of Borrower or Lender, except only by an agreement in writing signed by the party against whom enforcement of any modification, amendment, waiver, extension, change, discharge or termination is sought.

(b) Liability. If Borrower consists of more than one person, the obligations and liabilities of each such person hereunder and under the other Loan Documents shall be joint and several.

(c) Captions. The captions and headings of the Sections, paragraphs, and other provisions of this Instrument are for convenience only and are not to be used to interpret or define the provisions hereof.

(d) Duplicate Originals; Counterparts. This Instrument and any of the Loan Documents may be executed in any number of duplicate originals and each duplicate original shall be deemed to be an original. This Instrument and any of the Loan Documents may be executed in multiple counterparts.

(e) Number and Gender. Whenever the context may require, any pronouns used herein or in any of the Loan Documents shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns and pronouns shall include the plural and vice versa.

(f) Subrogation. If any or all of the proceeds of the Note have been used to extinguish, extend or renew any indebtedness heretofore existing against the Property, then, to the extent of the funds so used, Lender shall be subrogated to all of the rights, claims, liens, titles, and interests existing against the Property heretofore held by, or in favor of, the holder of such indebtedness and such former rights, claims, liens, titles, and interests, if any, are not waived but rather are continued in full force and effect in favor of Lender and are merged with the lien and security interest created herein as cumulative security for the performance and repayment of the obligations secured hereby.

(g) Entire Agreement. The Note, this Instrument and the other Loan Documents constitute the entire understanding and agreement between Borrower and Lender pertaining to the subject matter hereof and thereof, and supersede all prior written or oral understandings and agreements between Borrower and Lender with respect thereto, including the prior agreements evidenced by any application or commitment issued in connection with this transaction. Borrower hereby acknowledges that, except as incorporated in writing in the Loan Documents, there are not, and were not, and no persons are or were authorized by Lender to make, any representations, understandings, stipulations, agreements or promises, oral or written, with respect to the transaction which is the subject of the Loan Documents, except only to the extent expressly set forth in the Loan Documents.

(h) Action through Agents. In exercising any rights hereunder or under any of the Loan Documents or taking any actions provided for herein or therein, Lender may act through its employees, agents or independent contractors as authorized by Lender.

SECTION 38. STATE OF CONNECTICUT PROVISIONS.

(a) Principles of Construction. In the event of any inconsistencies between the terms and conditions of this Section 38 and the other terms and conditions of this Instrument, the terms and conditions of this Section 38 shall control and be binding.

(b) Pre-Judgment Remedy Waiver. BORROWER ACKNOWLEDGES THAT IT HAS THE RIGHT UNDER SECTION 52-278a ET SEQ. OF THE CONNECTICUT GENERAL STATUTES, SUBJECT TO CERTAIN LIMITATIONS, TO NOTICE OF AND HEARING ON THE RIGHT OF THE LENDER TO OBTAIN A PREJUDGMENT REMEDY, SUCH AS ATTACHMENT, GARNISHMENT OR REPLEVIN, UPON COMMENCING ANY LITIGATION AGAINST BORROWER, NOTWITHSTANDING SUCH RIGHT, BORROWER HEREBY WAIVES ALL RIGHTS TO NOTICE, JUDICIAL HEARING, OR PRIOR COURT ORDER TO WHICH IT MIGHT OTHERWISE HAVE THE RIGHT UNDER SAID STATUTE OR UNDER ANY OTHER STATE OR FEDERAL STATUTE OR CONSTITUTION IN CONNECTION WITH THE OBTAINING BY LENDER OF ANY PREJUDGMENT REMEDY IN CONNECTION WITH THIS INSTRUMENT. BORROWER FURTHER CONSENTS TO THE ISSUANCE OF ANY PREJUDGMENT REMEDIES WITHOUT A BOND AND AGREES NOT TO REQUEST OR FILE MOTIONS SEEKING TO REQUIRE THE POSTING OF A BOND UNDER PUBLIC ACT 93-431 IN CONNECTION WITH LENDER'S EXERCISE OF ANY PREJUDGMENT REMEDY, BORROWER ALSO WAIVES ANY AND ALL OBJECTION WHICH IT MIGHT OTHERWISE ASSERT, NOW OR IN THE FUTURE, TO THE EXERCISE OR USE BY LENDER OF ANY RIGHT OF SETOFF, REPOSSESSION OR SELF HELP AS MAY PRESENTLY EXIST UNDER STATUTE OR COMMON LAW.

(c) Loan for Commercial Purposes. Borrower is organized for a profit and is engaged primarily in commercial, manufacturing, industrial or other nonconsumer pursuits (within the meaning of Section 37-9 of the Connecticut General Statutes). Without limiting the generality of the foregoing,

the proceeds of the Loan will be utilized in Borrower's business or investment activities, and no portion of such proceeds will be utilized for any personal, family or household purchases, acquisitions or uses or for any other consumer purposes. Borrower represents, warrants and acknowledges that the transaction of which this Instrument is a part is a commercial transaction and not a consumer transaction. Monies now or in the future to be advanced to or on behalf of Borrower are not and will not be used for personal family or household purposes.

(d) No Merger of Property. If Lender shall acquire title to the Property by conveyance from Borrower or as a result of the foreclosure of any other mortgage which Lender at any time holds with respect to the Property, this Instrument shall not merge in the fee of the Property but shall remain and continue as an existing and enforceable lien for the Loan secured hereby until the same shall be released of record by Lender in writing.

(e) Waiver of Termination Rights. Borrower hereby waives, for itself or any of its assigns who assume this Instrument, any right it may have under Section 49-2(c)(7) of the Connecticut General Statutes, as amended, or otherwise, to terminate the right of Lender to make "optional future advances" as defined under said statute.

(f) Open-End Mortgage. This is an "open-end mortgage" as provided for by Connecticut General Statutes Section 49-2(c), and Lender shall have all the rights, powers, privileges and protections afforded to the holder of an open-end mortgage by such statute or any other applicable law. For purposes of such statute, the full amount of the loan authorized is \$16,000,000. It is understood and agreed that Lender may, but shall not be obligated to, at any time and from time to time, make future advances secured by this Instrument. Whether or not any such future advances are to be made shall be determined by Lender in its sole and absolute discretion. Except for advances for the payment of taxes, assessments, insurance premiums, repairs, alterations, improvements or costs incurred for the protection of the Premises or otherwise permitted elsewhere by this Instrument or under applicable law, all future advances shall be evidenced by a note or notes executed by Borrower, which provide that such advances are secured by this Instrument. Nothing set forth in this Section shall affect the validity or enforceability of any obligation of Borrower to Lender under this secured by this Instrument. Nothing set forth in this Section shall affect the validity or enforceability of any obligation of Borrower to Lender under this Instrument or any other agreement between Lender and Borrower that would be valid and enforceable without the provisions of this Section.

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IN WITNESS WHEREOF, Borrower has executed this Instrument or has caused the same to be executed by its representatives thereunto duly authorized.

BORROWER:

239 GREENWICH ASSOCIATES LIMITED
PARTNERSHIP, a Connecticut limited
partnership

By: Acadia 239 Greenwich Avenue, LLC, a
Delaware limited liability company, its
general partner

By: Acadia Realty Limited Partnership, a
Delaware limited partnership, its sole
member

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

By: _____
Name:
Title:

SIGNED, SEALED AND DELIVERED
IN THE PRESENCE OF:

Witness: _____
Name:

Witness: _____
Name:

ACKNOWLEDGMENT

STATE OF _____)
 :ss.
COUNTY OF _____)

On the ___ day of May in the year 2003, before me, the undersigned officer, personally appeared _____, who acknowledged himself to be the _____ of Acadia Realty Trust, a Maryland real estate investment trust, the general partner of Acadia Realty Limited Partnership, a Delaware limited partnership, the sole member of Acadia 239 Greenwich Avenue, LLC, a Delaware limited liability company, the general partner of 239 Greenwich Associates Limited Partnership, a limited partnership organized under the laws of the State of Connecticut, and that in the capacity aforesaid he, being authorized to do so, executed, the foregoing instrument for the purposes therein contained by signing the name of the _____ as such _____ and the free act and deed of said limited partnership.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

Notary Public

(NOTARIAL SEAL)

My Commission Expires:

EXHIBIT A

Legal Description of Real Estate

(See Attached)

SCHEDULE 1

Rent Roll

See Attached.

MORTGAGE NOTE

Date of Note: December 1, 2003

FOR VALUE RECEIVED, Port Bay Associates, LLC, a New York limited liability company ("Maker"), does hereby covenant and promise to pay to the order of FLEET NATIONAL BANK, a national banking association ("Payee"), at 1185 Avenue of the Americas, New York, New York 10036, or at such other place as Payee may designate to Maker in writing from time to time, in lawful money of the United States of America and in immediately available funds, the lesser of the principal sum of THREE MILLION NINE HUNDRED NINETY THOUSAND ONE HUNDRED THIRTY-FIVE AND 17/100THS DOLLARS (\$3,990,135.17) (the "Principal Amount") or the Principal Amount from time to time outstanding hereunder and to pay interest on the Principal Amount from time to time outstanding hereunder and such other charges, costs and fees set forth under the Loan Documents in like money and funds as hereinafter provided.

1. Definitions. The following terms, as used in this Note, shall have the meanings indicated opposite them and terms capitalized herein and not otherwise defined herein but defined in the Mortgage shall have the meaning set forth in the Mortgage:

"Acadia" shall mean Acadia Realty Trust, a Maryland real estate investment trust with offices at 1311 Mamaroneck Avenue, Suite 260, White Plains, New York 10605, and its successors and/or assigns.

"Accounting Principles" shall mean the accounting principles utilized in the preparation of the operating statements for the Mortgaged Premises heretofore delivered to Payee.

"Advance" or "Earn-Out" shall have the meaning assigned to such term in PARAGRAPH 5 of this Note.

"Applicable Rate" either the Floating Rate Option or the LIBOR Option in effect at any given time.

"Appraised Value" shall mean the appraised value of the Mortgaged Premises, as determined by an independent appraiser selected by Payee and reasonably acceptable to Maker. Payee may require that such an appraisal be performed at any time. Appraised Value shall be determined utilizing an appraisal method consistent with that used in determining the Appraised Value for Payee in connection with this Loan. Maker shall solely be responsible for the cost of up to one appraisal per annum if requested by Payee.

"Authorized Representative" - shall mean Michael Nelsen, Maggie Hui, Jon Grisham, Robert Masters or any other person or persons designated by Maker, in a writing delivered to Payee, as an Authorized Representative.

"Business Day" - As used herein the "Modified Following Business Day Convention" shall mean the convention for adjusting any relevant date if it would otherwise fall on a day that is not a Business Day. The following terms, when used in conjunction with the term "Modified Following Business Day Convention", and a date, shall mean that an adjustment will be made if that date would otherwise fall on a day that is not a Business Day so that date will be the first following day that is a Business Day. A "Business Day" means, in respect of any date that is specified in this Note to be subject to adjustment in accordance with applicable Business Day Convention, a day on which commercial banks settle payments in (i) London if the payment obligation is calculated by reference to any LIBOR rate, or (ii) New York, if the payment obligation is calculated by reference to any prime rate.

"Change in Control" shall mean and include any of the following:

(i) the full time active employment of Kenneth F. Bernstein, as President and Chief Executive Officer of Acadia, shall be voluntarily terminated by Acadia or shall otherwise cease, unless a successor acceptable to Payee shall have been appointed or elected and actually taken office within three months following any such termination or cessation, in which case the name of such successor shall be substituted for the name of the person he or she replaces for purposes of this clause (i);

(ii) the shareholders of Acadia approve a plan of complete liquidation of Acadia or an agreement or agreements for the sale or disposition by Acadia of all or substantially all of Acadia's assets; and/or

(iii) any "change in control" or any similar term as defined in any of the indentures, credit agreements or other instruments governing any indebtedness of Acadia or any of its affiliates.

"Default" - shall mean any act or condition which with the giving of notice or the lapse of time, or both, could become an Event of Default.

"Extended Maturity Date" shall mean the then applicable extended maturity date pursuant to PARAGRAPH 3 of this Note.

"Event of Default" shall have the meaning assigned to such term in SECTION 6.1 of the Mortgage and PARAGRAPH 33 of this Note.

"Floating Rate Option" shall mean the Prime Rate, floating plus fifty basis points (.50%).

"Full Force and Effect" shall mean, as to any lease, that such lease shall be in full force and effect, there shall be no material default by the tenant thereunder or default by the landlord thereunder or other act or condition or circumstance giving or which may give, without the giving of any further notice, the tenant or the landlord the right to terminate any lease and, if requested by Payee and required by its lease, the tenant shall have delivered to Payee an estoppel certificate in form and substance reasonably satisfactory to Payee.

"Guarantor" shall mean, individually, jointly, severally and collectively, the Maker and Managing Member.

"Guaranty" or "Indemnity" means, individually, jointly, severally and collectively, (i) that certain indemnity agreement dated of even date hereof by the Indemnitor in favor of Payee, as the same may be extended and or otherwise modified from time to time, (ii) that certain hazardous material guaranty and indemnity agreement dated of even date hereof by the Indemnitor in favor of Payee, as the same may be extended and or otherwise modified from time to time, (iii) that certain ADA guaranty and indemnity agreement dated of even date hereof by the Indemnitor in favor of Payee, as the same may be extended and or otherwise modified from time to time.

"Interest Period" with respect to LIBOR Advances, a period of 30, 60, 90, 120 or 180 days (or such other periods as Payee may elect to make available); provided, however, that no such period shall extend beyond the Maturity Date. Any Interest Period which terminates on a non-Business Day shall be deemed, for purposes hereof, to terminate on the next succeeding Business Day.

"LIBOR Advance" an advance with respect to which the Principal Amount bears interest at the LIBOR Option.

"LIBOR Option" shall mean a rate per annum equal to the sum of the "LIBOR Spread", as defined herein, plus the LIBOR Rate with respect to the applicable Interest Period. The term "LIBOR" shall mean, as applicable to any LIBOR Advance, the rate per annum (rounded upward, if necessary, to the nearest 1/32 of one percent) as determined on the basis of the offered rates for deposits in U.S. dollars, for a period of time comparable to such LIBOR Advance which appears on Dow Jones page 3750 as of 11:00 a.m. London time on the day that is two (2) London Banking Days preceding the first day of such LIBOR Advance; provided, however, if the rate described above does not appear on Dow Jones page 3750 on any applicable interest determination date, the LIBOR rate shall be the rate (rounded upwards as described above, if necessary) for deposits in dollars for a period substantially equal to the interest period on the Reuters Page "LIBO" (or such other page as may replace the LIBO Page on that service for the purpose of displaying such rates) as of 11:00 a.m. (London Time) on the day that is two (2) London Banking Days prior to the beginning of such interest period. "Banking Day" shall mean, in respect of any city, any date on which commercial banks are open for business in that city.

"LIBOR Spread" shall mean, at any given time, (i) one hundred forty basis points (1.40%) if both the Loan to Value (as defined herein) is 55% or less and the Debt Service Coverage Ratio (as defined herein) is 1.50 to 1 or better and (ii) one hundred sixty basis points (1.60%) if either the Loan to Value is greater than 55% or the Debt Service Coverage Ratio is less than 1.50 to 1.

If both the Dow Jones and Reuters system are unavailable, then the rate for that date will be determined on the basis of the offered rates for deposits in U.S. dollars for a period of time comparable to such LIBOR advance which are offered by four major banks in the London interbank market at approximately 11:00 a.m. London time, on the day that is two (2) London Banking Days preceding the first day of such LIBOR Advance as selected by the calculation agent. The principal London office of each of the four major London banks will be requested to provide a quotation of its U.S. dollar deposit offered rate. If at least two such quotations are provided, the rate for that date will be the arithmetic mean of the quotations. If fewer than two quotations are provided as requested, the rate for that date will be determined on the basis of the rate quoted for loans in U.S. dollars to leading European banks for a period of time comparable to such LIBOR Advance offered by major banks in New York City at approximately 11:00 a.m. New York City time, on the day that is two (2) London Banking Days preceding the first day of such LIBOR Advance. In the event that Payee is unable to obtain any such quotations as provided above, it will be deemed that LIBOR pursuant to a LIBOR Advance cannot be determined. In the event that the Board of Governors of the Federal Reserve System shall impose a Reserve Percentage with respect to LIBOR deposits of Bank then for any period during which such Reserve Percentage shall apply, LIBOR shall be equal to the amount determined above divided by an amount equal to 1 minus the Reserve Percentage. "Reserve Percentage" shall mean the maximum aggregate reserve requirement (including all basic, supplemental, marginal and other reserves) which is imposed on member banks of the Federal Reserve System against "Euro-currency Liabilities as defined in Regulation D.

"LIBOR Acceptance Notice" shall have the meaning assigned to such term in PARAGRAPH 4(b) hereof.

"LIBOR Notice" Maker's telephonic notice immediately confirmed in writing, which writing may be delivered by telecopier, stating that Maker, subject to delivery by it of a LIBOR Acceptance Notice, elects to pay interest on the whole or a portion of the Principal Amount at the LIBOR Rate, as specified in such Notice, and specifying the applicable Interest Period for the LIBOR Advance and the Business Day on which such Interest Period is to begin.

"Loan" loans of up to the Principal Amount made and/or to be made to Maker by Payee and evidenced hereby.

"Loan Documents" means the Amended and Restated \$10,000,000 Note dated July 19, 2000, as modified by Note Modification Agreement dated the date hereof (the "Original Note"), this Note, the \$3,990,135.17 Mortgage securing this Note, the Agreement of Consolidation of Notes and Mortgages and Modification of the Consolidated Mortgage securing the Original Note dated July 19, 2000, the Guaranty, the Assignment of Leases and Rents and all other documents, including, without limitation, collateral documents, security agreements, UCC financing statements, assignments of leases and rents, guaranties, indemnities and any other document, mortgage, agreement, assignment or other instrument executed by Maker and/or Indemnitor, as the case may be, or any other third party pursuant hereto or thereto or in connection herewith or in connection with the loan evidenced by this Note and secured by this Mortgage, as the same may be extended and or otherwise modified from time to time.

"Loan to Value" shall mean the outstanding principal balance of this Note and the Original Note divided by the Appraised Value.

"Managing Member" shall mean Acadia Realty Limited Partnership, a Delaware limited partnership having an office at 1311 Mamaroneck Avenue, Suite 260, White Plains, New York 10605, and its successors and/or assigns.

"Maturity Date" shall mean the then applicable maturity date pursuant to PARAGRAPH 3 of this Note.

"Mortgage" shall mean that certain Mortgage and Security Agreement and Assignment of Leases and Rents dated as of even date hereof, including all exhibits thereto, by and between Maker and Payee in the principal sum of this Note, as the same may be amended or modified from time to time.

"Mortgaged Premises" or "Mortgaged Property" shall have the meaning assigned to such term in the Mortgage.

"Net Operating Income" shall mean, with respect to the applicable period, the aggregate rental and other receipts (unless excluded pursuant hereto) of the Mortgaged Premises (actual results with respect to the preceding six-months and pro forma with respect to the following six-months) during such period less the aggregate amount of all operating expenses of the Mortgaged Premises during such period, in each case determined in accordance with the Accounting Principles. For purposes of the determination of Net Operating Income, operating expenses shall include, without limitation, all real estate taxes (but not in excess of the pro rata portion of such real estate taxes applicable to the applicable period covered by the statement), water and sewer charges, utility charges, insurance premiums (but not in excess of the amounts applicable to the applicable period covered by the statement), salaries and benefits of all employees engaged in the operation, maintenance or management of Mortgaged Premises, all costs of ordinary and necessary maintenance, cleaning and repair, costs of snow and rubbish removal and security services. Net Operating Income shall, however, (a) exclude from receipts all amounts paid to the Maker for tenant alterations in connection with the leasing of space at the Mortgaged Premises, all amounts payable to the Maker under leases with Affiliates of the Maker, as tenant, or with Maker, as tenant (unless the Payee otherwise agrees) and, with respect to any lease providing for a reduction in the rentals payable under such lease at any time during the term thereof, base rentals in excess of the lowest base rentals payable under such lease (other than during any period of rent concessions made with respect to consecutive monthly periods commencing with the first month of the term of such lease), and (b) exclude from expenses payments of principal and interest on this Note, capital expenditures, leasing commissions, and other expenses payable to the Payee pursuant to this Note or any of the other Loan Documents. Net Operating Income shall be determined without regard to extraordinary items of income and of expense. Each lease, the rental or other income from which was included in the calculations of Net Operating Income, must be in Full Force and Effect as of the date Net Operating Income is being determined.

"Note" shall mean this Note, as the same may be amended or otherwise modified from time to time.

"Person" shall mean and include any individual corporation, partnership unincorporated association, trust, governmental agency or authority or other entity.

"Prime Rate" shall mean the variable rate per annum so designated from time to time by the Payee as its Prime Rate. The Prime Rate is a reference rate and does not necessarily represent the lowest or best rate being charged to any customer. Changes in the rate of interest resulting from changes in the Prime Rate shall take place immediately without notice or demand of any kind.

"Prime Rate Advance" an advance with respect to which the Principal Amount or a portion thereof bears interest at the Floating Rate Option.

"Regulation D" - Regulation D of the Board of Governors of the Federal Reserve System from time to time in effect, including any successor or other regulation or official interpretation of said Board of Governors relating to reserve requirements applicable to member banks of the Federal Reserve System.

2. Amortization and Interest; Facility Fee.

(a) The Principal Amount of this Note shall be payable in accordance with the following provisions: Commencing on the first day of the first month after an Advance and on the first day of each calendar month thereafter, Maker will pay, on account of the Principal Amount, a sum (the "Fixed Principal Payment") calculated on the basis of the Principal Amount outstanding at the time, a loan maturity of twenty-five years less the number of months which have elapsed since the date of this Note and an assumed interest rate of 8% per annum and such Fixed Principal Payment shall be revised on the foregoing basis each time an Advance is made with each revised Fixed Principal Payment being applicable to the payment due on the first day of the month immediately following the making of the additional Advance and each month thereafter, unless and until another Advance is made and the Fixed Principal Payment is further revised in accordance herewith. The prepayment premium provided for in PARAGRAPH 10 hereof shall not be applicable to any such scheduled monthly payments. Any voluntary prepayments applied to principal shall be applied in the inverse order of maturity.

(b) Interest on the outstanding Principal Amount shall accrue from and including the date of the advance to but excluding the date of any repayment or prepayment thereof and shall be payable in arrears (i) on the first day of each calendar month, commencing on the first day of the first full month after the date hereof, (ii) on the date of any prepayment (on the amount prepaid), (iii) on the Maturity Date, or the Extended Maturity Date, as the case may be or (iv) after maturity (whether by acceleration or otherwise) on demand. Interest shall be calculated on the basis of 1/360 of the annual interest at the applicable rate on the outstanding principal balance for each date such balance is outstanding and shall be paid for the actual number of days elapsed, which will result in a higher effective annual rate.

(c) Concurrently with the execution and delivery of this Note, Maker shall pay Payee a non-refundable facility fee of \$102,000.

3. Maturity Date; Extended Maturity Date.

(a) The outstanding Principal Amount and all accrued and unpaid interest thereon shall be due and payable on December 1, 2008 (the "Maturity Date").

(b) Maker shall have the option, provided that the Maker shall have notified the Payee sixty (60) days prior to the Maturity Date (as defined in the Note) or the "Extended Maturity Date" (as hereinafter defined), as the case may be, that the Maker wishes to extend the term of the Note and Mortgage for up to two (2) consecutive one (1) year periods, the first of which extension periods, if exercised in accordance herewith, shall end on December 1, 2009 (the "First Extended Term") and the second of which, if exercised in accordance with this Note, will end on December 1, 2010 (the "Second Extended Term"; the last day of the First Extended Term or, if applicable, the Second Extended Term, the "Extended Maturity Date"), and provided that the Maker shall have paid to the Payee thirty (30) days prior to the Maturity Date or the end of the First Extended Term, as the case may be, the Extension Fee equal to .125% of the outstanding balance of the Note due on the Maturity Date or the end of the First Extended Term, as the case may be, and provided further that the Maker shall have complied with all of the conditions precedent as hereinafter set forth in the next paragraphs with respect to each extension. In the event this Note shall be extended as provided herein, the Principal Amount and interest at the applicable Interest Rate accrued and unpaid herein shall be due and payable on the Extended Maturity Date. During the First Extended Term and the Second Extended Term, if applicable, the Fixed Monthly Payment and interest shall continue to be due and payable as set forth in this Note.

Notwithstanding anything to the contrary contained herein, the Payee's obligation to extend the term of the Note and Mortgage to the Extended Maturity Date is conditioned upon the following conditions having been satisfied for each extension:

(i) The Payee shall have received a recently dated appraisal of the Mortgaged Property by an independent appraiser selected by the Payee and paid for by the Maker, in form and substance satisfactory to the Payee, which appraisal must indicate a loan to value ratio of not greater than sixty-five (65%) percent based upon the then combined principal balance of this Note and the Original Note.

(ii) No default shall have occurred and be continuing under the Loan Documents evidencing, securing, or guaranteeing payment of, the Note or the Original Note.

(iii) The "Debt Service Coverage Ratio" must be at least 1.30 to 1. For purposes herein, Debt Service Coverage Ratio shall mean the ratio, as of any date of calculation, for the immediately preceding six (6) month period and the immediately succeeding six (6) month period, calculated by dividing: (a) the Net Operating Income for the preceding six (6) month period and the immediately six (6) month period; by (b) principal and interest payments based on a 25 year self liquidating mortgage amortization schedule, and the 10-year treasury rate plus 2.00% with a floor rate of 8.00%.

(iv) All representations and warranties contained herein, or otherwise made in writing in connection herewith or in any of the Loan Documents, by or on behalf of Maker or any other Person to Payee, shall be true and correct, in all material respects, with the same force and effect as if made on and as of the date of the initial date of the Extended Term.

(v) The extension of the Original Note.

4. Selection of Rate.

(a) Except as provided in PARAGRAPHS 4(b), the outstanding Principal Amount shall bear interest at a rate per annum equal to the Prime Rate Option.

(b) Provided there is no Default and/or Event of Default under this Note, the Loan Document(s) or any other document or instrument delivered as additional security for this Note, Maker may elect to pay interest on the entire or any portion of the outstanding Principal Amount (subject to the minimum amount limitations set forth herein and the requirements set forth below) at a rate per annum equal to the LIBOR Option for the Interest Period elected by Maker from (and including) the first day of each Interest Period to (but not including) the last day of such Interest Period. Maker shall, subject to delivery by it of a LIBOR Acceptance Notice, elect that the entire or any portion of the outstanding Principal

receive such LIBOR Notice prior to 11:00 A.M., New York City time, on a Business Day at least three (3) Business Days prior to:

(1) the last day of an Interest Period (in the case of an outstanding LIBOR Advance);

or

(2) any Business Day elected by Maker in its LIBOR Notice (in the case of a conversion of a Prime Rate Advance to a LIBOR Advance) for the commencement of the applicable Interest Period.

If Maker fails to give a LIBOR Notice at least three (3) Business Days prior to the end of an Interest Period, then, on the last day of the Interest Period, the outstanding LIBOR Advance shall convert to a Prime Rate Advance. On the date specified in the LIBOR Notice as the date on which the applicable Interest Period is to begin, Payee shall notify Maker's Authorized Representative by telephone (such notice to be promptly confirmed in writing) or by telex, which notice shall specify the date, the proposed LIBOR Rate and the period of time on such date during which such rate is to be available. If Payee fails to specify the period for which such quoted rate is available, then such rate shall be deemed to be available only for thirty minutes from the time Payee, orally or in writing, notifies Maker's Authorized Representative of such rate. If Maker then wishes to obtain such Loan at such LIBOR Rate, it shall promptly give notice to Payee to such effect (the LIBOR Acceptance Notice"), which notice shall be irrevocable and may be by telephone, promptly confirmed in writing.

(c) Without in any way limiting Maker's obligation to confirm in writing any telephonic LIBOR Notice or LIBOR Acceptance Notice, Payee may, prior to receipt of written confirmation, act without liability on the basis of telephonic notice which it believes in good faith to be from Maker and, in any event, Payee may act without liability on the basis of telephonic or written notice which it believes in good faith to be from Maker.

5. Conditions to Advance. At such time as the Original Note has been fully advanced, Maker shall have the option, subject to the terms and conditions of this Note, of requesting from Payee advances hereunder in minimum increments of \$1,000,000 each (unless the amount remaining to be advanced is less than said amount), with the aggregate amount of all such advances not to exceed \$3,990,135.17 (each, every and any one of such additional advances shall be referred to herein as the "Advance"). The obligation of Payee to make the Advance hereunder is subject to the satisfaction of each of the following conditions precedent:

(a) An Authorized Representative shall give Payee at least ten (10) Business Days prior written notice, specifying the date of the proposed borrowing. Any such notice which is oral shall promptly be confirmed in a writing signed by an Authorized Representative and delivered to Payee. Payee may rely on any oral or written request for a Loan which Payee believes to be genuine and shall be fully protected in doing so without any requirement to make further inquiry.

(b) After giving effect to the Additional Advance, there shall exist no Default and/or Event of Default, including, without limitation, default of the provisions set forth in SUBPARAGRAPH 9(a) or 9(b) of this Note, and, for this purpose, compliance with such covenants shall, prior to the making of the proposed Additional Advance, be recalculated (using the most recently available Appraised Value and Net Operating Income) as if the Additional Advance has been made.

(c) All representations and warranties contained herein, or otherwise made in writing in connection herewith or in any of the Loan Documents, by or on behalf of Maker or any other Person to Payee, shall be true and correct, in all respects, with the same force and effect as if made on and as of the date of the Additional Advance.

(d) The Payee shall have received a recently dated appraisal of the Mortgaged Property (less than one year old, or if older, accompanied by an updated limited appraisal report) by an independent appraiser selected by the Payee and paid for by the Maker, in form and substance satisfactory to the Payee, which appraisal and results thereof must indicate a Loan to Value of not greater than sixty-five (65%) percent.

(e) The "Debt Service Coverage Ratio" must be at least 1.30 to 1. For purposes herein, Debt Service Coverage Ratio shall mean the ratio, as of any date of calculation, for the immediately preceding six (6) month period and the immediately succeeding six (6) month period, calculated by dividing: (a) the Net Operating Income for the preceding six (6) month period and the immediately six (6) month period; by (b) principal and interest payments based on a 25 year self liquidating mortgage amortization schedule, and the 10-year treasury rate plus 2.00% with a floor rate of 8.0% assuming a loan in the aggregate amount of the outstanding principal balance under this Note and the Original Note.

(f) At the time of the payment of the Earn-out or a part thereof, a continuation of title shall demonstrate that there are no encumbrances, unpaid Impositions or liens assessed against the Mortgaged Premises except for Permitted Encumbrances (such title continuations shall be at Maker's sole cost and expense).

(g) No Event of Default under the Original Mortgage.

6. Payment of Interest on and Number of LIBOR Advances. If a LIBOR Advance is outstanding, then in addition to the monthly payments of interest required under PARAGRAPH 2(b) hereof, all accrued and unpaid interest, if any, on such LIBOR Advance shall be due and payable on the last day of the Interest Period. In no event may there be more than three (3) Interest Periods in effect at any one time, and the entire Principal Amount outstanding need not bear interest at the same Applicable Rate.

7. Suspension of the LIBOR. If Payee determines that Payee's making or maintaining LIBOR Advances is unlawful for any reason, then Payee may suspend the availability of the LIBOR Rate and immediately convert any outstanding LIBOR Advance to a Prime Rate Advance. Payee shall immediately notify Maker of any such conversion and Maker shall pay to Payee, on demand, (i) all accrued and unpaid interest on the LIBOR Advance to the date of such conversion, plus (ii) such amounts as Payee shall require to compensate it for the costs of converting any such LIBOR Advance to a Prime Rate Advance. The certificate of Payee as to any amounts payable pursuant to this PARAGRAPH shall, absent manifest error, be final, conclusive and binding on Maker. No LIBOR Notices electing the LIBOR Rate shall be given by Maker thereafter until Payee determines that LIBOR Advances would be lawful.

8. Increases in Cost. In the event that at any time or from time to time any domestic or foreign requirement of law, regulation, order or decree or any change therein or in the interpretation or application thereof or compliance by Payee with any request or directive (whether or not having the force of law) from any governmental, fiscal, monetary or other authority (i) does or shall subject Payee to any tax, duty, charge or withholding on or from payments due from Maker (excluding taxation of the income of Payee); or (ii) does or shall impose, modify or hold applicable or change any reserve (including, without limitation, basic, supplemental, marginal, special or emergency reserves but not including reserve requirements already taken into account in calculating the LIBOR Rate), special deposit, compulsory deposit or similar requirement with respect to assets of, deposits with or for the account of, advances or loans by, or other credit extended by, or any other acquisition of funds by Payee; or (iii) does or shall impose on Payee any other condition or change therein and the result of any of the foregoing is to increase the cost to Payee of making available to Maker, converting from or to, or maintaining LIBOR Advances, then, and in any such event, Payee shall notify Maker in writing of such occurrence setting forth in reasonable detail the basis for and amounts of such increased costs, and Maker shall pay to Payee, on demand, such amounts as will compensate Payee for such increased costs. The certificate of Payee as to any amounts payable pursuant to this PARAGRAPH shall, absent manifest error, be final, conclusive and binding on Maker.

9. Loan Covenants.

(a) At all times while the indebtedness remains outstanding, the Loan to Value shall not exceed 65%, based upon the then most recent Appraised Value of the Mortgaged Property reviewed and found acceptable by the Maker.

(b) At all times while the indebtedness remains outstanding, the Maker shall maintain a "Debt Service Coverage Ratio" (as hereinafter defined) of not less than 1.30 to 1, to be tested semi-annually, as of June 30, 2004 and each subsequent December 31 and June 30 (the "Accounting Date"). Debt Service Coverage Ratio shall mean, for purposes herein, the ratio, as of any date of calculation, for the immediately preceding six (6) month period and the immediately succeeding six (6) month period, calculated by dividing: (a) the Net Operating Income for the preceding six (6) month period and the immediately succeeding six (6) month period; by (b) principal and interest payments based on a 25 year self liquidating mortgage amortization schedule, and the 10-year treasury rate plus 2.00% with a floor rate of 8.00% assuming a loan in the aggregate outstanding amount of the principal balance of this Note and the Original Note.

(c) At all times while the Indebtedness remains outstanding, Acadia shall maintain a minimum "Net Worth" of at least \$50,000,000.00, to be determined by Maker based upon the financial statements required to be submitted to Maker pursuant to SECTION 2.10.6 hereof.

(d) At all times while the Indebtedness remains outstanding, Acadia shall maintain minimum liquidity of at least \$7,000,000.00, to be determined by Maker based upon the financial statements required to be submitted to Maker pursuant to SECTION 2.10.6 hereof.

(e) In the event of the Maker's failure to comply with SUBPARAGRAPHS (a), (b) (c) or (d) directly hereinabove, the Maker shall have the following options prior to the Maker's non-compliance resulting in an Event of Default under the Mortgage:

(i) Within 45 days of notice by the Maker to the Maker that the Maker has breached the applicable covenant(s), the Maker shall provide additional collateral in the form of cash collateral, marketable securities, real estate, and/or letter(s) of credit, acceptable in form, quality, value and amounts to the Maker in its sole discretion so that after the delivery of such collateral, the applicable covenant violation shall have been cured, to the satisfaction of Lender, in its sole discretion, or

(ii) Within 45 days of notice by the Maker to the Maker that the Maker has breached the applicable covenant(s), the Maker shall reduce the Principal Amount so that after such prepayment, the applicable covenant violation shall have been cured, to the satisfaction of the Maker, in its sole discretion.

(f) Within ninety (90) days after the Accounting Date, Maker shall furnish to Payee detailed calculations of Net Operating Income and Debt Service Coverage Ratio for the current accounting period and upon which satisfaction of the provisions of PARAGRAPH 9(b) are to be determined, and certified as true and accurate, in a manner acceptable to Payee, by the chief financial officer of the Guarantor as having been prepared under his supervision in accordance with the Accounting Principles consistently applied and with the definitions of Net Operating Income and Debt Service Coverage Ratio and that he knows of no facts inconsistent with such calculations.

10. Prepayment.

(a) On any Business Day during the term hereof that the Applicable Rate is based upon the Prime Rate or on a date which is the last day of an Interest Period, upon not less than three Business Days written notice to Payee specifying the date on which prepayment is to be made, Maker shall have the privilege of prepaying, without payment of a premium or penalty, that portion of the unpaid balance of the Principal Amount, in whole or in part, as to which the Applicable Rate is based upon the Prime Rate or as to which an Interest Period is ending, which parts shall be in integral multiples of \$50,000 together with all accrued and unpaid interest on the Principal Amount so prepaid to the date of prepayment, and together also with accrued and unpaid interest or other sums or charges, if any, then due and owing hereunder or under the Loan Document(s), provided that any such prepayment shall be in a minimum amount of not less than \$250,000.

(b) At any time during the term hereof that the Applicable Rate is based upon LIBOR upon not less than three Business Days prior written notice to Payee (which notice shall be irrevocable), Maker shall have the privilege of prepaying the unpaid balance of the Principal Amount, in whole or in part, which parts shall be in integral multiples of \$50,000, prior to the last day of an Interest Period upon the required notice as aforesaid; provided that any such prepayment shall be in a minimum amount of not less than \$250,000 and provided further that in addition to the payment of the whole or portion of the Principal Amount so to be prepaid, all accrued and unpaid interest thereon and all other sums due hereunder or under the Loan Document(s), Maker shall pay Payee such amount or amounts as shall be sufficient (in the reasonable opinion of Payee) to compensate Payee for any loss, costs or expenses Payee incurs with respect to the termination of any LIBOR contract and/or Hedge Agreement (as such term is defined in the Mortgage) that Payee or its designee has entered into to borrow funds in order to fund the Loan plus the following yield maintenance premium: Maker shall pay to Payee, upon request of Payee, such amount or amounts as shall be sufficient (in the reasonable opinion of Payee) to compensate it for any loss, cost or expense incurred as a result of: (i) any payment of a LIBOR Loan on a date other than the last day of the Interest Period for such Loan; (ii) any failure by Maker to borrow a LIBOR Loan on the date specified by Maker's written notice; (iii) any failure by Maker to pay a LIBOR Loan on the date for payment specified in Maker's written notice. Without limiting the foregoing, Maker shall pay to Payee a "yield maintenance fee" in an amount computed as follows: The current rate for United States Treasury securities (bills on a discounted basis shall be converted to a bond equivalent) with a maturity date closest to the term chosen pursuant to the Fixed Rate Election as to which the prepayment is made, shall be subtracted from the LIBOR in effect at the time of prepayment. If the result is zero or a negative number, there shall be no yield maintenance fee. If the result is a positive number, then the resulting percentage shall be multiplied by the amount of the principal balance being prepaid. The resulting amount shall be divided by 360 and multiplied by the number of days remaining in the term chosen pursuant to the Fixed Rate Elections as to which the prepayment is made. Said amount shall be reduced to present value calculated by using the above referenced United States Treasury securities rate and the number of days remaining in the term chosen pursuant to the Fixed Rate Election as to which prepayment is made. The resulting amount shall be the yield maintenance fee due to Payee upon the payment of a LIBOR Loan. Each reference in this paragraph to "Fixed Rate Election" shall mean the election by Maker of the LIBOR Rate. If by reason of an Event of Default Payee elects to declare the Note to be immediately due and payable, then any yield maintenance fee with respect to a LIBOR Loan shall become due and payable in the same manner as though the Maker had exercised such right of prepayment.

(c) Any payment required of Maker of the Principal Amount or any portion thereof after acceleration of the Maturity Date pursuant to any provisions hereof or of the Loan Document(s) shall be deemed a voluntary prepayment for the purposes hereof, and if a LIBOR Advance is then outstanding, Maker shall be required, on demand, to pay the prepayment premium, if any, calculated as aforesaid.

(d) Any payments of the Principal Amount received by Payee pursuant to the terms of this PARAGRAPH 10 shall be applied in the following order of priority: (i) first, to any accrued interest which is due and unpaid as of the date of such payment; and (ii) second, to the outstanding Principal Amount in the inverse order of maturity.

11. Involuntary Rate. Upon a default or after maturity or after judgment has been rendered on this Note, Maker's right to select pricing options shall cease. Overdue principal and, to the extent permitted by law, overdue interest and all other overdue amounts owing hereunder, whether at maturity, upon a Default, upon acceleration or otherwise, shall bear interest for each day that such amounts are overdue (whether or not any required notice of default shall have been given) at a rate per annum equal to four percent (4%) per annum in excess of the Prime Rate in effect from time to time; provided, however, that no overdue principal shall bear interest at a rate per annum less than four percent (4%) in excess of the rate of interest applicable thereto immediately prior to maturity (such rate, the "Involuntary Rate"). Interest shall continue to accrue at the Involuntary Rate upon a default or upon maturity of this Note, whether by expiration of its term, acceleration or otherwise, until this Note is paid in full, including the period following entry of any judgment on or relating to this Note or the Loan Documents. Interest on any such judgment shall accrue and be payable at the Involuntary Rate, and not at the statutory rate of interest, after judgment, any execution thereon, and until actual receipt by Payee of payment in full of this Note and said judgment. Interest at the Involuntary Rate shall be collectible as part of any judgment hereunder and shall be secured by the Mortgage and the other Loan Documents. Payee's right to receive interest at the Involuntary Rate shall be in addition to all other rights and remedies provided herein or by law for the benefit of the holder hereof upon a default; and the acceptance of the same by the holder hereof shall not restrict such holder in any respect in the exercise of any other or further right or remedy, nor shall the same be deemed to be, as to the holder hereof, a waiver or release of Maker from any of its obligations herein contained or constitute an extension of the time for payments due hereunder.

12. Late Fee. If the entire amount of any required principal and/or interest under this Note is not paid in full within ten (10) days after the same is due, Maker shall pay to the Payee a late fee equal to five (5%) percent of the required payment, and such charge shall be deemed to be part of the indebtedness evidenced herein.

13. Security. This Note is secured by the Mortgage and all of the Loan Documents (including any amendment, modification, extension or renewal thereof now or hereafter executed in connection therewith or herewith) "Document(s)". This Note is entitled to the benefits of the Loan Documents.

14. Acceleration. It is hereby expressly agreed that the entire unpaid balance of the Principal Amount shall, at the option of the holder hereof and upon such notice as may be required by this Note or by the Mortgage, become immediately due and payable without necessity for presentment and demand, notice of protest, demand and dishonor or nonpayment of this Note, all of which are hereby expressly waived, upon the happening of any Event of Default or any event by which, under the terms of the Loan Document(s), said unpaid balance may or shall become due and payable. Failure to exercise any such option at any time shall not constitute a waiver of the right of the holder hereof to exercise the same in the event of any subsequent default or acceleration event.

15. Notices. Except as otherwise provided herein, any notice to be given hereunder shall be in writing and shall be either delivered or sent by first-class registered or certified mail, return receipt requested postage prepaid, addressed (a) if to Maker, to Maker's address set forth on the signature page or (b) if to Payee, at Payee's address set forth above, Attention: Denise M. Smyth, Vice President or, as to any party, at such other address as shall be designated by such party by notice to the other party given in the manner set forth in this PARAGRAPH and each such notice shall be effective (i) if delivered by hand, at the time of delivery to the address specified in this PARAGRAPH, or (ii) if given by mail, on the fourth Business Day following the time of mailing in the manner aforesaid, or (iii) on the Business Day immediately following the delivery of such notice to an overnight delivery service.

16. Funding Sources. Nothing contained herein shall be deemed to obligate Payee to fund advances hereunder in any particular place or manner; and nothing contained herein shall be deemed to constitute a representation by Payee that it has funded or will fund advances in any particular place or manner.

17. Taxes and Attorneys' Fees. Maker shall pay to Payee, immediately upon demand, any and all taxes assessed against Payee by reason of its holding of this Note and the receipt by it of interest payments hereunder (other than income, franchise and other similar taxes assessed by the United States Government, any state or any political subdivision of either thereof on such interest payments), and any and all other sums and charges that may at any time become due and payable under the Loan Document(s). Maker also promises to pay, on demand, all costs, title insurance premiums, mortgage recording taxes, disbursements and reasonable attorneys' fees (including allocated costs of internal counsel of Payee) and disbursements incurred in connection with the negotiation, preparation, and execution of this Note and/or the Loan Documents and any other documents and instruments prepared in connection herewith or therewith and the consummation of the transactions contemplated hereby or thereby and the administration of this Loan and in the preservation of rights under, enforcement of, this Note and the Loan Document(s), any modification, amendment, or consent related thereto and in any suit, action or proceeding to protect or sustain the security interest of the holder of the Loan Document(s) and any refinancing or renegotiation of this Note and the Loan Document(s).

18. No Partnership or Joint Venture. Nothing contained in this Note or elsewhere shall be deemed or construed as creating a partnership or joint venture between Payee and Maker or between Payee and any other person, or cause the holder hereof to be responsible in any way for the debts or obligations of Maker or any other person.

19. Waiver. Maker hereby waives diligence, presentment, protest and demand, notice of protest, dishonor and nonpayment of this Note, and expressly agrees that, without in any way affecting the liability of Maker hereunder, Payee may extend the Maturity Date or the time for payment of any amount due hereunder, accept additional security, release any party liable hereunder and release any security now or hereafter securing this Note without in any other way affecting the liability and obligation of Maker or any other Person. Maker further waives, to the full extent permitted by law, the right to plead any and all statutes of limitations as a defense to any demand on this Note, under the Loan Document(s), or on any guaranty or other agreement now or hereafter securing this Note.

20. Interest Rate Limitation. Notwithstanding anything contained herein to the contrary, the holder hereof shall never be entitled to receive, collect or apply as interest on the obligation evidenced hereby any amount in excess of the maximum rate of interest permitted to be charged by applicable law; and in the event the holder hereof ever receives, collects or applies as interest any such excess, such amount which would be excessive interest shall be applied to the reduction of the Principal Amount; and if the Principal Amount is paid in full, any remaining excess shall forthwith be paid to Maker. In determining whether the interest paid or payable in any specific case exceeds the highest lawful rate, the holder hereof and Maker shall to the maximum extent permitted under applicable law (i) characterize any non-principal payment as an expense, fee or premium rather than as interest; (ii) exclude voluntary prepayments and the effects thereof; and (iii) "spread" the total amount of interest throughout the entire contemplated term of the obligation so that the interest rate is uniform throughout said entire term.

21. Severability. Every provision of this Note is intended to be severable. In the event any term or provision hereof is declared by a court of competent jurisdiction to be illegal or invalid for any reason whatsoever, such illegality or invalidity shall not affect the balance of the terms and provision hereof, which terms and provisions shall remain binding and enforceable.

22. Number and Gender. In this Note the singular shall include the plural and the masculine shall include the feminine and neuter gender, and vice versa, if the context so requires.

23. Headings. Headings at the beginning of each numbered paragraph of this Note are intended solely for convenience of reference and are not to be deemed or construed to be a part of this Note.

24. Governing Law; Submission to Jurisdiction; Waivers, Etc.

(a) This Note, which, together with the Loan Documents, sets forth the entire understanding of Maker and Payee with respect to the subject matter hereof, shall be governed by and construed and enforced in accordance with the laws (without giving effect to the conflict of law principles thereof) of the State of New York.

(b) Any legal action or proceeding with respect to this Note or any of the Loan Documents may be brought in the courts of the State of New York or, if the requisites of jurisdiction obtain, of the United States of America for the Southern or Eastern District of New York, and, by execution and delivery hereof, Maker hereby accepts for itself and in respect of its property, generally and unconditionally, the jurisdiction of the aforesaid courts. Nothing herein, however, shall affect the right of Payee to commence legal proceedings or otherwise proceed against Maker in any other jurisdiction. MAKER KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT TO A TRIAL BY JURY IN RESPECT OF ANY CLAIM BASED HEREON, ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS NOTE OR ANY OTHER LOAN DOCUMENTS CONTEMPLATED TO BE EXECUTED IN CONNECTION HERewith OR ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY. THIS WAIVER CONSTITUTES A MATERIAL INDUCEMENT FOR PAYEE TO ACCEPT THIS NOTE AND MAKE THE LOAN. ACCEPTANCE OF THIS NOTE BY PAYEE BY THE PAYEE SHALL BE DEEMED TO CONSTITUTE A WAIVER BY THE PAYEE OF THE RIGHT TO TRIAL BY JURY IN THE EVENT OF ANY LITIGATION IN RESPECT OF WHICH THE MAKER HAS WAIVED THE RIGHT TO TRIAL BY JURY HEREUNDER.

(c) No delay on the part of Payee in exercising any of its options, powers or rights, or partial or single exercise thereof, whether arising hereunder, under the Loan Documents or otherwise, shall constitute a waiver thereof or affect any right hereunder or thereunder. No waiver of any of such rights and no modification, amendment or discharge of this Note shall be deemed to be made unless the same shall be in writing, duly signed by Payee and Maker. Each such waiver (if any) shall apply only with respect to the specific instance involved and shall in no way impair the rights of Payee or the obligations of Maker hereunder in any other respect at any other time.

25. Brokerage. Payee and Maker each hereby represents to the other that it did not deal with any broker or similar person in connection with this financing.

26. Set-off. Maker hereby grants to Payee, a lien, security interest and right of setoff as security for all liabilities and obligations to Payee, whether now existing or hereafter arising, upon and against all deposits, credits, collateral and property, now or hereafter in the possession, custody, safekeeping or control of Payee or any entity under the control of FleetBoston Financial Corporation, or in transit to any of them. At any time after an Event of Default, without demand or notice, Payee may set off the same or any part thereof and apply the same to any liability or obligation of Maker regardless of the adequacy of any other collateral securing the Loan. ANY AND ALL RIGHTS TO REQUIRE PAYEE TO EXERCISE ITS RIGHTS OR REMEDIES WITH RESPECT TO ANY OTHER COLLATERAL WHICH SECURES THE LOAN, PRIOR TO EXERCISING ITS RIGHTS OF SETOFF WITH RESPECT TO SUCH DEPOSITS, CREDITS OR OTHER PROPERTY OF MAKER ARE HEREBY KNOWINGLY, VOLUNTARILY AND IRREVOCABLY WAIVED.

27. Miscellaneous.

(a) This Note may not be changed orally but only by an agreement in writing signed by Maker and Payee.

(b) 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 others sums due and payable hereon, all costs of collecting or attempting to collect this Note, including reasonable attorneys' fees and expenses.

(c) This Note may be signed in counterparts.

28. Replacement Documents. Upon receipt of an affidavit of an officer of Payee as to the loss, theft, destruction or mutilation of this Note or any other Loan Document which is not of public record, and, in the case of any such loss, theft, destruction or mutilation, upon cancellation of this Note or such other Loan Document, Maker will issue, in lieu thereof, a replacement Note or such other Loan Document in the same principal amount thereof and otherwise of like tenor.

29. Sell a Loan to a Third Party Provider. Payee shall have the unrestricted right at any time or from time to time, and without Maker's or Guarantor's consent, to assign all or any portion of its rights and obligations hereunder to one or more banks or other financial institutions (each, an "Assignee"), and a Maker (and each guarantor, as applicable) agrees that it shall execute, or cause to be executed, such documents, including, without limitation, amendments to this Agreement and to any other documents, instruments and agreements instituted in connection herewith as Payee shall deem necessary to effect the foregoing. In addition, at the request of Payee and any such Assignee, Maker shall issue one or more new promissory notes, as applicable, to any such Assignee and, if Payee has retained any of its rights and obligations hereunder following such assignment to Payee, which new promissory notes shall be issued in replacement of, but not in discharge of, the liability evidenced by the promissory note held by Payee prior to such assignment and shall reflect the amount of the respective commitments and loans held by such appropriate assignment documentation, amendments and any other documentation required by Payee in connection with such assignment, and the payment by Assignee of the purchase price agreed to by Payee and such Assignee, such Assignee shall be a party to this Agreement and shall have all of the rights and obligations of Payee hereunder (and under any and all other guaranties, documents, instruments and agreements executed in connection herewith) to the extent that such rights and obligations have been assigned by Payee pursuant to the assignment documentation between Payee and such Assignee and Payee shall be released from its obligations hereunder and thereunder to a corresponding extent.

30. Sell a Loan to a Prospective Participant. Payee shall have the unrestricted right at any time and from time to time and without the consent of or notice to Maker (or any guarantor, if any) to grant to one or more banks or other financial institutions (each, a "Participant") participating interests in Payee's obligation to lend hereunder and/or any or all of the loans held by Payee hereunder. In the event of any such grant by Payee of a participating interest to a Participant, whether or not upon notice to Maker, Payee shall remain responsible for the performance of its obligations hereunder and Maker shall continue to deal solely and directly with Payee in connection with Payee's rights and obligations hereunder.

31. Furnishing of Information to Prospective Participants and Assignees. Payee may furnish any information concerning Maker in its possession from time to time to prospective Assignees and Participants provided that Payee shall require any such prospective Assignee or Participant to agree in writing to maintain the confidentiality of such information.

32. Limited Recourse. Payee expressly agrees that the extent of liability of the Maker for any sums due or obligations to perform under this Note (except for the indemnities and/or guarantees delivered to Payee by the Maker and/or the other Indemnitor dated as of this date in connection with the loan evidenced by this Note, and secured, in part, by the Mortgage) is limited to the Maker's estate, right, title and interest in, to and under the Mortgaged Property, the Maker's right, title and interest to the leases and all interest of undersigned thereto (the "Leases"), as described in the Mortgage and/or any other document evidencing or securing this Note, as the same may be amended from time to time (individually, herein referred to as the "Instrument" and collectively, as "Instruments" or "Loan Documents") and the assignment of leases in rents dated of even date hereof by the Maker in favor of Payee, as the same may be amended from time to time (the "Assignment"), Payee agreeing not to look personally to the Maker or to the other Indemnitor or to any principals, trustees members, partners, shareholders, officers, directors, employees or agents of the Maker (collectively, the "Affiliates") but to look solely to the Mortgaged Property, the Leases and the Collateral and no other assets of the Maker, Indemnitor or the Affiliates for payment of any of such sums; provided that the foregoing shall not (i) constitute a waiver of any obligation evidenced by the Note, this Mortgage, the Assignment and/or any other Instrument, (ii) limit the right of the holder of the Note, this Mortgage, the Assignment, and/or any other Instrument to name the Maker as a party defendant in any action or suit for judicial or nonjudicial foreclosure and sale under the Note, the Mortgage, the Assignment and/or any other Instrument in any action or proceeding hereunder so long as no judgment in the nature of a deficiency judgment or any other personal or money judgment shall be asked for or taken against the Maker or the Affiliates, (iii) affect in any way the validity of any guaranty or indemnity from the Maker, the other Indemnitors and/or any other person of all or any of the obligations evidenced and secured by the Note and/or the any of the other Instruments, or the rights of the Payee in connection with such guaranties and/or indemnities to look to the property and assets of the Maker, the other Indemnitor, any guarantor, and/or any Affiliates, but only to the extent provided in such guaranty and/or indemnity, as the case may be (iv) release or impair this Note or the lien of the Mortgage, the Assignment, and/or other Instrument, (v) prevent or in any way hinder the Payee from exercising or constitute a defense, an affirmative defense, a counterclaim or other basis for relief in respect of the exercise of, any other remedy against the Mortgaged Property, the Leases and/or the Collateral and/or the Mortgage, Assignment, Instrument and/or any other instrument securing the Note including the other Loan Documents executed and delivered to the Payee in connection with the transactions contemplated herein or as prescribed by law or in equity in case of default, except that Payee shall in no event seek any deficiency or other personal or money judgment against the Maker or any Affiliates except to the extent provided for in such guaranties and/or indemnities, (vi) prevent or in any way hinder the Payee from exercising, or constitute a defense, an affirmative defense, a counterclaim or other basis for relief in respect of the exercise of, its remedies in respect of any deposits, insurance proceeds, condemnation awards or other monies or other collateral or letters of credit securing this Note, or (vii) be applicable to the responsible Person in the event of and to the extent of fraud, misappropriation of funds or other property, or intentional damage to any of the Mortgaged Premises or any other collateral securing this Note or any part thereof intentionally inflicted in bad faith by Maker or any partner, principal, shareholder, officer, director, agent or employee of Maker or any partner or principal of any of the foregoing or (viii) be applicable to the liability arising in respect of hazardous materials or ADA compliance.

Nothing herein shall be deemed to be a waiver of any right which the Payee may have under Section 506(a), 506(b), 1111(b) or any other provision of the Bankruptcy Reform Act of 1978 or any successor thereto or similar provisions under applicable state law to file a claim for the full amount of the debt owing to the Payee by the Maker or to require that all of the Mortgaged Property shall continue to secure all of the indebtedness owing to the Payee in accordance with this Note, this Mortgage, and the other Loan Documents.

33. Events of Default. The occurrence of any one or more of the following events shall constitute an event of default (an "Event of Default") hereunder and under the Loan Documents:

(a) failure of Maker (x) to comply with any of the provisions of PARAGRAPH 9 herein; or

(b) except as otherwise provided in SUBPARAGRAPH (a) directly hereinabove, if Maker shall fail to perform or observe, or cause to be performed or observed, any other term, obligation, covenant, condition or agreement contained in this Note on its part to be performed and such failure shall have continued for a period of thirty (30) days after notice thereof; provided, however, if such default shall not have been occasioned by any willful act of Maker, and if such default cannot with due diligence be cured within such thirty (30) days period, the time within which to cure the same shall be extended for such period as may be necessary to cure the same with due diligence if Maker commences within such thirty (30) days and proceeds diligently to cure the same; or

(c) if the Managing Member ceases (x) to own at least 49.9% of the issued and outstanding equity interests in Maker or (y) to control (i.e., power to direct or cause the direction of the management and policies of a person, corporation, partnership or other entity) Guarantor or (ii) if there is a Change in Control.

34. Distributions. During the continuance of an Event of Default, the Maker shall be prohibited from making distributions to its members, and if no Events of Default shall exist, the Maker may make distributions to its members.

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

Witness: PORT BAY ASSOCIATES, LLC

By: Acadia Realty Limited Partnership,
its Managing Member

By: Acadia Realty Trust, its
General Partner

By -----
Robert Masters
Senior Vice President

Address of Maker:

1311 Mamaroneck Avenue
Suite 260
White Plains, New York 10605

Agreed and Accepted:

FLEET NATIONAL BANK

By -----
Name: Denise M. Smyth
Title: Vice President

STATE OF NEW YORK

COUNTY OF _____

)
) ss.:
)

On the ____ day of January, 2004, before me, the undersigned, a Notary Public in and for said State, personally appeared Robert Masters, personally known to me or proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his capacity and that by his signature on the instrument, the person or the entity upon behalf of which the person acted executed the instrument.

Notary Public

My Commission Expires:

=====
PORT BAY ASSOCIATES, LLC,
a New York limited liability company,

having an office at c/o Acadia Realty Trust,
1311 Mamaroneck Avenue, Suite 260, White Plains, New York 10605

AND

FLEET NATIONAL BANK,
a national banking association,

having an office at 1185 Avenue of the Americas,
New York, New York 10036

MORTGAGE AND SECURITY AGREEMENT AND
ASSIGNMENT OF LEASES AND RENTS

Soundview Marketplace, Port Washington, New York 11050, in the County of Nassau,
State of New York, as more particularly described in the Mortgage

Tax Map Designation
Soundview Marketplace, Port Washington, New York 11050

	Parcel One	Parcel Two	Parcel Three
State:	New York	New York	New York
County:	Nassau	Nassau	Nassau
Town:	North Hempstead	North Hempstead	North Hempstead
District:	N/A	N/A	N/A
Section:	4	4	4
Block:	129	129	129
Lots:	10, 14B, 14C	12	1, 15A, 15C

Leasehold Mortgage as to Parcel One and Parcel Two and a Mortgage on the Fee as
to Parcel Three

=====
After recording, please return to:
DEWEY BALLANTINE LLP
1301 Avenue of the Americas
New York, New York 10019
Attn: Val A. Soupios, Esq.

MORTGAGE AND SECURITY AGREEMENT AND
ASSIGNMENT OF LEASES AND RENTS

THIS AGREEMENT made as of the 1st day of December, 2003, by and between Port Bay Associates, LLC, a New York limited liability company, having an office at c/o Acadia Realty Trust, 1311 Mamaroneck Avenue, Suite 260, White Plains, New York 10605 (hereinafter referred to as the "Mortgagor") and FLEET NATIONAL BANK, a national banking association, having an office at 1185 Avenue of the Americas, New York, New York 10036 (hereinafter referred to as the "Mortgagee"),

W I T N E S S E T H :

- - - - -

WHEREAS, the Mortgagor is the owner of a fee interest in Parcel Three and is owner of the leasehold interest in Parcel One and Parcel Two, all as described in Exhibit A attached hereto (hereinafter referred to as the "Premises");

WHEREAS, Mortgagor has executed and delivered its note (the "Note") to Mortgagee in the principal amount of \$3,990,135.17 or so much thereof as may be advanced thereunder (said principal sum, interest and all other sums which may or shall become due under the Note and/or this Mortgage pursuant to the provisions hereof, being hereinafter collectively referred to as the "Debt" or "Indebtedness") and in order to secure the payment of the Debt, Mortgagor has executed and delivered this mortgage (the "Mortgage"); and

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt of which is hereby acknowledged, the Mortgagor hereby represents and warrants to and covenants and agrees with Mortgagee as follows:

As security for payment of the Debt pursuant to the Note, the Mortgagor hereby gives, grants, bargains, sells, warrants, aliens, remises, releases, conveys, assigns, transfers, mortgages, hypothecates, deposits, pledges, sets over and confirms unto the Mortgagee all of its estate, the right, title and interest of the Mortgagor, now owned or hereafter acquired, in and to the following property, rights and interests (such property, rights and interests being hereinbefore and hereinafter collectively referred to as the "Mortgaged Property"):

(a) the Premises;

(b) The estate, right, title and interest of the Mortgagor, as Tenant, in and to the Ground Lease, as defined in Exhibit C hereto (including the leasehold interest created and granted thereby), the Premises, and all of the right, title and interest of Mortgagor in and to the building and equipment on the Premises, including without limitation (a) all rights of the Mortgagor to exercise any election or option to make any decision or determination or to give any notice, consent, waiver or approval, or to take any other action under or in respect of the Ground Lease and (b) all modifications, extensions, and renewals of the Ground Lease, and all credits, deposits of the Mortgagor as tenant thereunder, including but not limited to, the options and rights of the Mortgagor to renew the Ground Lease for any succeeding term or terms thereof, and (c) and credits,

deposits, options, purchase options, privileges and rights of the Mortgagor under the Ground Lease, including but not limited to the right, if any, to renew or extend the Ground Lease for succeeding term or terms or to acquire fee title to or other interest in all or any portion of the Premises or the Improvements, and (d) all of the Mortgagor's rights and remedies at any time arising under or pursuant to Section 365(h) of the Bankruptcy Code, 11 U.S.C. ss. 101 et seq. (the "Bankruptcy Code"), including, without limitation, all of the Mortgagor's right thereunder to remain in possession of the Premises and the Improvements;

(c) all buildings and improvements now or hereafter located on the Premises (hereinafter referred to as the Improvements);

(d) all easements, rights-of-way, gores of land, streets, ways, alleys, passages, sewer rights, waters, water courses, water rights and powers, and all estates, rights, titles, interests, privileges, liberties, tenements, hereditaments, and appurtenances of any nature whatsoever, in any way belonging, relating or pertaining to the Mortgaged Property and all land lying in the bed of any street, road or avenue, opened or proposed, in front of or adjoining the Premises to the center line thereof;

(e) all machinery, apparatus, equipment, fittings, fixtures and other property of every kind and nature whatsoever owned by the Mortgagor, or in which the Mortgagor has or shall have an interest, now or hereafter located upon the Mortgaged Property, or appurtenances hereto, and usable in connection with the present or future operation and occupancy of the Mortgaged Property and all building equipment, materials and supplies of any nature whatsoever owned by the Mortgagor, or in which the Mortgagor has or shall have an interest, now or hereafter located upon the Mortgaged Property (hereinafter collectively referred to as the Equipment), and the right, title and interest of the Mortgagor in and to any of the Equipment which may be subject to any security agreements (as defined in the Uniform Commercial Code of the State in which the Mortgaged Property is located), superior in lien to the lien of the Mortgages;

(f) all awards or payments, including interest thereon, and the right to receive the same, which may be made with respect to the Mortgaged Property, whether from the exercise of the right of eminent domain (including any transfer made in lieu of the exercise of said right), or for any other injury to or decrease in the value of the Mortgaged Property;

(g) other than the Ground Lease, all leases and other agreements affecting the use or occupancy of the Mortgaged Property now or hereafter entered into (hereinafter referred to as the "Leases") and the right to receive and apply the rents, issues and profits of the Mortgaged Property (hereinafter referred to as the "Rents") to the payment of the Debt, after the occurrence of an Event of Default;

(h) all proceeds of and any unearned premiums on any insurance policies covering the Mortgaged Property, including, without limitation, the right to receive and apply the proceeds of any insurance, judgments, or settlements made in lieu thereof, for damage to the Mortgaged Property;

(i) the right, in the name and on behalf of the Mortgagor, to appear in and defend any action or proceeding brought with respect to the Mortgaged Property, and to commence any action or proceeding to protect the interest of the Mortgagee in the Mortgaged Property;

(j) all rents, royalties, issues, profits, revenue, income, recoveries, reimbursements and other benefits of the Mortgaged Property (hereinafter, the "Rents") and all leases of the Mortgaged Property or portions thereof now or hereafter entered into and all right, title and interest of Mortgagor thereunder, including, without limitation, cash, letters of credit or securities deposited thereunder to secure performance by the lessees of their obligations thereunder, whether such cash, letters of credit or securities are to be held until the expiration of the terms of such leases or applied to one or more of the installments of rent coming due immediately prior to the expiration of such terms, and including any guaranties of such leases and any lease cancellation, surrender or termination fees in respect thereof, all subject, however, to the provisions of Section 4.1;

(k) all (a) development work product prepared in connection with the Premises, including, but not limited to, engineering, drainage, traffic, soil and other studies and tests; water, sewer, gas, electrical and telephone approvals, taps and connections; surveys, drawings, plans and specifications; and subdivision, zoning and platting materials; (b) building and other permits, rights, licenses and approvals relating to the Premises; (c) contracts and agreements (including, without limitation, contracts with architects and engineers, construction contracts and contracts for the maintenance, management or leasing of the Premises), contract rights, logos, trademarks, trade names, copyrights and other general intangibles used or useful in connection with the ownership, operation or occupancy of the Premises or any part thereof; (d) financing commitments (debt or equity) issued to Mortgagor in respect of the Premises and all amounts payable to Mortgagor thereunder; (e) contracts for the sale of all or any portion of the Premises, the Improvements or the Chattels, and all amounts payable by the purchasers thereunder; (f) operating and other bank accounts, and monies therein, of Mortgagor relating to the Premises, including, without limitation, any accounts relating to real estate taxes or assessments; (g) interest rate protection agreements entered into by Mortgagor in respect of the Loan; and (h) commercial tort claims related to the Premises, the Improvements or the Chattels;

(l) all rights of Mortgagor under promissory notes, letters of credit, electronic chattel paper, proceeds from accounts, payment intangibles, and general intangibles related to the Premises, 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;

(m) all other assets of Mortgagor related in any way to the Premises, subject to certain limitations that may be set forth herein; and

(n) 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, and all rights of Mortgagor to refunds of real estate taxes and assessments.

ARTICLE I

Certain Definitions

The Mortgagor and the Mortgagee agree that, unless the context otherwise specifies or requires, the following terms shall have the meanings herein specified, such definitions to be applicable equally to the singular and to the plural forms of such terms.

"Acadia" shall mean Acadia Realty Trust, a Maryland real estate investment trust with offices at 1311 Mamaroneck Avenue, Suite 260, White Plains, New York 10605, and its successors and/or assigns.

"Accounting Principles" shall mean the accounting principles utilized in the preparation of the operating statements for the Mortgaged Premises heretofore delivered to the Mortgagee or income tax basis of accounting.

"Affiliate" shall mean (a) if with respect to a corporation, (i) any officer or director thereof and any person or entity who or which is, directly or indirectly, the legal or beneficial owner of more than ten (10%) percent of any class of shares or other equity security of such corporation, or (ii) any person or entity who or which, directly or indirectly, controls or is controlled by or is under common control with such corporation; (b) if with respect to a partnership or venture, any (i) general partner, (ii) general partner of a general partner, (iii) partnership with a common general partner, (iv) coventurer thereof, or (v) any person, trust, corporation, partnership, venture or other entity who or which, directly or indirectly, controls or is controlled by or is under common control with such partnership; and if any general partner or general partner of a general partner or coventurer is a corporation, any person or entity which is an Affiliate as defined in clause (a) above of such corporation; and (c) if with respect to a limited liability company, (i) any manager thereof and any person or entity who or which is, directly or indirectly, the legal or beneficial owner of more than ten (10%) percent of any class of the membership interests of such limited liability company, or (ii) any person or entity who or which, directly or indirectly, controls or is controlled by or is under common control with such limited liability company and if any member which is the legal or beneficial owner of more than 10% of any class of membership interests is a corporation, any person or entity which is an Affiliate (as defined in clause (a) above) of such corporation. "Controls" (including the correlative meanings of "controlled by" and "under common control with") means effective power, directly or indirectly, to direct or cause the direction of the management and policies of such person or entity.

"Appraised Value" shall mean the appraised value of the Mortgaged Premises, as determined by an independent appraiser selected by the Mortgagee and reasonably acceptable to the Mortgagor. The Mortgagee may require that such an appraisal be performed at any time. Appraised Value shall be determined utilizing an appraisal method consistent with that used in determining the Appraised Value in connection with entering into the Note and Mortgage. The Mortgagors shall be responsible for the cost of up to one appraisal per annum if requested by Mortgagee.

"Authorized Representative" shall mean Michael Nelsen, Robert Masters, Maggie Hui, Jon Grisham or any other person or persons designated by Mortgagor, in a writing delivered to Mortgagor, as an Authorized Representative.

"Default Rate" shall mean the Involuntary Rate (as such term is defined in the Note).

"Due and payable" when used with reference to the principal of, or premium or interest on, or when referring to any and all other sums secured by this Mortgage or any other of the Loan Documents shall mean due and payable, whether at the monthly or other date of payment or at the date of maturity specified in the Note, this Mortgage or the other Loan Documents; or by acceleration or call for payment as provided in the Note, hereunder or in the other Loan Documents, or, in the case of Impositions, the last day upon which any charge may be paid without penalty and/or interest.

"Events of Default" shall have the meaning assigned to such term in Section 6.1 of this Mortgage.

"Full Force and Effect" shall mean, as to any lease, that such lease shall be in full force and effect, there shall be no material default by the tenant thereunder or default by the landlord thereunder or other act or condition or circumstance giving or which may give, without the giving of any further notice, the tenant or the landlord the right to terminate any lease and, if requested by the Mortgagor and required by its lease, the tenant shall have delivered to the Mortgagor an estoppel certificate in form and substance reasonably satisfactory to the Mortgagee.

"GAAP" shall mean Generally Accepted Accounting Principles set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or such other statements by such other entity as may be approved by a significant segment of the accounting profession, which are applicable in the circumstances as of the date in question, consistently applied within a period and from period to period, provided, however, that if employment of more than one principle shall be permissible at such time in respect to a particular accounting matter, "GAAP" shall refer to the principle which is then employed by Acadia, the Managing Member or Mortgagor, as the case may be, with the concurrence of the independent certified public accountants of Debtor.

"Governmental Authorities" shall mean all federal, state, county, municipal and local governments and all departments, commissions, boards, bureaus and offices thereof, having or claiming jurisdiction over the Mortgaged Premises or any part thereof.

"Ground Lease" or "Lease" means that certain agreement of lease by and between Soundview Shopping Center, a general partnership having an office at Soundview Shopping Center, c/o Mr. B.V. Brooks, 542 Westport Avenue, Norwalk, Connecticut 06851 ("Landlord"), Port Bay Associates, as tenant, dated as of December 19, 1985, a Memorandum of Lease with respect thereto was recorded in

the Office of the Clerk of County of Nassau February 3, 1986 in Liber 9702 at Page 404, as amended by that certain First Amendment to Agreement of Lease, dated as of January 1999 by and between Landlord and Mortgagor (the "First Amendment").

"Guaranty" or "Indemnity" means, individually, jointly, severally and collectively, (i) that certain loan guaranty dated of even date hereof by the Indemnitor in favor of Mortgagee, as the same may be extended and or otherwise modified from time to time (the "Loan Guaranty"), (ii) that certain Reaffirmation Agreement with respect to the hazardous material guaranty and indemnity agreement dated of even date hereof by the Indemnitor in favor of Mortgagee, as the same may be extended and or otherwise modified from time to time (the "Hazardous Material Guaranty"), (iii) that certain ADA guaranty and indemnity agreement dated of even date hereof by the Indemnitor in favor of Mortgagee, as the same may be extended and or otherwise modified from time to time (the "ADA Guaranty").

"Impositions" shall mean all duties, taxes (other than income taxes), water and sewer rents, rates and charges, assessments (including, but not limited to, all assessments for public improvements or benefit), charges for public utilities, excises, levies, license and permit fees and other charges, ordinary or extraordinary, whether foreseen or unforeseen, of any kind and nature whatsoever, which prior to or during the term of this Mortgage will have been or may be laid, levied, assessed or imposed upon or become due and payable out of or in respect of, and become a lien on the Premises, the Improvements, Building Service Equipment, Furnishings or any other property or rights included in the Mortgaged Premises, or any part thereof or appurtenances thereto, or which are levied or assessed against the rent and income received by the Mortgagor from the Space Leases (as defined in Section 1.15) by virtue of any present or future law, order or ordinance of the United States of America or of any state, county or local government or of any department, office or bureau thereof or of any other Governmental Authority.

"Indemnitor", "Guarantor", "Guarantors" or "Indemnitors" means individually, jointly, severally and collectively, the Mortgagor and the Managing Member.

"Legal Requirements" shall mean all present and future laws, ordinances, rules, regulations and requirements of all Governmental Authorities, and all orders, rules and regulations of any national or local board of fire underwriters or other body exercising similar functions, foreseen or unforeseen, ordinary or extraordinary, which may be applicable to the Mortgaged Premises or any part thereof, or to the sidewalks, alleyways, passageways, curbs and vaults adjoining the same, or to the use or manner of use of any of the foregoing, or to the owners, tenants, or occupants thereof, whether or not any such law, ordinance, order, rule, regulation or requirement shall necessitate structural changes or improvements or shall interfere with the use or enjoyment of any of the foregoing, and shall also mean and include all requirements of the policies of public liability, fire and all other insurance at any time in force with respect to any of the foregoing.

"Loan Documents" means the Note, this Mortgage, the Guaranty and all other documents, including, without limitation, collateral documents, security agreements, UCC financing statements, assignments of leases and rents, guaranties, indemnities, title insurance, assignments, subordination agreements, non-disturbance agreements, leases affecting the property encumbered by the

Mortgage, and any other document, mortgage, agreement, assignment or other instrument executed by Mortgagor and/or Indemnitor, as the case may be, or any other third party pursuant hereto or thereto or in connection herewith or in connection with the loan evidenced by the Note and secured by this Mortgage, as the same may be extended and or otherwise modified from time to time.

"Managing Member" shall mean Acadia Realty Limited Partnership, a Delaware limited partnership having an office at 1311 Mamaroneck Avenue, Suite 260, White Plains, New York 10605, and its successors and/or assigns.

"Mortgagor" shall mean the Mortgagor herein named, any subsequent owner or owners of the Mortgaged Premises, and its or their respective successors and assigns; provided, however, that this definition shall not be construed to limit the provisions of Section 2.8.1 hereof.

"Net Operating Income" shall mean, with respect to the applicable period, the aggregate rental and other receipts (unless excluded pursuant hereto) of the Mortgaged Premises (actual results with respect to the preceding six-months and pro forma with respect to the following six-months during such period less the aggregate amount of all operating expenses of the Mortgaged Premises during such period, in each case determined in accordance with the Accounting Principles. For purposes of the determination of Net Operating Income, operating expenses shall include, without limitation, all real estate taxes (but not in excess of the pro rata portion of such real estate taxes applicable to the applicable period covered by the statement), water and sewer charges, utility charges, insurance premiums (but not in excess of the amounts applicable to the applicable period covered by the statement), salaries and benefits of all employees engaged in the operation, maintenance or management of Mortgaged Premises, all costs of ordinary and necessary maintenance, cleaning and repair, costs of snow and rubbish removal and security services. Net Operating Income shall, however, (a) exclude from receipts all amounts paid to the Mortgagor for tenant alterations in connection with the leasing of space at the Mortgaged Premises, all amounts payable to the Mortgagor under leases with Affiliates of the Mortgagor, as tenant, or with Mortgagor, as tenant (unless the Mortgagee otherwise agrees) and, with respect to any lease providing for a reduction in the rentals payable under such lease at any time during the term thereof, base rentals in excess of the lowest base rentals payable under such lease (other than during any period of rent concessions made with respect to consecutive monthly periods commencing with the first month of the term of such lease), and (b) exclude from expenses payments of principal and interest on the Note, capital expenditures, leasing commissions, and other expenses payable to the Mortgagee pursuant to the Note or any of the other Loan Documents. Net Operating Income shall be determined without regard to extraordinary items of income and of expense. Each lease, the rental or other income from which was included in the calculations of Net Operating income, must in Full Force and Effect as of the date Net Operating Income is being determined.

"Net Worth" shall mean the net worth of Acadia as shown on its financial statements, and as subsequently determined in accordance with GAAP, used in Acadia's most recent statements.

"Obligations" or "Indebtedness" shall mean (a) the aggregate unpaid principal amount of, and accrued and unpaid interest on, the Note, plus (b) any and all indebtedness, obligations and other liabilities of the Mortgagor to the

Mortgagee arising out of or in connection with or otherwise relating to the Note or any of the Loan Documents, and/or any agreement(s) of the Mortgagor with the Mortgagee pertaining thereto, including, without limitation, any Hedge Agreement; in each case whether now or hereafter existing, direct or indirect, absolute or contingent, joint, several or independent, due or to become due, liquidated or unliquidated, held or to be held by the Mortgagee and whether created directly or acquired by assignment or otherwise.

"Permitted Encumbrances" shall mean each of the exceptions to coverage set forth in SCHEDULE B, PART I (other than the so-called standard exceptions set forth therein as items 1-7, inclusive) of the title policy insuring the lien of this Mortgage issued by Commonwealth Land Title Insurance Company of New York and accepted by the Mortgagee with respect to the Premises, and such other items as the Mortgagee, in its sole discretion, may approve in writing.

"Person" shall mean and include any individual, corporation, partnership, unincorporated association, trust, governmental agency or authority or other entity.

"Prime Rate" shall have the meaning assigned to such term in the Note.

"Space Lease" shall mean any and all leases, subleases, licenses, concession agreements or any other form of agreement, however denominated (written or verbal, now or hereafter in effect), in which the Mortgagor (or its predecessor in interest as owner of the Mortgaged Premises in the case of existing Space Leases) now or hereafter grants a possessory interest in and to, or the right to use and occupy the Mortgaged Premises, or any portion thereof, and all renewals, extensions, modifications, amendments and other agreements affecting the same.

"Space Tenant" shall mean the tenant or other user or occupant of part or all of the Mortgaged Premises under any Space Lease.

"State" or "New York" shall mean the State of New York.

ARTICLE II

Particular Covenants of the Mortgagor

The Mortgagor covenants and agrees as follows:

2.1. Payment of Obligations. The Mortgagor shall duly and punctually pay to the Mortgagee, as and when due and payable, the Obligations; provided, however, that the maximum principal amount which is, or under any contingency may be, secured hereby is \$3,990,135.17 plus protective advances under Section 7.3 and any amounts due under any Hedge Agreement.

2.2. General Representations, Covenants and Warranties.

2.2.1. The Mortgagor represents and warrants that: (a) it has a good and marketable title to an indefeasible fee estate in Parcel Three and it has a good and marketable title to a leasehold estate in Parcel One and Parcel Two, subject to no lien, charge or encumbrance, except for Permitted Encumbrances; (b) it owns the Building Service Equipment and Furnishings free and clear of all liens and claims other than in favor of the Mortgagee; (c) this Mortgage is and will remain a valid and enforceable first lien on the Mortgaged Property subject only to the exceptions referred to above; (d) the execution and delivery of this Mortgage and the Note has been duly authorized by the Mortgagor, the Managing Member and Acadia, the Managing Member's general partner, and that there is no provision in any document that evidences or establishes the existence of the Mortgagor, Managing Member or Acadia requiring further consent for such action by any other entity or person; (e) Mortgagor is a limited liability company duly formed, validly existing and in good standing under the laws of the State of New York; Managing Member is a limited partnership duly formed, validly existing and in good standing under the laws of the State of Delaware, and is in good standing in the State of New York, and is authorized to conduct business in the State of New York; and the General Partner is a trust duly formed, validly existing and in good standing under the laws of the State of Maryland, and is in good standing in the State of New York, and is authorized to conduct business in the State of New York; (f) Mortgagor and Indemnitor each has (i) all necessary licenses, authorizations, registrations, permits and/or approvals and (ii) full power and authority to own its properties and carry on its business as presently conducted and the execution and delivery by it of and performance of its obligations under, this Mortgage, the Note and the other Loan Documents to which it is a party will not result in the Mortgagor and/or Indemnitor being in default under any provisions of any document which evidences or establishes the existence of the Mortgagor and/or the Indemnitor or of any mortgage, credit or other agreement to which Mortgagor and/or Indemnitor is a party or which affects the Mortgagor and/or Indemnitor or the Premises, or any part thereof; (g) it will preserve such title, and forever warrant and defend the same and the Ground Lease to the Mortgagee, and will forever warrant and defend the validity and priority of the lien hereof against the claims of all persons and parties whomsoever; (h) the Mortgagor and Indemnitor each is now able to meet their respective debts as they mature, the fair market value of their respective assets exceeds their respective liabilities, and no bankruptcy or insolvency proceedings are pending or contemplated by or against the Mortgagor and/or Indemnitor; (i) all reports, statements and other data furnished by the Mortgagor and/or Indemnitor in connection with the loan evidenced by the Note are true and correct and complete in all material respects and do not omit to state any fact or circumstance necessary to make the statements contained therein not materially misleading; and (j) to the knowledge of Mortgagor, there are no actions, suits, or proceedings pending against or affecting the Mortgagor or the Mortgaged Property.

2.3. To Maintain Priority of Lien and Preserve Existence.

2.3.1. This Mortgage is and will be maintained as a valid first mortgage lien on the Mortgaged Premises, and the Mortgagor will not, directly or indirectly, create or suffer or permit to be created, or to stand against the Mortgaged Premises or any portion thereof, or against the rents, issues and profits therefrom, and will promptly discharge, any lien or charge prior to or upon a parity with or junior to the lien of this Mortgage other than the

Permitted Encumbrances; provided, however, that the Mortgagor shall not be required to pay any Imposition prior to the time it shall become due and payable subject to the provisions of Section 2.4.1 hereof, and nothing herein contained shall prevent the Mortgagor from contesting the validity of any such Imposition in accordance with the provisions of Section 2.4.4. The Mortgagor will keep and maintain the Mortgaged Premises, and every part thereof, free from all liens or lien notices, of Persons supplying labor and/or materials in connection with any construction, alteration, repair, improvement or replacement of the Improvements or of the Building Service Equipment and Furnishings. If any such lien shall be filed against the Mortgaged Premises, or any part thereof, the Mortgagor promptly (but in any event within thirty (30) days of receiving notice of such lien) shall discharge the lien of record, by bonding or otherwise. The Mortgagor shall exhibit to the Mortgagee, upon request, appropriate receipts or other satisfactory evidence of the payment of the Impositions or any other item which may, if not paid, give rise to a lien against the Mortgaged Premises.

2.3.2. The Mortgagor will, so long as it is owner of the Mortgaged Property or any part thereof, do all things necessary to preserve and keep in full force and effect its existence, rights and privileges as a limited liability company under the laws of the state of New York and will comply with all regulations, rules, ordinances, statutes, orders and decrees of any governmental authority or court applicable to the Mortgagor or to the Mortgaged Property or any part thereof.

2.4. To Pay Impositions.

2.4.1. The Mortgagor will pay or cause to be paid, as and when due and payable, all Impositions levied upon the Mortgaged Premises or any part thereof. However, if by law, any Imposition may at the option of the taxpayer be paid in installments (whether or not interest shall accrue on the unpaid balance thereof), the Mortgagor shall have the right to exercise such option and to pay such Imposition, or cause it to be paid (together with any accrued interest on the unpaid balance) in installments as they fall due and before any fine, penalty, further interest or cost may be added thereto.

2.4.2. Upon demand of the Mortgagee in the case of Impositions and, if an Event of Default shall exist, upon demand of the Mortgagee in the case of insurance premiums, the Mortgagor shall deposit with the Mortgagee a sum which bears the same relation to the annual insurance premiums for all insurance required by the terms hereof and real estate taxes and assessments assessed against the Mortgaged Premises for the insurance period or tax year then in effect, as the case may be, as the number of months elapsed as of the date of such demand since the last preceding installment of said premiums or taxes or assessments shall have become due and payable bears to twelve (12). For the purpose of this computation, the month in which such last preceding installment of premiums or real estate taxes or assessments became due and payable and the month in which such demand is given shall be included and deemed to have elapsed. On the first day of the month next succeeding the month in which such demand is given, and thereafter on the first day of each and every month during the term of this Mortgage, the Mortgagor shall deposit with the Mortgagee a sum equal to one-twelfth of such insurance premiums and such taxes and assessments for the then-current insurance period and tax year, so that as each installment of such premiums and taxes and assessments shall become due and payable, the Mortgagor shall have deposited with the Mortgagee a sum sufficient to pay the

same. All such deposits shall be received and held as part of such deposit by the Mortgagee (all such deposits to be held in an account without interest thereon) and shall be applied to the payment of each installment of such premiums and taxes and assessments as they shall become due and payable. The Mortgagee shall, upon demand, furnish evidence to the Mortgagor of the making of each such payment. If the amount of such premiums and taxes and assessments has not been definitely ascertained at the time when any such monthly deposits are required to be made, the Mortgagor shall make such deposits based upon the amount of such premiums and taxes and assessments for the preceding year, subject to adjustment as and when the amount of such premiums and taxes and assessments are ascertained. If at any time when any installment of such premiums and such taxes and assessments becomes due and payable the Mortgagor shall not have deposited a sum sufficient to pay the same, the Mortgagor shall, within five (5) days after demand, deposit any deficiency with the Mortgagee. Upon payment in full of the Obligations, any remaining amount on deposit with the Mortgagee shall be repaid to the Mortgagor or Person lawfully entitled thereto. If an Event of Default shall occur and be continuing, the Mortgagee may, at its option, apply all or any portion of the amounts then on deposit with the Mortgagee pursuant to this Section 2.4.2 to payment of the Obligations. The Mortgagor shall deliver to the Mortgagee all insurance and tax bills promptly following receipt during any period when such monthly deposits are to be made with the Mortgagee.

2.4.3. The Mortgagor will pay all taxes and other governmental charges (including, without limitation, stamp taxes), except income or franchise taxes or similar taxes based upon or measured by income, assessed by the United States government or any state or local governmental authority and imposed on the Mortgagee by reason of the ownership of this Mortgage or the Note, or the receipt of the interest or other sums payable thereunder or payable by the Mortgagor or the Mortgagee upon any increase in the Obligations secured hereby, or any modification, amendment, extension or consolidation of this Mortgage. Without limiting the foregoing and subject to the limitations set forth above, the Mortgagor will also pay the whole of any tax imposed, directly or indirectly, on this Mortgage or the Note or the receipt of any portion of the Obligations in lieu of a tax on the Mortgaged Premises or the Improvements and Building Service Equipment, whether by reason of (a) the passage after the date of this Mortgage of any law of the State deducting from the value of real property for the purposes of taxation any lien thereon; (b) any change in the laws for the taxation of mortgages or debts secured by mortgages for state or local purposes; (c) a change in the means of collection of any such tax or otherwise; or (d) any tax, whether or not now existing, assessed against, or withheld from, interest or other payments made by the Mortgagor or assessed against the Mortgagee and which are assessed or levied by the government of any foreign nation or political subdivision thereof, provided such tax liability shall not result from the ownership of this Mortgage by a Person not a citizen of, or an entity not formed under the laws of, the United States or any state. Within a reasonable time after payment of any such tax or governmental charge, the Mortgagor will deliver to the Mortgagee satisfactory proof of payment thereof, subject, however, to the right of the Mortgagor to contest Impositions as hereinafter set forth. If the Mortgagor shall fail to pay such tax or charge within fifteen (15) days after notice, or if under applicable law the Mortgagor's payment or agreement to pay the same shall be unenforceable, the Mortgagee shall have the right to declare all of the unpaid Obligations and all accrued and unpaid interest thereon due and payable on a date specified by the Mortgagee, but, in any event, not less than thirty (30) days after notice to the Mortgagor.

2.4.4. The Mortgagor shall have the right to contest the amount or validity, in whole or in part, of any Imposition, or to seek a reduction in the valuation of the Mortgaged Premises, or any part thereof, as assessed for real estate or personal property tax purposes by appropriate proceedings diligently conducted in good faith, but only after payment of such Imposition, unless such payment would operate as a bar to such contest or materially adversely interfere with the prosecution thereof, in which event the Mortgagor may postpone or defer payment of such Imposition (but not the payment of any monthly deposits pursuant to Section 2.4.2 hereof); and upon request by the Mortgagor, the Mortgagee shall postpone or defer payment of such Imposition; provided, however, that if at any time the Mortgaged Premises, the Building Service Equipment, the Furnishings, or any part thereof would, in the Mortgagee's reasonable judgment, by reason of such postponement or deferment be in imminent danger of being forfeited or lost, or if the Mortgagee might be subjected to any civil or criminal liability or other sanction, then the Mortgagor, on demand, shall immediately pay or cause to be paid the amount so contested and unpaid, together with all interest and penalties in connection therewith.

2.4.5. The certificate, advice or bill of the appropriate official designated by law to make or issue the same or to receive payment of any Imposition indicating the nonpayment of such Imposition shall be prima facie evidence that such Imposition is due and payable but unpaid at the time of the making or issuance thereof.

2.5. Insurance; Restoration Following Casualty.

2.5.1. Until the Obligations are paid in full, the Mortgagor shall at its own expense at all times maintain or cause to be maintained on all of the Mortgaged Premises (a) comprehensive general liability insurance, including umbrella liability insurance, covering all claims for bodily injury, including death, and property damage occurring on, in or about the Mortgaged Premises in an amount not less than \$13,600,000 combined single limit per person and per occurrence for personal injury, bodily injury and property damage; the policy limits of such insurance, if requested by the Mortgagee, shall be increased from time to time to reflect what a reasonably prudent owner or lessee of buildings or improvements similar in type and locality to the Mortgaged Premises would carry; during any period of substantial alterations or improvements in, on or to the Mortgaged Premises, the Mortgagor will cause the comprehensive general liability insurance, including umbrella liability insurance, endorsed to provide owners' and contractors' protective liability coverage, including completed operations liability coverage; (b) physical damage insurance covering the Mortgaged Premises for loss or damages resulting from the perils of fire, lightning and such other risks and hazards as are provided under the current standard "Extended Coverage Endorsement" and vandalism and malicious mischief coverage, for the full replacement value of the Mortgaged Premises on a stipulated and agreed-amount basis; (c) if the Mortgaged Premises is in an area identified as a flood hazard area by the Secretary of Housing and Urban Development, flood insurance, to the extent obtainable, in an amount equal to the lesser of the full replacement value of the Mortgaged Premises or the maximum amount available under the Federal flood insurance program; (d) boiler and machinery insurance covering all boilers, machinery, air conditioning, pressure vessels, and similar type equipment commonly covered under a broad-form boiler and machinery policy, in an amount satisfactory to the Mortgagee; (e) insurance against such other risks of damage, hazards, casualties and contingencies in such amounts as the Mortgagee shall from time to time reasonably require, provided that insurance against such other risks, hazards,

casualties or contingencies shall then be commonly carried by prudent owners or lessees of building or improvements in the locality similar in character, construction, use and occupancy to the Improvements, Building Service Equipment and Furnishings on, or constituting a part of, the Mortgaged Premises; and (f) loss of rents/business interruption coverage in an amount sufficient to pay all Impositions, insurance premiums, interest and principal installments and all other amounts due under the Obligations and the normal operating expenses of the Mortgaged Premises, all for a period of one (1) year. Furthermore, the Mortgagee reserves the right to require additional insurance and/or higher policy limits than heretofore specified if such additional insurance and/or higher policy limits are commercially reasonable for similar properties, which right may be exercised by written notice to the Mortgagor, and, as soon thereafter as practicable, but in any event within thirty (30) days of the receipt thereof, the Mortgagor agrees to obtain insurance coverage complying with such notice. The proceeds of all such insurance (except the insurance specified in Section 2.5.1(a)) shall be paid solely to the Mortgagee and be held, applied or disbursed by the Mortgagee as provided in Sections 2.5.7 and 2.5.8.

2.5.2. All insurance required in Section 2.5.1 shall be evidenced by valid and enforceable policies, in form and substance, and issued by and distributed among insurers of recognized responsibility having a Best's rating of A or better and a financial size category of Class IX or above, as shall be required by the Mortgagee from time to time. Such insurers shall be authorized to do business in the State and in all other respects shall be reasonably satisfactory to the Mortgagee. The originals of all such policies, or duplicate copies or certificates thereof, shall be delivered to the Mortgagee concurrently with the execution and delivery of this Mortgage. Thereafter, all renewal or replacement policies, or duplicate copies or certificates thereof, shall be delivered to the Mortgagee not less than thirty (30) days prior to the expiration date of the policy or policies to be renewed or replaced, in each case accompanied by evidence reasonably satisfactory to the Mortgagee that all premiums currently payable with respect to such policies have been paid in full by or at the direction of the Mortgagor.

2.5.3. All such insurance policies shall (a) except for any liability policy required hereunder, contain a standard noncontributory form of mortgagee clause (in favor of and entitling the Mortgagee to collect any and all proceeds payable under such insurance), as well as a standard waiver of subrogation endorsement, all to be in form and substance reasonably satisfactory to the Mortgagee; (b) provide that such policies may not be cancelled or amended without at least thirty (30) days', prior written notice to the Mortgagee; and (c) provide that no act, omission or negligence of the Mortgagor, or its agents, servants or employees, or of any Space Tenant under any Space Lease, which might otherwise result in a forfeiture of such insurance or any part thereof, shall in any way affect the validity or enforceability of such insurance insofar as the Mortgagee is concerned. The Mortgagor shall not carry separate insurance, concurrent in kind or form or contributing in the event of loss with any insurance required under this Section 2.5. All losses under such insurance policies shall be adjusted by the Mortgagor in the case of any single instance of such damage or destruction not exceeding \$1,000,000, by Mortgagor and Mortgagee in the case of any such single instance of damage or destruction exceeding such amount, provided that in no event shall the Mortgagor approve or consent to any final adjustment in any amount exceeding the amount specified above in this sentence without obtaining the Mortgagee's prior approval (which approval shall not be unreasonably withheld) of the amount of such adjustment, and solely by the Mortgagee in the case when an Event of Default exists and is continuing.

2.5.4. Intentionally Deleted.

2.5.5. If the Mortgagee shall, by any means, acquire the title or estate of the Mortgagor in or to any portion of the Mortgaged Premises, it shall thereupon become the sole and absolute owner of all insurance policies to the extent affecting such portion of the Mortgaged Premises held by, or required hereunder to be delivered to, the Mortgagee, with the sole right to collect and retain all unearned premiums thereon; and the Mortgagor shall be entitled only to a credit in reduction of the then outstanding Obligations in the amount of the short rate cancellation refund, when and if received by Mortgagee. The Mortgagor agrees, immediately upon demand, to execute and deliver such assignments or other authorizations or instruments as may, in the opinion of the Mortgagee, be necessary or desirable to effectuate any of the provisions of this Section 2.5.5.

2.5.6. If any of the Improvements, Building Service Equipment or Furnishings shall be damaged or destroyed, in whole or in part, by fire or other casualty, the Mortgagor shall give prompt notice thereof to the Mortgagee, and, without regard to the availability or adequacy of insurance proceeds, shall promptly following receipt of any insurance proceeds or the date when any such proceeds are made available to the Mortgagor in accordance with the terms hereof, commence to restore, replace, rebuild or alter the same as nearly as possible to the condition, character and value thereof existing immediately prior to such damage or destruction. Any insurance proceeds in respect of such damage or destruction, or any Award (as defined in Section 3.2) for a partial taking which is not a substantial or total taking, as such terms are referred to in Article III hereof, at the option of the Mortgagee, may either (i) be applied as a prepayment of the Obligations, or (ii) be made available to pay or reimburse costs incurred for restoration, replacement or rebuilding necessitated as a result of such damage or destruction, or as a result of such taking, as the case may be, or (iii) be used for any other purpose or object deemed appropriate by the Mortgagee in connection with the Mortgaged Premises, provided, however, that the Mortgagee shall not elect either option (i) or (iii) above if, and for so long as, (a) no Default and/or Event of Default has occurred and is continuing or would occur as a result of such casualty or taking; (b) the balance of the insurance proceeds or such Award either initially paid to the Mortgagee or deposited with the Depository (as hereinafter defined) or remaining from time to time, shall be sufficient, in the Mortgagee's reasonable judgment, to complete the restoration, replacement or rebuilding, or the Mortgagor shall have deposited such sufficient funds with the Mortgagee or the Depository; (c) the cost of such restoration, replacement or rebuilding is equal to or less than 25% of the then aggregate outstanding principal balance remaining under the Note; and (d) in the Mortgagee's reasonable judgment, six months after completion of the restoration, there will be no Default.

2.5.7. Any such insurance proceeds (other than the proceeds of the rent insurance policy, which shall be paid as provided in Section 2.5.8 below) or Award which are to be applied to restoration, replacement or rebuilding of the Mortgaged Premises shall, after payment or reimbursement to the Mortgagee of all reasonable costs and expenses of the Mortgagee in collecting such proceeds or Award, be applied upon satisfaction of the following provisions and conditions:

(a) If the damage be of such nature as to require the Mortgagor to construct a replacement for, or to alter in any material or substantial way, the damaged or destroyed items, the Mortgagor shall, before commencing any such work, submit copies of the plans and specifications therefor to the Mortgagee for the Mortgagee's approval, such approval to not be unreasonably withheld or delayed.

(b) If after payment or reimbursement to the Mortgagee of all costs and expenses of the Mortgagee in collecting such insurance proceeds or Award, the aggregate insurance proceeds or Award received by reason of any single instance of such damage or destruction or condemnation, as the case may be, shall be \$1,000,000 or less such insurance proceeds or Award shall be paid to the Mortgagor, which shall hold all amounts so received in trust for application first to pay the entire cost of restoring, repairing, rebuilding or replacing the damaged or destroyed items, before any portion of such proceeds may be used or applied for any other purpose. If the aggregate net insurance proceeds or Award by reason of any single instance of such damage or destruction or condemnation, as the case may be, shall be more than \$1,000,000 such sums shall be held and disbursed by Fleet National Bank or, if this Mortgage is held by a financial institution, by such financial institution or, if this Mortgage is not held by a financial institution, by a financial institution selected by the then Mortgagee (the holder of such monies, the "Depository") in accordance with the following provisions of this Section 2.5.7.

(c) The Mortgagee shall have received as to each such disbursement a certificate of the Mortgagor (i) requesting the payment of a specified amount of such insurance or condemnation proceeds; (ii) describing in reasonable detail the work and materials applied to the restoration, replacement or rebuilding of the damaged, destroyed or taken Improvement, or Building Service Equipment and/or Furnishings located therein, since the date of the last such certificate; (iii) stating that the requested amount does not exceed the cost of such work and materials; and (iv) stating that a request for payment for such work and materials has not previously been made; accompanied by

(d) a certificate of an independent engineer or architect designated by the Mortgagor, who shall have been approved in writing by the Mortgagee, stating (i) that the work and materials described in the accompanying certificate of the Mortgagor were satisfactorily performed and furnished and were necessary, appropriate or desirable to the restoration, replacement or rebuilding of the damaged, destroyed or taken Improvement, or Building Service Equipment and/or Furnishings; (ii) that the amount specified in such certificate of the Mortgagor does not exceed the reasonable cost of such work and materials; and (iii) the additional amount, if any, required to complete the restoration, replacement or rebuilding of the damaged, destroyed or taken Improvement, Building Service Equipment and/or Furnishings; accompanied by

(e) evidence reasonably satisfactory to the Mortgagee (i) that there exists no filed or recorded lien, or lien notice, or encumbrance or charge in respect of all or any part of the Mortgaged Premises that is prior to or on a parity with the lien of this Mortgage, except as may be permitted in the Permitted Encumbrances; (ii) that neither the Mortgaged Premises nor any part thereof is subject to any recorded or filed mechanic's, laborer's,

materialman's or any similar lien, encumbrance or charge; and (iii) that none of the Building Service Equipment and Furnishings provided in connection with such restoration, replacement or rebuilding is subject to any security interest other than in favor of the Mortgagee; then, the Mortgagee shall pay to the Mortgagor the amount of such insurance or condemnation proceeds requested in such certificate of the Mortgagor or consent to the Depository's payment thereof, as the case may be; provided, however, that in no event shall the balance of insurance or condemnation proceeds held by the Mortgagee and the Depository be reduced below the amount specified in such certificate of the independent engineer or architect as the amount required to complete the restoration, replacement or rebuilding of the damaged, destroyed or taken Improvement, Building Service Equipment and/or Furnishings. Each such payment, whether made by the Mortgagee or the Depository, shall be held by the Mortgagor in trust and shall be used solely for the payment of the cost of the work and materials described in the certificate of the Mortgagor, or if such cost or any part thereof has theretofore been paid by the Mortgagor out of its own funds, then for the reimbursement to the Mortgagor of any such cost or part thereof paid by it. Any balance of insurance or condemnation proceeds held by the Mortgagee after the completion of the restoration, replacement or rebuilding and payment of all costs incurred in connection therewith, to be evidenced by a certificate to such effect of such independent engineer or architect delivered to the Mortgagee, shall, if no Event of Default shall have occurred and be continuing, be released to the Mortgagor or any other party entitled thereto. Notwithstanding the foregoing, if the Mortgagor needs to make deposits with or payments to contractors prior to the work being performed, if the Mortgagee is otherwise obligated to allow funds to be used to rebuild or restore, the Mortgagee agrees that it will not unreasonably withhold or delay the Mortgagor's request that such deposits or advances payments be allowed.

2.5.8. All proceeds of rent insurance payable as a result of the occurrence of any fire or other casualty which affects the Mortgaged Premises, or any part thereof, shall be paid to the Mortgagee or, if the Mortgagee is not a financial institution, the Depository. The Mortgagee or the Depository, as the case may be, if it shall receive such proceeds, shall hold such proceeds in trust if permitted under law, and in an account bearing interest (payable to or for account of the Mortgagor), and shall apply or cause such proceeds (including any net interest thereon) to be applied to the payment of those items referred to in Section 2.5.1(f) which become, and as they become, due and payable from and after the date of the occurrence of such damage or loss, until the completion of the necessary restoration or replacement by the Mortgagor or until the exhaustion of such proceeds (including any interest thereon), whichever first occurs. Upon completion of such restoration or replacement, any balance of such rent insurance proceeds, together with the interest thereon, if any, not theretofore applied as provided herein, in the hands of the Mortgagee or the Depository, as the case may be, shall, provided that no Event of Default shall have occurred and be continuing, be paid to the Mortgagor or any other party entitled thereto.

2.5.9. Nothing in this Section 2.5 contained shall (i) relieve the Mortgagor of its duty to repair, restore, rebuild or replace the Improvements, Building Service Equipment and/or Furnishings following damage or destruction by fire or other casualty or taking in the event that no Award or an inadequate Award or that no or inadequate proceeds of insurance are available to defray the cost of such repairing, restoring, rebuilding or replacement, or (ii) relieve

the Mortgagor of its obligation to pay principal and interest and to make all other required payments in respect of the Obligations and this Mortgage subsequent to the occurrence of any fire or other casualty, or taking, except if, and to the extent that, any proceeds of rent insurance are applied by the Mortgagee in accordance with Section 2.5.8 to such required payments.

2.5.10. If, while any insurance proceeds or Award is being held by the Mortgagee or the Depository, an Event of Default shall occur and be continuing, the Mortgagee shall be entitled to receive and apply all such insurance proceeds or Award in reduction of the Obligations, in such order and respective amounts, as the Mortgagee in its sole discretion shall determine.

2.6. To Comply with Laws.

2.6.1. The Mortgagor, at its own expense, will promptly cure all violations of law affecting the Mortgaged Premises, or any part thereof, and/or the use and operation thereof and will promptly comply, or cause to be complied with, all present and future Legal Requirements. However, the Mortgagor shall have the right, after prior notice to the Mortgagee, to contest by appropriate legal proceedings, diligently conducted in good faith, the validity or application of any Legal Requirement if and so long as the Mortgagor shall promptly furnish to the Mortgagee a certificate to such effect showing the steps taken to comply with such provisions, provided that:

(a) if by the terms of any such Legal Requirement, compliance therewith pending the prosecution of any such proceeding may be delayed legally without incurring any lien, charge or liability of any kind against the Mortgaged Premises, or any part thereof, and without subjecting the Mortgagor or the Mortgagee to any liability, civil or criminal, for failure so to comply therewith, the Mortgagor may delay compliance therewith until the final determination of any such proceeding; and

(b) if any lien, charge or civil liability would be incurred by reason of any such delay, the Mortgagor nevertheless, on the prior written consent of the Mortgagee, such consent not to be unreasonably withheld, may contest and delay compliance with the Legal Requirement, provided that such delay would not subject the Mortgagee to criminal liability and the Mortgagor (i) furnishes to the Mortgagee security reasonably satisfactory to the Mortgagee against loss or injury by reason of such contest or delay and (ii) prosecutes the contest with due diligence.

2.6.2. Notwithstanding the provisions of Section 2.6.1, if any delay in compliance with any Legal Requirement shall, in the reasonable judgment of the Mortgagee, place all or any part of the Mortgaged Premises in imminent danger of being forfeited or lost, the Mortgagor shall, upon notice from the Mortgagee, immediately comply with such Legal Requirement.

2.6.3. The Mortgagor will use and permit the use of the Mortgaged Premises only in accordance with the material requirements of any applicable licenses and permits issued by Governmental Authorities.

2.6.4. The Mortgagor will procure, pay for and maintain (or cause to be procured, paid and maintained) all permits, licenses and other authorizations required to be procured and maintained by the owners and operators of the Mortgaged Premises for any then use of all or any part of the Mortgaged Premises then being made and for the lawful and proper operation and maintenance thereof.

2.6.5. If the Mortgagor receives notice from any Governmental Authority that it is not in compliance with any Legal Requirement, the Mortgagor will provide the Mortgagee with a copy of such notice promptly.

2.6.6. Without limiting the provisions of this Article II, Mortgagor agrees to the indemnification and guaranty provisions set forth in the ADA Guaranty, the provisions of which are incorporated herein by this reference. The indemnification and guaranty provisions set forth in the ADA Guaranty shall be a debt secured by the lien of this Mortgage.

2.6.7. Without limiting the provisions of this Article II, Mortgagor agrees to the indemnification and guaranty provisions set forth in the Hazardous Material Guaranty, the provisions of which are incorporated herein by this reference. The indemnification and guaranty provisions set forth in the Hazardous Material Guaranty shall be an obligation secured by the lien of this Mortgage.

2.7. Limitation on Alterations and Demolition.

2.7.1. The Mortgagor shall not voluntarily demolish, replace or alter the Mortgaged Premises, or any part thereof, or voluntarily make any addition thereto, or voluntarily construct any additional improvements thereon, or suffer any of the same to occur, whether structural or otherwise (collectively, "change"), without the prior written consent of the Mortgagee; provided, however, that if no Event of Default is continuing and such change involves an estimated cost of less than \$1,000,000 and is non-structural or if no Event of Default is continuing and such change is non-structural and is being made to prepare space for a Space Tenant pursuant to a Space Lease entered into in accordance with the Note, then, in either of such events, the Mortgagee's consent shall not be required; provided, further, however, that if any such change is required by law, the Mortgagor may make such change with the prior written consent of the Mortgagee, which consent the Mortgagee will not unreasonably withhold or delay. As a condition to any consent under this Section 2.7.1, the Mortgagee may require (a) that plans and specifications for the proposed work, prepared by a reputable architect reasonably satisfactory to the Mortgagee, be submitted to the Mortgagee for approval, (b) that the Mortgagor obtain a payment and performance bond or other security reasonably satisfactory to the Mortgagee in form and amount reasonably satisfactory to the Mortgagee from the contractor or subcontractor performing the work unless such work amounts to less than \$1,000,000 in aggregate total cost and (c) that the contractor(s) deliver and file, prior to commencing any work, a waiver of mechanics lien. All work performed by or on behalf of the Mortgagor shall be completed with all reasonable diligence and continuity, in a good and workmanlike manner, and in compliance with all applicable Legal Requirements. Unless, and to the extent that, the provisions of Section 2.7.2 be applicable, no Building Service Equipment or Furnishings shall be removed from the Mortgaged Premises during the course of any such work without prior notification to the Mortgagee and unless provision is made for return or replacement on or prior to

the completion of the work. The provisions of this Section 2.7.1. shall apply to any change made or required to be made by the Mortgagor in the course of complying with any other of the provisions of this Mortgage. A duplicate set of all plans and specifications required to be filed with any Governmental Authority prior to, or at any time in connection with, any such alteration, demolition or new construction shall be furnished to the Mortgagee. The Mortgagor will pay on demand the reasonable expenses incurred by the Mortgagee in the review of plans and specifications provided for in this Mortgage.

2.7.2. The Mortgagor shall have the right, at any time and from time to time, to remove and dispose of any item of Building Service Equipment or Furnishings which may have become obsolete or unfit for use or which is no longer useful in the operation of the Improvements, provided that the Mortgagor promptly replaces such item with other Building Service Equipment or Furnishings, free of superior title, liens or claims (other than in favor of the Mortgagee) unless consent of the Mortgagee is first obtained, not necessarily of the same character but of at least equal quality, value and usefulness in connection with the operation and maintenance of the Mortgaged Premises, provided, further, however, no removal of any item of Building Service Equipment or Furnishings then having a fair market value of \$50,000 or more shall be made without the prior written consent of the Mortgagee, which consent will not be unreasonably withheld. However, if by reason of technological or other developments in the operation and maintenance of buildings and other improvements of the general character of the Improvements or a change in the use of the Mortgaged Premises or any part thereof, no replacement of the Building Service Equipment or Furnishings so removed would be necessary or desirable for the proper operation or maintenance of the Improvements, the Mortgagor shall not be required to replace the item so removed.

2.8. Limitation on Disposition of the Mortgaged Premises.

2.8.1. Any sale, assignment, mortgage, pledge or other transfer or encumbrance of the Mortgaged Premises or any part thereof or any interest therein or in any of the rents, profits or income generated thereby (in any case, either beneficially or of record) is herein a "Transfer"; any lease entered into by the Mortgagor in compliance with PARAGRAPH 11 of the Note is not a Transfer. Any Transfer is an Event of Default.

2.8.2. If there shall be a violation of the terms and provisions of Section 2.8.1, whether by the Mortgagor or any other Person, in addition to all other rights and remedies available to the Mortgagee under this Mortgage, the Mortgagee shall have the option, by the giving of notice to the Mortgagor, of declaring the entire unpaid principal balance of the Note, together with all accrued and unpaid interest and all other sums and charges evidenced thereby, immediately due and payable.

2.9. Maintenance of Mortgaged Premises; Covenant Against Waste; Inspection by the Mortgagee. The Mortgagor will not commit or permit waste on the Mortgaged Premises and, at its expense, will keep and maintain the Improvements, the Building Service Equipment and Furnishings in its (or their) present state of repair and condition and, if improved, in such improved state of repair and condition; provided, that this shall not limit the Mortgagor's other obligations hereunder, such as compliance with laws. The Mortgagor shall do or cause to be done all maintenance and make or cause to be made all repairs

as may be required by the landlord under any Space Lease. The Mortgagor will neither do nor permit to be done anything to the Mortgaged Premises that may materially impair the value thereof or which may violate any covenant, condition or restriction affecting the Mortgaged Premises, or any part thereof, or which would effect any material change therein or in the condition thereof that would increase the danger of fire or other hazard arising out of the operation of the Mortgaged Premises. Subject to the rights of Space Tenants, the Mortgagee, and its representatives and agents, may enter and inspect the Mortgaged Premises at any time after reasonable notice (which may be oral) during usual business hours, and the Mortgagor shall, within thirty (30) days after demand by the Mortgagee (or immediately upon demand in case of emergency), make such repairs, replacements, renewals or additions, or perform such items of maintenance, to the Mortgaged Premises as the Mortgagee may reasonably require in order to cause the Mortgaged Premises to comply with the standards established in this Section 2.9.

2.10. To Furnish Certificates; Other Reporting Requirements.

2.10.1. The Mortgagor will, at its own expense, deliver to the Mortgagee, within fifteen (15) days after request, a written statement executed by the Mortgagor, in recordable form, setting forth the amount then unpaid upon the Obligations and secured by this Mortgage and stating whether any offsets or defenses exist against the Obligations; and, if any such offsets or defenses are alleged to exist, then the factual basis and amount of such claimed offsets or defenses.

2.10.2. The Mortgagor will, if requested by the Mortgagee, deliver to the Mortgagee a certificate of an officer of the member of the Mortgagor or of such member's general partner, to the effect that he is familiar with this Mortgage and the other Loan Documents, has reviewed the affairs of the Mortgagor, and to the best of his knowledge and belief there exists no Event of Default and no act or event has occurred or exists which with notice or lapse of time or both could become such an Event of Default, or if any such incipient default or Event of Default exists, specifying it and what action the Mortgagor is taking to cause it to be remedied.

2.10.3. The Mortgagor further covenants and agrees that it will, at its own expense, deliver to the Mortgagee as soon as available, and in any event within ninety (90) days after the end of each fiscal year of the Mortgagor, an annual balance sheet, a statement of profit and loss, one-year projections, and a cash-flow statement, prepared in accordance with Accounting Principles acceptable to the Mortgagee, consistently applied, together with a schedule of Space Leases. Such statements shall show the income and expenses of the Mortgagor for such fiscal year, all in reasonable detail, shall be prepared in accordance with such accounting principles, consistently applied, and shall state in comparative form the figures at the end of such fiscal year and for the preceding fiscal year. Such statements shall be certified to be true and correct by the chief financial officer of the Mortgagor.

2.10.4. The Mortgagor further covenants and agrees that it will, at its own expense, deliver to the Mortgagee semi-annually, as soon as available, and in any event within ninety (90) days after the end of each second quarter end of the Mortgagor, copies of Mortgagor's financial statements (inclusive of a detailed balance sheet, income statement and cash flow statement) prepared internally, in accordance with Accounting Principles, in its reasonable discretion, and certified to be true and correct by the chief financial officer of the Mortgagor.

2.10.5. In addition, the Mortgagor shall furnish to the Mortgagee: (a) within ninety (90) days after the end of the Mortgagor's fiscal year, and within forty-five (45) days after the end of each six-month period, commencing with the period ended June 30, 2000, a statement of income and expenses with respect to the Mortgaged Premises, in such form as may be required by the Mortgagee; (b) within ninety (90) days after the end of the Mortgagor's fiscal year, statements of financial condition of the Mortgagor in such form as may be required by the Mortgagee; (c) within one hundred and fifty (150) days after the end of the Mortgagor's fiscal year, the Mortgagor's federal and state tax filings; and (d) such interim unaudited financial statements and other information as the Mortgagee may reasonably require.

2.10.6. The Mortgagor shall furnish to the Mortgagee, within ten (10) days after the same are filed, copies of each Form 10-K of Acadia and Form 10-Q of Acadia filed with the Securities and Exchange Commission;

2.10.7. The Mortgagor shall furnish to Mortgagee, upon request by Mortgagee, but in any event not more frequently than quarterly, a complete rent roll listing tenants, unit numbers, square feet occupied and leased, rents, delinquencies, vacancies, other income received and expenses.

2.10.8. The Mortgagor further covenants and agrees that it will, at its own expense, promptly upon receipt by Mortgagor, deliver to Mortgagee copies of all reports of the Key Tenants' gross revenue from sales merchandise during the preceding fiscal-year which are delivered by the applicable Key Tenant in accordance with the provisions of the applicable Key Tenant's lease. "Key Tenants" shall mean all tenants whose leases cover 10,000 square feet or more of the Improvements; with "Key Tenant" meaning each, every and any one of the Key Tenants.

2.11. After-Acquired Property. All right, title and interest of the Mortgagor in and to all improvements, betterments, renewals, substitutes and replacements of, and all additions and appurtenances to, the Mortgaged Premises hereafter acquired, constructed, assembled or placed by the Mortgagor on the Mortgaged Premises, immediately upon such acquisition, construction, assembly or placement, as the case may be, and in each such case without any further mortgage, conveyance or assignment or other act of the Mortgagor, shall become subject to the lien of this Mortgage as fully and completely, and with the same effect, as though now owned by the Mortgagor and specifically described in the granting clauses of this Mortgage; and at any time and from time to time the Mortgagor, on demand, will execute, acknowledge and deliver to the Mortgagee any and all such further assurances, mortgages, conveyances or assignments as the Mortgagee may reasonably require to further evidence, confirm and perfect the provisions of this Section 2.11.

2.12. Further Assurances. The Mortgagor shall, at its sole cost and without expense to the Mortgagee, on demand, do, execute, acknowledge and deliver all and every such further acts, deeds, conveyances, mortgages, assignments, notices of assignment, transfers and assurances as the Mortgagee shall from time to time reasonably require for better assuring, conveying,

assigning, transferring and confirming unto the Mortgagee the property and rights hereby mortgaged or assigned or intended now or hereafter so to be, or which the Mortgagor may be or may hereafter become bound to convey, mortgage or assign to the Mortgagee, or for carrying out the intention or facilitating the performance of the terms of this Mortgage, or for filing, registering or recording this Mortgage.

2.13. Recorded Instruments. The Mortgagor will promptly perform and observe, or cause to be performed and observed, all of the terms, covenants and conditions of all instruments of record affecting the Mortgaged Premises (other than non-consensual encumbrances hereafter affecting the Mortgaged Premises, the validity or enforceability of which the Mortgagor is contesting in accordance with this Mortgage) where non-compliance therewith affects the security of this Mortgage or imposes any duty or obligation upon the Mortgagor or any Space Tenant. The Mortgagor shall do or cause to be done all things reasonably required to preserve intact and unimpaired and to renew any and all rights-of-way, easements, grants, appurtenances, privileges, licenses, franchises and other interests and rights in favor of or constituting any portion of the Mortgaged Premises. The Mortgagor will not, without the prior written consent of the Mortgagee, initiate, join in or consent to any private restrictive covenant or other public or private restriction as to the use of all or any portion of the Mortgaged Premises. The Mortgagor will, however, comply with all lawful restrictive covenants and zoning ordinances and other public or private restrictions affecting all or any portion of the Mortgaged Premises.

2.14. Leasing Standards. Notwithstanding anything to the contrary contained herein or in the other Loan Documents, the Mortgagor covenants and agrees that no Space Lease will be consummated without the prior written approval thereof by the Mortgagee unless such Space Lease (i) is prepared and executed on Mortgagor's standard lease form submitted to and approved, in writing, by the Mortgagee, with such approval not to be unreasonably withheld or delayed, and the Mortgagee's approval of immaterial changes to the form approved by the Mortgagee shall not be required; and (ii) (x) provides for terms and conditions, including as to rentals and other economic terms and the creditworthiness of the tenant, which are approved by Mortgagee, with such approval not to be unreasonably withheld or delayed, or (y) is of less than 10,000 leasable square feet and is on commercially reasonable terms and conditions, including as to rentals and other economic terms and creditworthiness of the tenant. Notwithstanding the foregoing, if a Default and/or Event of Default shall be continuing, the Mortgagor will not enter into Space Leases without the Mortgagee's prior written approval thereof, which approval the Mortgagee may withhold in its sole discretion.

2.15. Intentionally Deleted Prior to Execution.

2.16. Late Charges. If the entire amount of any required principal and/or interest under the Note is not paid in full within ten (10) days after the same is due, Mortgagor shall pay to the Mortgagee a late fee equal to five (5%) percent of the required payment, and such charge shall be deemed to be part of the Indebtedness and therefore secured by the lien of this Mortgage.

2.17. Trust Funds. The Mortgagor, in compliance with Section 13 of the Lien Law, will receive the advances secured by this Mortgage and will hold the right to receive such advances as a trust fund to be applied first for the

purpose of paying the cost of improvement and will apply the same first to the payment of the cost of improvement before using any part of the total of the same for any other purposes. The Mortgagor agrees that it shall indemnify and hold the Mortgagee harmless against any loss or liability, cost or expense, including, without limitation, any judgments, attorneys' fees, costs of appeal bonds and printing costs arising out of or relating to any proceeding instituted by any claimant alleging priority over the lien of this Mortgage, and/or by any claimant alleging a violation by the Mortgagor or the Mortgagee of any section of Article 3-A of the Lien Law of the State of New York.

2.18. The Ground Lease.

2.18.1. The Mortgagor shall: (i) pay all rents, additional rents and other sums required to be paid by the Mortgagor as lessee under and pursuant to the provisions of the Ground Lease, (ii) diligently perform and observe all of the terms, covenants and conditions of the Ground Lease on the part of the Mortgagor, as lessee thereunder, to be performed and observed, unless such performance or observance shall be waived or not required in writing by the lessor under the Ground Lease, to the end that all things shall be done which are necessary to keep unimpaired the rights of the Mortgagor, as lessee, under the Ground Lease, (iii) promptly notify the Mortgagee in writing of any default by the Mortgagor under the Ground Lease in the performance or observance of any of the terms, covenants or conditions on the part of, respectively, the Mortgagor to be performed or observed under the Ground Lease, (iv) promptly notify the Mortgagee of the giving of any notice by the lessor under the Ground Lease to the Mortgagor (other than notices customarily sent on a regular basis) and of any notice noting or claiming any default by the Mortgagor in the performance or observance of any of the terms, covenants or conditions of the Ground Lease on the part of the Mortgagor, as lessee thereunder, to be performed or observed and deliver to the Mortgagee a true copy of each such notice (v) promptly notify the Mortgagee in writing of any request made by either party to the Ground Lease, as the case may be, for arbitration proceedings pursuant to the Ground Lease and of the institution of any arbitration proceedings, as well as of all proceedings thereunder, and promptly deliver to the Mortgagee a copy of the determination of the arbitrators in each such arbitration proceeding, it being acknowledged and agreed that the Mortgagee shall have the right to participate in such arbitration proceedings in association with the Mortgagor or on its own behalf as an interested party, and (vi) furnish to the Mortgagee, within ten (10) days after demand, proof of payment of all items which are required to be paid by the Mortgagor pursuant to the Ground Lease.

2.18.2. The Mortgagor, shall not without the prior written consent of the Mortgagee, surrender the leasehold estate created by the Ground Lease or terminate or cancel the Ground Lease or modify, change, supplement, alter or amend the Ground Lease, or consent to a modification change, supplement alteration or amendment to the Ground Lease, in any material respect, either orally or in writing, and the Mortgagor hereby assigns to the Mortgagee, as further security for the payment of the Indebtedness and for the performance and observance of the terms, covenants and conditions of this Mortgage, all of the rights, privileges and prerogatives of the Mortgagor, as lessee under the Ground Lease, to surrender the leasehold estate created by the Ground Lease or to terminate, cancel, modify, change, supplement, alter or amend the Ground Lease, and any such surrender of the leasehold estate created by the Ground Lease or termination, cancellation, modification, change, supplement, alteration or

amendment of the Ground Lease without the prior written consent of the Mortgagee shall be void and of no force and effect. The Mortgagee will not unreasonably withhold or delay its consent to a modification, change, supplement, alteration or amendment to the same.

2.18.3. Supplementing the provisions of subparagraph (b) above, it is understood and agreed that the Mortgagor shall not, without the Mortgagee's prior written consent, elect to treat the Ground Lease as terminated under Section 365(h)(1)(A)(i) of the Bankruptcy Code. Any such election made without the Mortgagee's prior written consent shall be void. The Mortgagor hereby unconditionally assigns, transfers and set over to the Mortgagee all of the Mortgagor's claims and rights to the payment of damages arising under the Bankruptcy Code from any rejection by the lessor under the Ground Lease. The Mortgagee shall have the right to proceed in its own name on behalf of the Mortgagor in respect of any claim, suit, action or proceeding relating to the rejection of the Ground Lease, including, without limitation, the right to file and prosecute, to the exclusion of the Mortgagor, any proofs of claim, complaints, motions, applications, notices and other documents, in any case in respect of such lessor under the Bankruptcy Code. This assignment constitutes a present, irrevocable and unconditional assignment of the foregoing claims, rights and remedies, and shall continue in effect until all of the Indebtedness secured by the Mortgage shall have been satisfied and discharged in full. Any amounts received by the Mortgagee as damages arising out of the rejection of the Ground Lease as aforesaid shall be applied first to all costs and expenses of the Mortgagee (including, without limitation, attorneys' fees) incurred in connection with the exercise of any of its rights or remedies under this Paragraph and then shall be applied against the Indebtedness in such order, priority and proportion as the Mortgagee shall determine. If any action, motion or notice shall be commenced or filed in respect of the Mortgagor, as lessee under the Ground Lease, or all or any portion of the Mortgaged Property in connection with any case under the Bankruptcy Code, the Mortgagor shall give the Mortgagee prompt written notice thereof. Other than during the existence of an Event of Default, the Mortgagor may commence any action, suit, proceeding or case, or file any application or make any motion, in respect of the Ground Lease in any such case under the Bankruptcy Code without the prior written consent of the Mortgagor but will not settle or compromise any of the foregoing without the consent of the Mortgagee, which consent will not be unreasonably withheld or delayed by Mortgagee. During the existence of an Event of Default, the Mortgagor shall not commence any action, suit, proceeding or case, or file any application or make any motion, in respect of the Ground Lease in any such case under the Bankruptcy Code without the prior written consent of the Mortgagee, and the Mortgagee, during the existence of an Event of Default, may proceed in its own name, in connection with any such litigation. The Mortgagor shall, immediately after obtaining knowledge thereof, notify the Mortgagee and its counsel, by telecopy or by hand of any filing by or against the lessor under the Ground Lease of a petition under the Bankruptcy Code. The Mortgagor shall thereafter forthwith give written notice of such filing to the Mortgagee, setting forth the date of such filing, the court in which the petition was filed and the relief sought therein. The Mortgagor shall promptly deliver to the Mortgagee, following receipt, any and all notices, summonses, pleadings, applications and other written documents received by the Mortgagor in connection with any such petition and any proceedings relating thereto.

2.18.4. If the Mortgagor shall default in the performance or observance of any term, covenant or condition of the Ground Lease on the part of the Mortgagor, as lessee thereunder, to be performed or observed, then, without limiting the generality of the other provisions of this Mortgage, and without

waiving or releasing the Mortgagor from any of its obligations hereunder, the Mortgagee shall have the right, but shall be under no obligation, to pay any sums and to perform any act or take any action as may be appropriate to cause all of the terms, covenants and conditions of the Ground Lease on the part of the Mortgagor, as lessee thereunder, to be performed or observed to be promptly performed or observed on behalf of the Mortgagor, to the end that the rights of the Mortgagor in, to and under the Ground Lease shall be kept unimpaired and free from default. If the Mortgagee shall make any payment or perform any act or take action in accordance with the preceding sentence, the Mortgagee will notify the Mortgagor of the making of any such payment, the performance of any such act, or the taking of any such action. All sums so paid by the Mortgagee and all costs and expenses incurred by the Mortgagee in connection with the performance of any such act shall be paid by the Mortgagor to the Mortgagee upon demand with interest, from the date so advanced by Mortgagee until thirty (30) days after demand by the Mortgagee to the Mortgagor, at the Interest Rate set forth in the Note and thereafter at the Involuntary Rate, and the same shall be deemed to be secured by this Mortgage and shall be a lien on the Mortgaged Property prior to any right, title to, interest in or claim upon the Mortgaged Property attaching subsequent to the lien of this Mortgage. In any such event, subject to the rights, if any, of lessees and other occupants under the Ground Lease, the Mortgagee and any person designated by the Mortgagee shall have, and are hereby granted, the right to enter upon the Mortgaged Property at any time and from time to time for the purpose of taking any such action. If the lessor under the Ground Lease shall deliver to the Mortgagee a copy of any notice of default sent by said lessor to the Mortgagor, as lessee under the Ground Lease, such notice shall constitute full protection to the Mortgagee for any action taken or omitted to be taken by the Mortgagee, in good faith, in reliance thereon.

2.18.5. Mortgagor hereby delegates irrevocably, coupled with an interest, to Mortgagee the authority to exercise any and all of Mortgagor's rights under the Ground Lease, including, but not limited to, the right of the Mortgagee to participate (to the exclusion of Mortgagor) in any proceeding, arbitration or settlement involving condemnation or eminent domain affecting Mortgagor's leasehold interest in the Mortgaged Property. However, Mortgagee agrees not to exercise such power, except during the existence of an Event of Default and/or upon acceleration of the Indebtedness pursuant to the terms of this Mortgage.

2.18.6. The generality of the provisions of this Paragraph relating to the Ground Lease shall not be limited by other provisions of this Mortgage or any other agreement between the Mortgagee and the Mortgagor, setting forth particular obligations of the Mortgagor which are also required of the Mortgagor as tenant under the Ground Lease.

2.18.7. Should there be a conflict between the terms of the Mortgage or any other Loan Document on the one hand, and the terms of the Ground Lease, on the other, the terms of the Mortgage shall prevail and control.

2.18.8. In accordance with the provisions of Section 10.02 of the Ground Lease, the Mortgagee and Mortgagor agree to be bound by the following provisions:

(a) This Mortgage is executed upon the condition that no purchaser at any foreclosure sale shall acquire any right, title or interest in or to the Lease hereby mortgaged, unless the said purchaser, or the person, firm or corporation to whom or to which such purchaser's right has been

assigned, shall, in the instrument transferring to such purchaser or assignee the Tenant's interest under the said Lease, assume and agree to perform all of the terms, covenants and conditions of said Lease to be observed or performed on the part of the Tenant subsequent to the date of the assumption agreement, and moreover, that no further or additional mortgage or assignment or said Lease shall be made, except subject to the provisions contained in Articles 9 and 10 of said Lease, and that a duplicate original of said assumption agreement, in form reasonably satisfactory to Landlord's counsel and duly executed and acknowledged by such purchaser or such assignee, is delivered to Landlord immediately after the consummation of such sale, or, in any event, prior to taking possession of the premises.

(b) This Mortgage and all rights of the Mortgagee hereunder are, without the necessity for the execution of any further documents, subject and subordinate to any Fee Mortgages now or hereafter made, as said terms are defined in the Lease hereby mortgaged, provided that Tenant and leasehold Mortgagee shall receive a non-disturbance agreement from the Fee Mortgagee in recordable form and reasonably satisfactory to the Leasehold Mortgagee. Subject to the receipt of such a non-disturbance agreement, the holder of this mortgage agrees from time to time upon request and without charge, to execute, acknowledge and deliver any instruments requested by the Landlord under the Lease hereby mortgaged to evidence the foregoing subordination.

2.19. Intentionally Deleted Prior to Execution.

2.20. Earn-Out Provision. Upon compliance by Mortgagor of the conditions precedent set forth in PARAGRAPH 5 of the Note, the Mortgagor shall advance the aggregate principal sum of up to \$3,990,135.17 in one or more advances (herein called the "Earn-Out"), payable in accordance with the terms of the Note.

ARTICLE III

Condemnation

3.1. Notice of Taking. The Mortgagor shall promptly notify the Mortgagee if the Mortgagor receives notice of the institution of any proceeding or negotiations for the taking of the Mortgaged Premises, or any part thereof, whether for permanent or temporary use and occupancy in condemnation or by the exercise of the power of eminent domain or by agreement of interested parties in lieu of such condemnation (all the foregoing called a "taking"); shall keep the Mortgagee currently advised, in detail, as to the status of such proceedings or negotiations and will promptly give to the Mortgagee copies of all notices, pleadings, judgments, determinations and other papers received or delivered by the Mortgagor in connection with any such proceedings. The Mortgagee shall have the right to appear and participate in such proceedings and may be represented by counsel. The Mortgagor will not, without the Mortgagee's consent, enter into any agreement for the taking of the Mortgaged Premises, or any part thereof, with anyone authorized to acquire the Mortgaged Premises by eminent domain or in condemnation.

3.2. Condemnation Award. If the Mortgaged Premises shall be the subject of a taking the Mortgagee shall be entitled to and shall receive the total of such portion of all awards made that shall be allowed to the Mortgagor with respect to all the right, title and interest of the Mortgagor in and to the Mortgaged Premises (the award made in any total, partial or temporary taking is herein called the "Award"), provided that the obligations of the Mortgagor to perform the terms, covenants and conditions of this Mortgage, if any, affected by such taking shall continue unimpaired until the actual vesting of title in such proceeding and the actual receipt by the Mortgagee of Mortgagor's share of the entire Award resulting from such taking.

3.3. Application of Award. The Mortgagee shall have the option of treating a total taking or a substantial taking (as hereinafter defined) as an Event of Default and of accelerating the entire Obligations, in which event it shall apply the Mortgagor's entire Award in reduction of such Obligations (including principal, interest and other sums secured hereby, in such order as the Mortgagee may determine) and shall turn over any balance remaining, if any, to the Mortgagor; or if the Mortgagee shall not so elect to accelerate the Obligations and apply the Award thereto, then the total Award shall, regardless of amount, be deposited with the Mortgagee or with the Depository, the Mortgagor hereby agreeing to elect that such proceeds be held and disbursed by the Depository in accordance with Sections 2.5.6, 2.5.7, 2.5.8, 2.5.9 and 2.5.10 hereof for restoration required to be made by the Mortgagor. If there be a partial taking, the net proceeds of the Award shall be deposited with the Mortgagee and applied by the Mortgagee in accordance with the provisions of Sections 2.5.6, 2.5.7, 2.5.9 and 2.5.10. Any Award remaining after the completion of such restoration, replacement or rebuilding shall be applied in reduction of the Obligations (including principal, interest and other sums secured hereby) in such order as the Mortgagee shall determine. A partial taking is substantial only if it materially decreases the fair market value of the Mortgaged Premises and the remainder of the Mortgaged Premises cannot be restored to an economically viable whole.

3.4. Temporary Taking. If any Award payable to the Mortgagor on account of a taking for temporary use or occupancy is made in a lump sum or is payable other than in equal monthly installments, the Mortgagor shall pay over such Award to the Depository and such Award shall be applied to installments of Impositions and of principal and interest and all other charges secured by this Mortgage or due in respect of the Obligations or the other Loan Documents as and when the same become due and payable. Any unapplied portion of such Award held by the Depository when such taking ceases or expires (if no Event of Default has then occurred and is continuing), or after the Obligations shall have been paid in full, shall be paid to the Mortgagor or to any other party entitled thereto.

3.5. The Mortgagor's Obligation to Restore. If proceeds of the Award are made available to the Mortgagor for restoration, replacement or rebuilding pursuant hereto, the Mortgagor shall be obligated promptly to restore, replace, rebuild or alter any Improvements or Building Service Equipment affected by a taking so as to restore the Mortgaged Premises to an economically viable whole, all without regard to the adequacy of the proceeds of an Award, if any, made available to the Mortgagor.

ARTICLE IV

Assignment of Space Leases, Profits
and Other Income as Further Security, Etc.

4.1. Assignment of Space Leases, Rents, Issues and Profits. The Mortgagor hereby absolutely assigns and sets over unto the Mortgagee all Space Leases, if any, now or hereafter entered into with respect to all or any part of the Mortgaged Premises, and all renewals, extensions, subleases or assignments thereof, and all other occupancy agreements (written or oral), by concession, license or otherwise, together with all of the rents, income, receipts, revenues, issues and profits arising therefrom (the "Collateral"). This assignment is intended by the Mortgagor and the Mortgagee to create, and shall be construed to create, an absolute assignment of all Space Leases, rents, issues and profits, subject only to the terms and conditions of this Mortgage.

4.2. The Mortgagor's Covenants Regarding Space Leases.

4.2.1. Without the prior consent and approval of the Mortgagee in each instance, the Mortgagor will not (a) assign, pledge, hypothecate or otherwise encumber any of the Space Leases or the rents, income, issue and profits of the Mortgaged Premises; or (b) enter into any Space Leases affecting the Mortgaged Premises or any part thereof, unless such Space Lease is expressly subordinate to the lien of this Mortgage and to any consolidation, extension, renewal, recasting or refinancing hereof and the Space Lease provides, in substance, that in the event of enforcement by the Mortgagee of the remedies provided for by law or by this Mortgage, each Space Tenant shall, at the option of the Mortgagee, attorn to any person succeeding to the interest of the Mortgagor as a result of such enforcement and shall recognize such successor in interest as landlord (or sublandlord, as the case may be) under such Space Lease without change in the terms or other provisions thereof, provided, however, that such successor shall not be bound by any payment of rent or additional rent for more than one (1) month in advance or any amendment or modification of any such Space Lease made without the Mortgagee's written consent; or (c) enter into any Space Leases except in accordance with the provisions of the Note.

4.2.2. The Mortgagor further represents, warrants, covenants and agrees that:

(a) To the best of its knowledge, each Space Lease is (or, when executed, will be) a valid and legally enforceable obligation of the parties thereto, in full force and effect.

(b) With respect to each Space Lease and the Space Tenant security deposits thereunder, any and/or all of such security deposits shall be held as required by the Space Lease but in no event in a manner other than that required by law.

(c) The Mortgagor shall, at its sole cost and expense, keep, observe, perform and discharge, duly and punctually, all and singular the material obligations, terms, covenants, conditions, representations and warranties of each Space Lease on the part of the Mortgagor to be kept, observed, performed and discharged.

(d) (i) Except as herein in this clause (i) expressly provided, the Mortgagor shall, at its sole cost and expense, maintain the Space Leases in full force and effect; the Mortgagor will not waive its rights under or materially modify, change, supplement, alter or amend ("Change"), nor shall the Mortgagor surrender (whether partial or total), terminate, cancel or subordinate, any of the Space Leases, and any such attempted Change, surrender, termination, cancellation or subordination shall be void, unless, in each case, the prior written consent thereto of the Mortgagee shall have been obtained. Notwithstanding the foregoing, the Mortgagor may terminate or cancel any Space Lease as a result of a material default by the tenant under such Space Lease if (w) such termination is being effected in the ordinary course of the Mortgagor's business, (x) no Event of Default then exists and (y) such termination or cancellation would not materially and adversely affect the value of the Space Leases as collateral security for the Obligations. A material Change shall include but not be limited to any material Change in the amount or time of payment of the rent or additional rent, the length of term or square footage of the premises under any Space Lease or any other Change which would materially adversely affect the Mortgagor's rights under the Space Lease, or would affect the Mortgagee's rights under the Space Lease or the value of the Space Lease as collateral security for the Obligations.

(ii) The Mortgagor shall, at its sole cost and expense, enforce the Space Leases in accordance with their terms; and shall appear in and defend any action or proceeding arising to which it is a party under or in any manner connected with any of the Space Leases.

(e) The Mortgagor shall deliver to the Mortgagee a copy of each notice of default sent or received by it relating in any way to any Space Lease promptly upon, but in any event within five (5) business days after, its sending or receipt thereof.

4.3. The Mortgagor's Rights, and Powers.

4.3.1. The Mortgagor hereby irrevocably, in the name of the Mortgagor or otherwise, authorizes and empowers the Mortgagee, and absolutely assigns and transfers unto the Mortgagee, and constitutes and appoints the Mortgagee its true and lawful attorney-in-fact, coupled with an interest and as its agent, irrevocably, with full power of substitution for it and in its name, but solely for the following purposes: (i) to exercise and enforce every right, power, remedy, authority, option and privilege of the Mortgagor under the Space Leases, and as such attorney-in-fact, the Mortgagee may subordinate, terminate, cancel or modify the Space Leases, accept the surrender of the Space Leases, give any notice, take any action resulting in such subordination, termination, cancellation, modification or surrender, give any authorization, furnish any information, make any demands, execute any instruments and take any and all other action on behalf of and in the name of the Mortgagor which in the opinion of the Mortgagee may be necessary or appropriate to be given, furnished, made, exercised or taken by the Mortgagor under the Space Leases in order to comply therewith, to perform the conditions thereof or to prevent or remedy any default by the Mortgagor thereunder or to enforce any of the Mortgagor's rights and remedies thereunder, and (ii) to ask, require, demand, receive and collect and give acquittances for the Income (as hereinafter defined), and on nonpayment thereof to sue for, recover and receive the same, and on payment thereof to give sufficient releases, receipts, discharges and acquittances thereof; to endorse

any checks or other instruments or orders in connection therewith and to file any claims or take any action or institute any proceedings which the Mortgagee may deem to be necessary or advisable; provided, however, that the power provided for in this sentence may not be exercised by the Mortgagee unless an Event of Default shall have occurred and be continuing. "Income" shall mean all deposits, rents, issues, profits, revenues, royalties, and other revenue producing arrangements, whether written or oral, and all monetary benefits of, and/or derived from, and/or sums payable under and by virtue of the Space Leases and/or the Premises.

4.3.2. So long as there shall not have occurred and then be continuing any Event of Default and until such right of Mortgagor is terminated by the Mortgagee as in Section 4.3.3 provided, the Mortgagee will not exercise its rights pursuant to Section 4.3.1, and the Mortgagor shall have the right (but limited as hereinafter provided) to exercise all of its rights under the Space Leases, provided that the Mortgagor shall at all times comply with, observe and perform, in the exercise of such right, all of the provisions of this Mortgage and the other Loan Documents applicable to the Space Leases; provided, further, that no action shall be taken or failed to be taken by the Mortgagor which would impair the Collateral or any other collateral security for the Obligations provided for in the Loan Documents.

4.3.3. The Mortgagee, upon the occurrence and during the continuance of an Event of Default, at its option and upon written notice to the Mortgagor, shall have the right to terminate the right of the Mortgagor to exercise its rights under the Space Leases, and, thereupon, in addition, the Mortgagee, at any time thereafter, at its option, shall have the complete right, power and authority hereunder to exercise and enforce all rights, powers, remedies, authority, options and privileges of the Mortgagor under the Space Leases in the name of the Mortgagor or the Mortgagee, to enforce all obligations of the other parties to the Space Leases and to exercise and enforce all of its rights and remedies hereunder and under law not exercisable prior to an Event of Default.

4.3.4. The Mortgagor does hereby direct each and all of the Space Tenants under the Space Leases and all contractual obligors of the Mortgagor to pay any Income to the Mortgagee upon demand for payment thereof by the Mortgagee without further inquiry. It is understood and agreed, however, that no such demand shall be made unless an Event of Default shall have occurred and be continuing. No such Space Tenant or obligor shall be obliged to account to the Mortgagor for any amounts paid to the Mortgagee by reason of any payment made to the Mortgagee pursuant to such demand and, upon any such payment to the Mortgagee, shall be pro tanto released from their obligations to the Mortgagor. Each Space Tenant shall be permitted to rely on any communication from the Mortgagee pursuant hereto, and under no circumstances shall such Space Tenant be obligated to the Mortgagor for any payments made to the Mortgagee hereunder. Until such demand is made, the Mortgagor is authorized to collect or enforce or continue collecting or enforcing such Income in accordance with the provisions of this Mortgage.

4.3.5. The Mortgagee shall not have any duty as to the collection or protection of the Collateral or any income thereon or payments with respect thereto, or as to the preservation of any rights pertaining thereto beyond the safe custody of any thereof actually in its possession. In no instance shall the Mortgagee be responsible to lessees for payment of interest upon, or return of,

any lease security deposits, except as provided by law or as provided in the leases and then only if and to the extent that such deposits are received by the Mortgagee. The Mortgagor hereby waives notice of acceptance hereof and, except as otherwise specifically provided herein or required by provision of law which may not be waived, hereby waives any and all notices or demands with respect to any exercise by the Mortgagee of any rights or powers which it may have or to which it may be entitled with respect to the Collateral.

4.3.6. The Mortgagor hereby irrevocably constitutes and appoints the Mortgagee as the true and lawful attorney-in-fact of the Mortgagor, which appointment is coupled with an interest, with full power of substitution, to proceed from time to time in the Mortgagor's name in any statutory or non-statutory proceeding affecting the Mortgagor or any Collateral, and the Mortgagee or its nominee may (i) execute and file proof claim for the full amount of any Collateral and vote such claims for the full amount thereof (A) for or against any proposal or resolution, (B) for a trustee or trustees or for a receiver or receivers or for a committee of creditors and/or (C) for the acceptance or rejection of any proposed arrangement, plan of reorganization, composition or extension, and the Mortgagee or its nominee may receive any payment or distribution and give acquittance therefor and may exchange or release Collateral; (ii) endorse any draft or other instrument for the payment of money, execute releases and negotiate and enter into settlements; and (iii) execute all such other documents or instruments as may be necessary or expedient to be executed by the Mortgagor for any of the purposes of this Mortgage; provided, however, that the power provided for in this sentence may be exercised by the Mortgagee only while an Event of Default is continuing. The Mortgagee shall have no duty to exercise any of the aforesaid rights, privileges or options and shall not be responsible for any failure to do so or delay in so doing.

4.4. Remedies and Entry Upon Default.

4.4.1. So long as no Event of Default shall have occurred and be continuing, the Mortgagor shall have the right to collect (but not more than one (1) month in advance) and retain all of the rents, gross receipts and other payments, if any, from the Space Leases and from the Mortgaged Premises generally, and the Mortgagee agrees that customary initial rent payments, security deposits and reimbursements by a Space Tenant to the Mortgagor on account of alterations made by the Mortgagor for the benefit of the Space Tenant are permissible advance payments by the Space Tenant.

4.4.2. Upon any Event of Default, the Mortgagee may, but shall not be obligated to:

(a) terminate the rights of the Mortgagor referred to in Section 4.3 hereof and exercise all of the powers, rights and remedies provided for in Section 4.3 hereof, including those to be exercised only from and after an Event of Default;

(b) at any time and from time to time, without notice to, or assent by, the Mortgagor or any other Person, but without affecting any of the Obligations, in the name of the Mortgagor or in the name of the Mortgagee, notify the account debtors and obligors on any or all of the Space Leases to make payment and performance directly to the Mortgagee, and demand, collect, receive, compound and give acquittance for the Space Leases or any

part thereof; extend the time of payment and performance of, compromise or settle for cash, credit or otherwise, upon any terms and conditions, any of the Space Leases; endorse to the order of the Mortgagee checks, drafts or other orders or instruments for the payment of moneys payable to the Mortgagor which shall be issued in respect of any of the Space Leases; file any claims, commence, maintain or discontinue any actions, suits or other proceedings deemed by the Mortgagee necessary or advisable for the purpose of collecting upon or enforcing any of the Space Leases; and execute any instrument and do all other things deemed necessary and proper by the Mortgagee to protect and preserve and realize upon the Space Leases and/or the other rights contemplated hereby and the Mortgagor hereby irrevocably constitutes and appoints the Mortgagee as such Mortgagor's lawful attorney-in-fact, coupled with an interest, and its agent for the foregoing purposes;

(c) demand, collect, sue for, attach, levy, recover, receive, compromise and adjust, and make, execute and deliver receipts and releases for all Income that may then be or may thereafter become due, owing or payable with respect to the Premises or any part or parts thereof from any present or future lessees, tenants, subtenants or occupants thereof or from any present or future contract obligors; and/or

(d) pay, in such order as the Mortgagee in its sole discretion shall determine, from and out of the Income collected in connection with the Premises and/or the Collateral or any part or parts thereof or from or out of any other funds (less the expense of collection, including attorneys' fees and disbursements), any taxes, assessments, water rates, sewer rates, or other government or other charges levied, assessed or imposed against the Premises or any part or part thereof, and also any and all other charges, costs and expenses which the Mortgagee deems necessary or advisable to pay in respect of the management or operation of the Premises, including, without limitation, the costs of insurance policies, repairs and alterations, commissions for renting the Premises or any part or parts thereof, legal expenses in enforcing claims, preparing papers or procuring any other services that may be required and any amounts payable under or pursuant to any Lease. All amounts so paid and expended shall be payable on demand, together with interest at the Default Rate from the date incurred until paid, and be deemed to be included within the Obligations and secured by this Mortgage. The provisions of Section 4.2.2 and the rights given to the Mortgagee hereby shall inure to the benefit of the Mortgagee even though the Mortgagee does not enter and take possession of the Premises. Any balance remaining after the Obligations shall have been paid in full shall be turned over to the Mortgagor or such other Person as may lawfully be entitled thereto. Neither the entry upon and taking possession of the Mortgaged Premises, nor the collection and application of the rents, gross receipts or other charges thereof, nor any other action taken by the Mortgagee in connection therewith, shall cure or waive any default hereunder or waive or modify any notice thereof or notice of acceleration of the Obligations theretofore given by the Mortgagee.

4.4.3. If an Event of Default shall have occurred and be continuing and the Mortgagee shall have entered upon the Mortgaged Premises as provided in Section 6.2.2 hereof, a notice in writing by the Mortgagee to the Space Tenants under the Space Leases advising them that the Mortgagor has defaulted hereunder and requesting that all future payments of rent, additional rent or other

charges under the Space Leases be made to the Mortgagee (or its agent) shall be construed as conclusive authority to such Space Tenants that such payments are to be made to the Mortgagee (or its agent). Each Space Tenant shall be fully protected in making such payments to the Mortgagee (or its agent) and be given full credit against its obligations under the applicable Space Lease to the extent of payments made to the Mortgagee (or its agent) pursuant to any such notice; and the Mortgagor hereby irrevocably constitutes and appoints the Mortgagee the attorney-in-fact and agent of the Mortgagor, coupled with an interest, for the purpose of endorsing the consent of the Mortgagor on any such notice.

4.5. No Obligation of Mortgagee.

4.5.1. The Mortgagee shall not be obligated to perform or discharge any obligation of the Mortgagor as a result of the collateral assignment hereby effected, and the Mortgagor hereby agrees to indemnify and hold the Mortgagee harmless from and against any and all liability, loss or damage which the Mortgagee may incur by reason of any act of the Mortgagee under this Mortgage, other than as a result of the Mortgagee's willful misconduct or gross negligence. Should the Mortgagee incur any such liability, loss or damage by reason of this Mortgage and which is covered by the foregoing indemnity, or in defense against any such claims or demands, or perform any acts or covenants on the part of Mortgagor to be performed under the Space Leases, or pay for the account of the Mortgagor any and all sums, costs and expenses for the discharge of taxes, assessments, water rents or other liens against the Collateral (as hereinafter defined) or any part thereof, or on account of insurance premiums or repairs, and also any amounts and expenses necessary to perform any covenants and conditions to be performed on the part of the Mortgagor under the Space Leases, the amount thereof, including costs, expenses and attorneys' fees, together with interest thereon at the Default Rate from the date such expenses were paid by the Mortgagee to the date of payment to the Mortgagee by the Mortgagor, shall be included in the Obligations secured by this Mortgage, and the Mortgagor shall reimburse the Mortgagee therefor upon demand.

4.5.2. The acceptance by the Mortgagee of this Mortgage, with all the rights, powers, privileges and authority so created, shall not at any time or in any event obligate the Mortgagee to appear in or defend any action or proceeding relating to the Collateral, or to take any action hereunder or thereunder, or to expend any money or incur any expenses or perform or discharge any obligation, duty or liability under the Collateral.

ARTICLE V

Security Agreement Under Uniform Commercial Code

5.1. The Mortgagor intends that this Mortgage shall constitute a security agreement within the meaning of the Uniform Commercial Code of the State (the "Code") with respect to all of the Mortgagor's right, title and interest in and to the Building Service Equipment and Furnishings as are considered or as shall be determined to be personal property or "fixtures" (as defined in the Code) and all books, records, licenses and certificates of the Mortgagor or relating to the Mortgaged Premises, together with all replacements thereof, substitutions therefor or additions thereto (said property being sometimes hereinafter in this Article V referred to as the "Personal Property

Collateral"), and that a security interest shall attach thereto for the benefit of the Mortgagee to secure the Obligations and all other sums and charges which may become due hereunder, thereunder or under any of the other Loan Documents. The Mortgagor hereby authorizes the Mortgagee to file financing and continuation statements with respect to the Personal Property Collateral without the signature of the Mortgagor, if permitted by the Code as adopted by the State. In any event the Mortgagor covenants to execute such financing and continuation statements as the Mortgagee may reasonably request. If an Event of Default shall occur and be continuing, the Mortgagee, pursuant to the appropriate provisions of the Code, shall have the option of proceeding as to both real and personal property in accordance with its rights and remedies in respect of real property under this Mortgage and the law of the State, in which event the default provisions of the Code shall not apply. The Mortgagor agrees that, in the event the Mortgagee shall elect to proceed with respect to the Personal Property Collateral separately from the real property, unless a greater period shall then be mandated by the Code, five (5) days notice of the sale of the Personal Property Collateral shall be reasonable notice. The expenses of retaking, holding, preparing for sale and selling incurred by the Mortgagee shall be assessed against the Mortgagor and shall include, but not be limited to, the reasonable legal expenses incurred by Mortgagee. The Mortgagor agrees that it will not remove or permit to be removed from the Mortgaged Premises any of the Personal Property Collateral without the prior written consent of the Mortgagee except as set forth in Section 2.7.2. All replacements, renewals and additions to the Personal Property Collateral shall be and become immediately subject to the security interest of this Mortgage and the provisions of this Article V. The Mortgagor warrants and represents that all Personal Property Collateral now is free and clear of all liens, encumbrances or security interests other than the Permitted Encumbrances, and that all replacements of the Personal Property Collateral, substitutions therefor or additions thereto, unless the Mortgagee otherwise consents, will be, free and clear of liens, encumbrances or security interests of others.

ARTICLE VI

Events of Default and Remedies

6.1. Events of Default. Mortgagee shall be entitled to exercise any and all of the remedies provided in Section 6.2 and in the other Loan Documents upon the happening of an Event of Default. The term "Event of Default", wherever used in the Mortgage, shall mean any one or more of the following events:

(a) failure of Mortgagor (x) to pay, for a period of ten (10) days after the same becomes due (i) any installment of interest and/or principal under this Note, or (ii) any other payment required hereunder or under any of the other Loan Documents or under any supplement, modification or extension hereof or thereof, or (y) to pay the final principal balance of the Note when due, whether upon the stated maturity date set forth therein, upon acceleration of such principal sum or otherwise, together with accrued and unpaid interest thereon; or

(b) if any of Mortgagor's representations or warranties contained herein or in any of the Loan Documents shall be untrue or incorrect in any material respect at the time made, or if any such warranty or

representation intended to be a continuing one shall become untrue or incorrect in any material respect and Mortgagor shall fail to remedy such situation within thirty (30) days after notice from Mortgagee, unless such situation cannot be remedied in such period and provided further that the Mortgagor shall commence compliance with such situation and shall continue to diligently prosecute such compliance, then such cure period shall be extended for an additional sixty (60) day period, or such other period of time as the Mortgagee may agree in writing (or immediately upon notice in case of emergency); or

(c) if Mortgagor shall commence a voluntary case concerning itself under Title 11 of the United States Code entitled "Bankruptcy" as now or hereafter in effect, or any successor thereto (the "Bankruptcy Code"); or an involuntary case is commenced against Mortgagor and the petition is not controverted within thirty (30) days, or is not dismissed within ninety (90) days, after commencement of the case; or a custodian (as defined in the Bankruptcy Code) is appointed for, or takes charge of, all or any substantial part of the property of Mortgagor; or Mortgagor commences any other proceeding under any reorganization, arrangement, adjustment of debt, relief of debtors, dissolution, insolvency or liquidation or similar law of any jurisdiction whether now or hereafter in effect relating to Mortgagor or there is commenced against Mortgagor any such proceeding which remains undismissed for a period of ninety (90) days; or Mortgagor is adjudicated insolvent or bankrupt; or any order of relief of other order approving any such case or proceeding is entered; or Mortgagor suffers any appointment of any custodian or the like for it or any substantial part of its property to continue undischarged or unstayed for a period of ninety (90) days; or Mortgagor makes a general assignment for the benefit of creditors; or Mortgagor shall fail to pay, or shall state that it is unable to pay, or shall be unable to pay, its debts generally as they become due; or Mortgagor shall call a meeting of its creditors with a view to arranging a composition or adjustment of its debts; or

(d) if any of the events enumerated in clause (c) of this Section shall happen to Acadia; or

(e) if any execution, warrant, attachment, garnishment or other similar processes shall be levied or filed against the Mortgaged Premises or any part thereof, or against Mortgagor which involve claims aggregating more than \$100,000 and such processes shall not be stayed, vacated or discharged, such as by bonding, within ninety (90) days after the same shall have been levied or filed; or

(f) if Mortgagor shall fail to perform or observe, or cause to be performed or observed the provisions contained in Section 2.18. herein, within the time periods set forth therein, with time being of the essence; or

(g) except as otherwise provided in PARAGRAPH (f) directly hereinabove, if Mortgagor shall fail to perform or observe, or cause to be performed or observed, any other term, obligation, covenant, condition or agreement contained in the Note, this Mortgage or in any of the other Loan Documents, or in any assignment of leases and rents or in any other instrument executed concurrently herewith by Mortgagor and/or Guarantor or

supplemental hereto, pertaining to the debt evidenced by this Note or the security therefor, or under any supplement, modification or extension of any of the foregoing, on its part to be performed and such failure shall have continued for a period of thirty (30) days after notice thereof; provided, however, if such default shall not have been occasioned by any willful act of Mortgagor, and if such default cannot with due diligence be cured within such thirty (30) days period, the time within which to cure the same shall be extended for such period as may be necessary to cure the same with due diligence if Mortgagor commences within such thirty (30) days and proceeds diligently to cure the same; or

(h) if there should occur a default which is not cured within the applicable grace or cure period, if any, under any mortgage or deed of trust of all or part of the Mortgaged Premises (as such term is defined in the Mortgage), including a mortgage or deed of trust held by Mortgagee, regardless of whether any such other mortgage or deed of trust is superior, subordinate, or collateral to the Mortgage; it being further agreed by Mortgagor that an Event of Default shall constitute an "Event of Default" under any such other mortgage or deed of trust held by Mortgagee; provided, however, that this provision shall not be construed as Mortgagee's consent to any such mortgage or deed of trust; or

(i) if any "Event of Default" (as such term is defined in any Loan Document) shall occur; or

(j) if there shall be an acceleration upon default of any other loan made by or held by Mortgagee to a borrower controlled by Acadia; or

(k) if any Guarantor defaults under or attempts to withdraw, cancel or disclaim liability under any Indemnity pursuant to the terms therein; or

(l) if the Mortgagor shall default in the observance or performance of any term, covenant or condition of the Ground Lease on the part of the Mortgagor, as lessee thereunder, to be observed or performed beyond any applicable notice and cure periods under the Ground Lease; or

(m) if the leasehold estate created by the Ground Lease shall be surrendered, in whole or in material part, or if the Lease shall be terminated or canceled for any reason or under any circumstance whatsoever, or if any of the terms, covenants or conditions of the Ground Lease shall in any manner be materially modified, changed, supplemented, altered or amended without the consent of the Mortgagee, which consent shall not be unreasonably withheld.

6.2. Remedies. If an Event of Default shall occur and be continuing, the Mortgagee, at its option, may:

6.2.1. by notice to the Mortgagor, declare the entire principal amount of the Note then outstanding and all accrued and unpaid interest thereon and all other Obligations of the Mortgagor to the Mortgagee to be immediately due and payable, and upon such declaration such principal and interest and all other Obligations of the Mortgagor to the Mortgagee shall become and be immediately

due and payable, anything in the Note or in this Mortgage or in any of the other Loan Documents to the contrary notwithstanding.

6.2.2. after commencement of such proceedings as may be required by any applicable law, either in person, or by its agents or attorneys, or by a court-appointed receiver, enter into and upon all or any part of the Mortgaged Premises and exclude the Mortgagor, its agents and employees from possession; and while in possession, use, operate, manage, control, and conduct the business of, the Mortgaged Premises in such manner and to such extent as the Mortgagee shall, in its reasonable discretion, determine to be appropriate, either itself or by its employees, agents, attorneys or the receiver; and maintain and restore the Mortgaged Premises and make all necessary or proper repairs, replacements, alterations, and improvements as the Mortgagee, in its reasonable discretion, determines to be advisable; and, without limiting the Mortgagee's rights under Section 4.4.2, the Mortgagee (whether or not it shall have taken possession of the Premises or obtained a receiver for the Mortgaged Premises) shall be entitled to collect and receive all earnings, revenues, rents, issues, profits and income of the Mortgaged Premises. After first deducting the amount of expenses incurred in connection with the operation of the Mortgaged Premises, including advances for maintenance, repairs, alterations, improvements, taxes, assessments, insurance and other prior or current charges in respect of the Mortgaged Premises or any part thereof, as well as compensation for the services of the Mortgagee and for all attorneys, agents, consultants and other persons engaged by it to render services in connection with the Mortgaged Premises, the Mortgagee shall apply the balance of said moneys to the payment of the Obligations. Any remaining moneys shall be remitted to the Mortgagor or to such other person as lawfully may be entitled thereto. Any and all amounts advanced by the Mortgagee as authorized, or contemplated, by this Section 6.2.2 shall bear interest from the date advanced at the Default Rate and, together with such interest, shall be added to the Obligations secured by this Mortgage, and shall be payable by Mortgagor on demand.

6.2.3. with or without entry, either itself or by its agents or attorneys:

(a) foreclose this Mortgage in accordance with the laws of the State and the provisions hereof, for all of the Obligations or for any portion thereof or any other sums secured hereby which are then due and payable, subject to the continuing lien of this Mortgage for the balance of the Obligations not then due; or

(b) take such steps 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 in the Note or in this Mortgage, or in aid of the execution of any power herein granted, or for any foreclosure hereunder, or for the enforcement of any other appropriate legal or equitable remedy or otherwise as the Mortgagee shall elect, including bringing any appropriate action or proceeding to foreclose this Mortgage and any other documents securing the Note and to sell, as an entirety or in separate lots or parcels, the Mortgaged Property under the power of sale hereinafter provided or the judgment or decree of a court or courts of competent jurisdiction; and (c) to pursue any other remedy available to it. The Mortgagee shall take action either by such proceedings or by the exercise of its power with respect to entry and/or taking possession, or both, as the Mortgagee may determine; and

6.2.4. exercise any or all of its rights and remedies under the Loan Documents in such order of priority as the Mortgagee shall determine in its sole discretion. The Mortgagee may proceed in any such action to final judgment and execution thereon for all sums due under Section 6.2.1, together with interest on such sums at the Default Rate. Interest at the Default Rate shall be due on any judgment obtained by the Mortgagee from the date of judgment until actual payment is made of the full amount of the judgment by the Sheriff or otherwise.

6.3. Foreclosure; No Marshalling of Assets; Appointment of Receiver.

6.3.1. In case of a foreclosure sale, all of the Mortgaged Premises, at the option of Mortgagee, in its sole discretion, may be sold in one or more parcels even though the proceeds of such sale exceed or may exceed the Obligations. The Mortgagee shall not be required to exercise any rights under this Mortgage before proceeding against any other security, shall not be required to proceed against other security before proceeding under this Mortgage, and shall not be precluded from proceeding against any or all of any security held by the Mortgagee for any or all of the Obligations in any order or at the same time.

6.3.2. The Mortgagee, in any action to foreclose this Mortgage, shall be entitled, without notice and without regard to the adequacy of any security for the Obligations or the solvency of any Person liable for the payment thereof, to the appointment of a receiver of the rents and profits of the Mortgaged Premises.

6.3.3. The Mortgagor agrees, to the full extent that it may lawfully do so, that in any foreclosure or other action brought by the Mortgagee to enforce this Mortgage, it will not at any time insist upon or plead or in any way take advantage of any appraisal, valuation, stay, marshalling of assets, extension, redemption or moratorium law now or hereafter in force and effect so as to prevent, hinder, delay or otherwise affect the enforcement of the provisions of this Mortgage or any rights or remedies the Mortgagee may have hereunder or by law.

6.3.4. If the Mortgagee shall elect to accelerate the Obligations following the occurrence of an Event of Default, the Mortgagor, within five (5) days after demand, will pay to the Mortgagee, or any receiver appointed in connection with the foreclosure of this Mortgage, any and all amounts then held as security deposits under all Space Leases; and the Mortgagee or such receiver shall be deemed to indemnify the Mortgagor against all claims of tenants in respect of the security deposits so paid following such demand.

6.3.5. If an Event of Default shall occur and be continuing, in addition to all other rights of the Mortgagee provided in this Mortgage or by law, the Mortgagor shall, on demand, surrender possession of the Mortgaged Premises to the Mortgagee; the Mortgagor consents that the Mortgagee may exercise any or all of the rights specified in Section 6.2.2; and the Mortgagor irrevocably appoints the Mortgagee its attorney-in-fact, coupled with an interest, for such purposes. If the Mortgagor is then an occupant of all or any portion of the Mortgaged Premises, it agrees to surrender possession of that part of the Mortgaged Premises which it occupies to the Mortgagee immediately upon demand if an Event of Default shall have occurred and be continuing. If the Mortgagor remains in possession despite such demand, such possession shall, at the Mortgagee's election, be as tenant of the Mortgagee; and the Mortgagor agrees to pay monthly in advance to the Mortgagee such rent for the premises so occupied as the

Mortgagee may demand, and in default of so doing, the Mortgagor may also be dispossessed by summary proceedings or otherwise. If a receiver of the rents and profits of the Mortgaged Premises shall be appointed, the covenants of this Section 6.3.5 may be enforced by the receiver.

6.4. Legal Expenses of Mortgagee.

6.4.1. The Mortgagor will pay to the Mortgagee, on demand, all costs, charges and expenses (including, without limitation, reasonable attorneys' fees and disbursements) incurred or paid at any time by the Mortgagee (i) in connection with any action or proceeding to foreclose this Mortgage or to recover or collect all, or any portion of the Obligations; and (ii) in connection with any modification or amendment or assignment of this Mortgage or the other Loan Documents, together with interest on each such payment made by the Mortgagee at the Default Rate from the date of the Mortgagee's demand for such payment to the date of reimbursement by Mortgagor.

6.4.2. If any action or proceeding be commenced in which the Mortgagee is made a party, or in which it becomes necessary to defend or uphold the lien of this Mortgage, all reasonable sums paid by the Mortgagee for the expense of any litigation to prosecute or defend the title, rights and lien created by this Mortgage (including, without limitation, reasonable attorneys' fees) shall be paid by the Mortgagor, together with interest thereon at the Default Rate from the date of the Mortgagee's demand for such payment to the date of reimbursement by Mortgagor.

6.5. Remedies Cumulative; No Waiver; Etc.

6.5.1. No remedy in this Mortgage conferred upon or reserved to the Mortgagee is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative, and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity. No delay or omission by the Mortgagee in exercising any right or power arising upon any Event of Default shall impair any such right or power, or shall be construed to be a waiver of or acquiescence in any such Event of Default; and every power and remedy given by this Mortgage to the Mortgagee may be exercised from time to time as often as the Mortgagee may determine it is appropriate to do so.

6.5.2. A waiver in one or more instances of compliance with any of the terms, covenants, conditions or provisions of this Mortgage or of the other Loan Documents shall apply to the particular instance or instances and at the particular time or times only, and no such waiver shall be deemed a continuing waiver. In any event, no waiver shall be effective, or be asserted by the Mortgagor as having been made, unless set forth in a writing signed by the Mortgagee.

6.5.3. The Mortgagor waives and renounces all homestead and similar exemption rights with respect to the Mortgaged Premises provided for by the Constitution and laws of the United States and of the State as against the collection of the Loan Documents, or any part thereof.

6.6. No Merger. It is the intention of the parties to this Mortgage that if the Mortgagee shall at any time hereafter acquire title to all or any portion of the Mortgaged Premises, then, and until the Obligations have been paid in full, the interest of the Mortgagee hereunder and the lien of this

Mortgage shall not merge or become merged in or with the estate and interest of the Mortgagee as the holder and owner of title to all or any portion of the Mortgaged Premises and that, until such payment, the estate of the Mortgagee in the Mortgaged Premises and the lien of this Mortgage and the interest of the Mortgagee hereunder shall continue in full force and effect to the same extent as if the Mortgagee had not acquired title to all or any portion of the Mortgaged Premises.

6.7. Foreclosure of Mortgage by Power of Sale. Mortgagee may, either with or without entry of taking possession of the Mortgaged Property as provided in this Mortgage or otherwise, personally or by its agents or attorneys, and without prejudice to the right to bring an action for foreclosure of this Mortgage, sell the Mortgaged Property or any part thereof pursuant to any procedures provide by applicable law, including, without limitation, the procedures set forth in Article 14 of the New York Real Property Actions and Proceedings Law (and any amendments or substitute statutes in regard thereto), and all estate, right, title, interest, claim and demand therein, and right of redemption thereof, at one or more sales as an entity or in parcels, and at such time and place upon such terms and after such notice thereof as may be required or permitted by applicable law.

All Notices hereunder or under any applicable law pertaining hereto (including, without limitation, Article 14 of the New York Real Property Actions and Proceeding Law) shall be in writing and shall be deemed sufficiently given or served for all purposes when delivered (i) by personal service or courier service, and shall be deemed given on the date when signed for or, if refused, when refused by the person designated as an agent for receipt of service, (ii) by facsimile transmission, and shall be deemed given when printed confirmation of completion of transmission is generated by the sender's facsimile transmission instrument, or (iii) by United States certified mail, return receipt requested, postage prepaid, and shall be deemed given two (2) days after being sent, to any party hereto at the following address: 20 Soundview Marketplace, Port Washington, New York 11050 or such other address of which a party shall have notified the party giving such notice in writing as aforesaid. For purposes hereof, notices may be given by the parties hereto or by their attorneys identified herein.

6.8. Purchase by Mortgagee. Without limiting any other provision contained herein, upon any such foreclosure sale, the Mortgagee may bid for and purchase the Mortgaged Property and, upon compliance with the terms of sale, may hold, retain and possess and dispose of such property in its own absolute right without further accountability.

6.9. Application of Indebtedness Toward Purchase Price. Without limiting any other provision contained herein, upon any such foreclosure sale, the Mortgagee may, if permitted by law, and after allowing for costs and expenses of the sale, compensation and other charges, in paying the purchase price, apply any portion or all of the indebtedness and other sums due to the Mortgagee under the Note, this Mortgage or any other instrument securing the Note, in lieu of cash, to the amount which shall, upon distribution of the net proceeds of such sale, be payable thereon.

6.10. Waiver of Appraisalment, Valuation, Stay, Execution and Redemption Laws. Without limiting any other provision contained herein, the Mortgagor agrees, to the full extent permitted by law that in case of a default on its part hereunder, neither the Mortgagor nor anyone claiming through or under it

shall or will set up, claim or seek to take advantage of any appraisal, valuation, stay, extension or redemption laws now or hereafter in force, in order to prevent or hinder the enforcement or foreclosure of this Mortgage or the absolute sale of the Mortgaged Property or the final and absolute putting into possession thereof, immediately after such sale, of the purchasers thereat, and the Mortgagor for itself and all who may at any time claim through or under it, hereby waives, to the full extent that may be lawfully so do, the benefit of all such laws, and any and all right to have the assets comprising the Mortgaged Property marshaled upon any foreclosure of the lien hereof and agrees that the Mortgagee or any court having jurisdiction to foreclose such lien may sell the Mortgaged Property in part or as an entirety. Mortgagor agrees that neither it nor any guarantor will assert a defense in any action to recover a deficiency judgment following a foreclosure that the sales price realized at the sale was less than the fair market value.

6.11. Receiver. Without limiting any other provision contained herein, if an Event of Default shall have occurred, the Mortgagee, to the extent permitted by law and without regard to the value, adequacy or sufficiency of the security for the indebtedness and other sums secured hereby, shall be entitled as a matter of right if it so elects to the appointment of a receiver to enter upon and take possession of the Mortgaged Property and to collect all rents, income and other benefits thereof and apply the same as the court may direct. The expenses, including receiver's fees, reasonable attorneys' fees, costs and reasonable agent's compensation, incurred pursuant to the powers herein contained shall be secured by this Mortgage. The right to enter and take possession of and to manage and operate the Mortgaged Property and to collect all rents, income and other benefits thereof, whether by a receiver or otherwise, shall be cumulative to any other right or remedy hereunder of afforded by law or in equity and may be exercised concurrently therewith or independently therewith or independently thereof. The Mortgagee shall be liable to account only for such rents, income and other benefits actually received by the Mortgagee, whether received pursuant to this paragraph or paragraph 3.03. Notwithstanding the appointment of any receiver or other custodian, the Mortgagee shall be entitled as pledged to the possession and control of any cash, deposits, or instruments at the time held by, or payable or deliverable under the terms of this Mortgage to, the Mortgagee.

6.12. Suits to Protect the Mortgaged Property. Without limiting any other provision contained herein, the Mortgagee shall have the power and authority to institute and maintain any suits and proceedings as the Mortgagee may deem advisable in its judgment (a) to prevent any impairment of the Mortgaged Property by any acts which may be unlawful or any violation of this Mortgage, (b) to preserve or protect its interest in the Mortgaged Property, and (c) to restrain the enforcement of or compliance with any legislation or other governmental enactment, rule or order might impair the security hereunder or be prejudicial to the Mortgagee's interest.

6.13. Proofs of Claim. Without limiting any other provision contained herein, in case of any receivership, insolvency, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceedings affecting the Mortgagor or any guarantor, co-maker or endorser of any of the Mortgagor's obligations, its creditors or its property, the Mortgagee, to the extent permitted by law, shall be entitled to file such proofs of claim and other documents as may be necessary or advisable in order to have its claims allowed in such proceedings for the entire amount due and payable by the Mortgagor under the Note, this Mortgage and any other instrument securing the Note, at the date

of the institution of such proceedings, and for any additional amounts which may become due and payable by the Mortgagor after such date.

6.14. Delay or Omission; No Waiver. No delay or omission of Mortgagee or of any holder of the Note to exercise any right, power or remedy accruing upon any Event of Default shall exhaust or impair any such right, power or remedy or shall be construed to waive any such Event of Default or to constitute acquiescence therein. Every right, power and remedy given to the Mortgagee may be exercised from time to time and as often as may be deemed expedient by the Mortgagee.

6.15. No Waiver of One Default to Affect Another. No waiver of any Event of Default hereunder shall extend to or affect any subsequent or any other Event of Default then existing, or impair any rights, powers or remedies consequent thereon. If the Mortgagee (a) grants forbearance or an extension of time for the payment of any sums secured hereby; (b) takes other or additional security for the payment thereof; (c) waives or does not exercise any right granted in the Note, this Mortgage or any instrument securing the Note; (d) releases any part of the Mortgaged Property from the lien of this Mortgage or any other instrument securing the Note; (e) consents to the filing of any map, plat or replat of the Land; (f) consents to the granting of any easement on the Land; or (g) makes or consents to any agreement changing the terms of this Mortgage or subordinating the lien or any charge hereof, then, except as otherwise provided by an instrument executed by the Mortgagee, no such act or omission shall release, discharge, modify, change or affect the original liability under the Note, this Mortgage or otherwise of the Mortgagor or any subsequent purchaser of the Mortgaged Property or any part thereof or any maker, co-signer, endorser, surety or guarantor. No such act or omission shall preclude the Mortgagee from exercising any right, power or privilege herein granted or intended to be granted in case of any Event of Default then existing or of any subsequent Event of Default nor, except as otherwise expressly provided in an instrument executed by the Mortgagee, shall the lien of this Mortgage be altered thereby, except to the extent of releases as described in subparagraph (d) above of this paragraph 3.12. In the event of the sale or transfer by operation of law or otherwise of all or any part of the Mortgaged Property, the Mortgagee, without notice to any person, firm or corporation, is hereby authorized and empowered to deal with any such vendee or transferee with reference to the Mortgaged Property or the indebtedness secured hereby, or with reference to any of the terms or conditions hereof, as fully and to the same extent as it might deal with the original parties hereto and without in any way releasing or discharging any of the liabilities or undertakings hereunder.

6.16. Discontinuance of Proceedings; Position of Parties Restored. If the Mortgagee shall have proceeded to enforce any right or remedy under the Mortgage by foreclosure, entry or otherwise and such proceedings shall have resulted in a final determination adverse to the Mortgagee, then and in every such case the Mortgagor and the Mortgagee shall be restored to their former positions and rights hereunder, and all rights, powers and remedies of the Mortgagee shall continue as if no such proceedings had occurred or had been taken.

6.17. Remedies Cumulative. No right, power or remedy conferred upon or reserved to the Mortgagee by the Note, this Mortgage or any other instrument securing the Note is exclusive of any other right, power or remedy, but each such right, power and remedy shall be cumulative and concurrent and shall be in addition to any other right, power and remedy given hereunder or under the Note or any other instrument securing the Note, or now or hereafter existing as law, in equity or by statute.

6.18. Defeasance. If Mortgagor shall pay or cause to be paid the principal of and premium, if any, and interest on the Note, in accordance with the terms thereof, and if the Mortgagor shall pay or cause to be paid all sums payable hereunder by the Mortgagor and shall comply with all terms, conditions and requirements hereof, then this Mortgage shall be null and void and of no further force and effect and shall be released by the Mortgagee upon the written request and at the expense of the Mortgagor.

6.19. Interest After Default. Upon default or after maturity or after judgment has been rendered on the Note, Mortgagor's right to select pricing options shall cease and the unpaid principal of all advances shall, at the option of the Mortgagee, bear interest at the Involuntary Rate.

6.20. Construction of Mortgagee Rights. All covenants hereof shall be construed as affording to the Mortgagee rights additional to and not exclusive of the rights conferred under the provisions of Section 254 and 273 of the Real Property Law of the State of New York.

ARTICLE VII

Provisions of General Application

7.1. Modifications. No change, amendment, termination, modification or cancellation of this Mortgage, or of any part hereof, shall be valid unless set forth in a writing signed by the Mortgagor and the Mortgagee, except that only the Mortgagee need sign any satisfaction of this Mortgage.

7.2. Notices. All notices, demands, requests, consents, approvals or other communications (each, a "Notice") given or required to be given hereunder shall be deemed given or furnished hereunder when addressed to the party intended to receive the same, at the address of such party set forth below:

If to Mortgagee:

Fleet National Bank
1185 Avenue of the Americas
New York, New York 10036
Attention: Denise M. Smyth, Vice President

If to Mortgagor:

Port Bay Associates, LLC
c/o Acadia Realty Trust
1311 Mamaroneck Avenue
Suite 260
White Plains, New York 10605
Attention: Robert Masters, Esq.

with a copy to Michael Nelsen at the same address

Each such Notice shall be effective (i) if delivered by hand, at the time of delivery to the address specified herein below or (ii) if given by first-class certified or first-class registered mail, return receipt requested postage prepaid, on the fourth Business Day (as "Business Day" is defined in the Note) following the time of mailing in the manner aforesaid, or (iii) on the Business Day immediately following the delivery of such notice to an overnight delivery service.

Any party may change the address to which any such notice, report, demand or other instrument is to be delivered or mailed, by furnishing written notice of such change to the other parties, but no such notice of change shall be effective unless and until received by such other parties.

7.3. The Mortgagee's Rights to Perform the Mortgagor's Covenants. If the Mortgagor shall fail to pay or cause payment to be paid to the Mortgagee in accordance with the terms of the Loan Documents, or to perform or observe any other term, covenant, condition or obligation required to be performed or observed by the Mortgagor under this Mortgage or the other Loan Documents, without limiting any other provision of this Mortgage, and without waiving or releasing the Mortgagor from any obligation or default hereunder, after giving any notice to the Mortgagor required hereunder and after the passage of any applicable cure periods (or without such notice in the event of an emergency), the Mortgagee (or any receiver of the Mortgaged Premises) shall have the right, but not the obligation, to make any such payment, or to perform any other act or take any appropriate action, including, without limitation, entry on the Mortgaged Premises and performance of work thereat, as it, in its sole discretion, may deem necessary to cause such other term, covenant, condition or obligation to be promptly performed or observed on behalf of the Mortgagor or to protect the security of this Mortgage. All amounts advanced by, or on behalf of, the Mortgagee in exercising its rights under this Section 7.3 (including, but not limited to, legal expenses and disbursements incurred in connection therewith), together with interest thereon at the Default Rate from the date of the Mortgagee's demand upon the Mortgagor for reimbursement of such sums until reimbursement by the Mortgagor, shall be payable by the Mortgagor to the Mortgagee upon demand and shall be secured by this Mortgage.

7.4. Additional Sums Payable by the Mortgagor. All sums which, by the terms of this Mortgage or any of the other Loan Documents are payable by the Mortgagor to the Mortgagee shall, together with the interest thereon provided for herein or in the Note or such other Loan Documents, be added to and deemed part of the Obligations secured by the lien of this Mortgage whether or not the provision which obligates the Mortgagor to make any such payment to the Mortgagee specifically so states.

7.5. Captions. The captions used in this Mortgage are inserted only as a matter of convenience and for reference, and in no way define, limit, enlarge or describe the scope or intent of this Mortgage or in any other way affect this Mortgage or the construction of any provision hereof.

7.6. Successors and Assigns. The covenants and agreements contained in this Mortgage shall run with the land and bind the Mortgagor, the heirs, legatees, legal representatives, successors and assigns of the Mortgagor and of each Person constituting the Mortgagor and all subsequent owners, encumbrances and Space Tenants of the Mortgaged Premises, or any part thereof; and shall inure to the benefit of the Mortgagee, its successors and assigns and all subsequent beneficial owners of this Mortgage.

7.7. Gender and Number. Wherever the context of this Mortgage so requires, the neuter gender includes the masculine and/or feminine gender and the singular number includes the plural.

7.8. Severability. If any one or more of the provisions contained in this Mortgage shall for any reason be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Mortgage; and this Mortgage shall, in such event, be construed as if such invalid, illegal or unenforceable provision had never been included.

7.9. Usury. Anything in this Mortgage or the other Loan Documents to the contrary notwithstanding, the Mortgagee shall never be entitled to receive, collect or apply as interest on the principal amount of the Obligations secured hereby any amount in excess of the maximum rate of interest permitted to be charged by applicable law. In the event the Mortgagee ever receives, collects or applies as interest any such excess, the amount which would be excessive interest shall be applied to the reduction of the principal amount of said Obligations; and if said principal amount shall have been paid in full, shall be remitted to the Mortgagor. In determining whether or not the interest paid or payable in any specific instance shall exceed the highest lawful rate, the Mortgagor and the Mortgagee shall to the maximum extent permitted by applicable law (i) characterize any non-principal payment as an expense, fee or premium rather than as interest, (ii) exclude voluntary prepayments and the effects thereof and (iii) "spread" the total amount of interest throughout the entire contemplated terms of the obligations so that the interest rate is uniform throughout the entire said term.

7.10. Subrogation. Should the proceeds of the loan made by the Mortgagee to the Mortgagor and evidenced by the Note be used directly or indirectly to discharge, or satisfy, in whole or in part, any prior lien or encumbrance upon the Mortgaged Premises or any part thereof, then the Mortgagee shall be subrogated to such other lien or encumbrance and to any additional security held by the holder thereof and shall have the benefit of the priority thereof.

7.11. Controlling Law. This Mortgage shall be governed by, and construed and enforced in accordance with, the laws of the State of New York.

7.12. Entire Agreement. This Mortgage, together with the other Loan and Loan Documents, embodies the entire agreement and understanding between the parties relating to the subject matter hereof.

7.13. Jurisdiction. Any legal action or proceeding with respect to the Note or any of the Loan Documents may be brought in the courts of the States of New York or if the requisites of jurisdiction obtain, of the United States of America for the Southern or Eastern District of New York and, by execution and delivery hereof, the Mortgagor hereby accepts for itself and in respect of its property, generally and unconditionally, the jurisdiction of the aforesaid courts. Nothing herein, however, shall affect the right of the Mortgagee to commence legal proceedings or otherwise proceed against the Mortgagor in any other jurisdiction. The Mortgagor hereby waives any claim that New York or any such District is an inconvenient forum and any claim against the Mortgagee for consequential, special or punitive damages respecting the Loan Documents.

7.14. Reappraisal or Subsequent Environmental Reports of Mortgaged Premises. At intervals in Mortgagee's sole discretion, the Mortgagee may order a reappraisal or an environmental assessment of the Mortgaged Property by an independent appraiser or environmental firm, as applicable, of its selection, or by an employee of the Mortgagee, and Mortgagor agrees to allow access to the Mortgaged Property to such independent appraiser, environmental firm, or employee of the Mortgagee, and in the case of an independent appraiser or environmental firm, to pay to the Mortgagee, within thirty (30) days of billing, such appraiser's or environmental firm's, as applicable, reasonable fee and expenses. However, notwithstanding the above, Mortgagor shall be responsible for paying the cost of up to one appraisal per annum if more than one appraisal per annum is required by the Mortgagee

7.15. Agent for Service of Process. The Mortgagor agrees to submit to personal jurisdiction in the State of New York in any action or proceeding arising out of this Mortgage and in furtherance of such agreement designates CT Corporation System, 111 8th Avenue, 13th Floor, New York, New York 10011 as the agent for service of process in any such action or proceeding.

7.16. Consent of Mortgagee. Except as may be specifically provided for herein, whenever the consent or approval of the Mortgagee is required, the decision whether to consent or approve shall be in the sole and absolute discretion of the Mortgagee.

7.17. Construction of Loan Document. This Mortgage, the Note and all other documents executed and delivered in connection herewith or therewith shall be given a fair and reasonable construction in accordance with the intention of the parties as expressed herein and therein and without regard for any rule of law requiring construction against the party who prepares such instruments.

ARTICLE VIII

Intentionally Deleted.

ARTICLE IX

Particular Provisions

The foregoing Articles of this Mortgage are subject to the following further provisions, if any, set forth in this Article IX.

9.1. The phrase "if an Event of Default has occurred and is continuing" or the like contained herein, in the Note or in any other Security Document is not intended to mean, and shall not be construed, by implication or otherwise, to mean that Mortgagor or any other Person shall have a right to cure an Event of Default following acceleration by Mortgagee, and the only right Mortgagor or any other Person shall have upon the occurrence of any Event of Default and Mortgagee's election to accelerate repayment of the Obligations is to tender payment in full of the Obligations unless Mortgagee, in its sole discretion, agrees in writing to waive such Event of Default.

9.2. Interest Rate Protection Agreement. This Mortgage shall secure the payment of all amounts that may be due and payable pursuant to the terms of any interest rate swap, cap or other interest rate protection agreement (collectively, the "Hedge Agreement") now or hereafter entered into between the Mortgagor and the Mortgagee or their respective designees, including, without limitation, the obligation of the Mortgagor to make payments thereunder and to pay any amounts of which may become due upon a termination thereof. All such payments with respect to such Hedge Agreement shall be deemed to be additional interest under the Note. The additional interest shall be secured by this Mortgage (even if the principal balance has been paid in full) and the Mortgagor shall not be entitled to a satisfaction, termination or release of this Mortgage, and the lien and conveyance created by this Mortgage shall continue, if and so long as any additional interest under the Note payable by the Mortgagor remains outstanding and unpaid. A copy of the Hedge Agreement, if any, is on file with the Mortgagor.

9.3. Mortgagor Acknowledgment. The Mortgagor hereby acknowledges that it has received a complete copy of this Mortgage without charge.

9.4. Set-Off. Mortgagor represents, warrants and covenants that there are no offsets, counterclaims or defenses against the Indebtedness, the Mortgage or the Note and that Mortgagor and the undersigned has full power, authority and legal right to execute this Mortgage and to keep and observe all of the terms of this Mortgage on Mortgagor's part to be observed or performed.

Mortgagor hereby grants to Mortgagee a lien, security interest and right of setoff as security for all liabilities and obligations to Mortgagee, whether now existing or hereafter arising, upon and against all deposits, credits, collateral and property, now or hereafter in the possession, custody, safekeeping or control of Mortgagee or any entity under the control of Fleet

Boston Financial Corporation or in transit to any of them. At any time after an Event of Default, without demand or notice, Mortgagee may set off the same or any part thereof and apply the same to any liability or obligation of Mortgagor regardless of the adequacy of any other collateral securing the Loan. ANY AND ALL RIGHTS TO REQUIRE MORTGAGEE TO EXERCISE ITS RIGHTS OR REMEDIES WITH RESPECT TO ANY OTHER COLLATERAL WHICH SECURES THE LOAN, PRIOR TO EXERCISING ITS RIGHT OF SETOFF WITH RESPECT TO SUCH DEPOSITS, CREDITS OR OTHER PROPERTY OF THE MORTGAGOR ARE HEREBY KNOWINGLY, VOLUNTARILY AND IRREVOCABLY WAIVED.

9.5. Re-execution of Documents. Upon receipt of an affidavit of an officer of the Mortgagee as to the loss, theft, destruction or mutilation of the Note or any other security document which is not of public record, and, in the case of any such loss, theft, destruction or mutilation, upon surrender of such Note or other security document, Mortgagor will issue, in lieu thereof, a replacement Note or other security document in the same principal amount thereof and otherwise of like tenor.

9.6. Right to Prepay. Provided that the Mortgagor is not in default of any of the covenants, conditions, or agreements contained in this Mortgage, the Note or any other loan document delivered in connection thereto, the Mortgagor may prepay the Loan, in whole or in part, in accordance with, and subject to, the prepayment provisions set forth in Paragraph 10 of the Note, which Paragraph 10 includes provisions for payment of a yield maintenance premium under certain circumstances. The provisions of Paragraph 10 of the Note is incorporated herein by this reference, and shall be deemed an obligation secured by the lien of this Mortgage.

9.7. WAIVER OF JURY TRIAL. MORTGAGOR AND MORTGAGEE MUTUALLY HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT TO A TRIAL BY JURY IN RESPECT OF ANY CLAIM BASED HEREON, ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS MORTGAGE OR ANY OTHER LOAN DOCUMENTS CONTEMPLATED TO BE EXECUTED IN CONNECTION HERewith OR ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY. THIS WAIVER CONSTITUTES A MATERIAL INDUCEMENT FOR MORTGAGEE TO ACCEPT THIS MORTGAGE AND MAKE THE LOAN. ACCEPTANCE OF THIS MORTGAGE BY THE MORTGAGEE SHALL BE DEEMED TO CONSTITUTE A WAIVER BY THE MORTGAGEE OF THE RIGHT TO TRIAL BY JURY IN THE EVENT OF ANY LITIGATION IN RESPECT OF WHICH THE MORTGAGOR HAS WAIVED THE RIGHT TO TRIAL BY JURY HEREUNDER.

9.8. Multiple Security. If (a) the Premises shall consist of one or more parcels, whether or not contiguous and whether or not located in the same county, or (b) in addition to this Mortgage, the Mortgagee shall now or hereafter hold one or more additional mortgages, liens or other security (directly or indirectly) for the Indebtedness upon other property in the State in which the Premises are located, then to the fullest extent permitted by law, the Mortgagee may, at its election, commence or consolidate in a single foreclosure action all foreclosure proceedings against all such collateral securing the Indebtedness (including the Mortgaged Property), which action may be brought or consolidated in the courts of any county in which any of such

collateral is located. The Mortgagor acknowledges that the right to maintain a consolidated foreclosure action is a specific inducement to the. Mortgagee to extend the Indebtedness, and the Mortgagor expressly and irrevocably waives any objections to the commencement or consolidation of the foreclosure proceedings in a single action and any objections to the laying of venue or based on the grounds of forum non conveniens which it may now or hereafter have.

9.9. Non-Residential Property. This Mortgage does not cover real property principally improved by one or more structures containing in the aggregate six (6) or less residential dwelling units having their own separate cooking facilities.

9.10. Limited Recourse. Mortgagee expressly agrees that the extent of liability of the Mortgagor for any sums due or obligations to perform under the Note (except for the indemnities and/or guarantees delivered to Mortgagee by the Mortgagor and/or the other Indemnitor dated as of this date in connection with the loan evidenced by the Note, and secured, in part, by this Mortgage) is limited to the Mortgagor's estate, right, title and interest in, to and under the Mortgaged Property, the Mortgagor's right, title and interest to the leases and all interest of undersigned thereto (the "Leases"), as described in this Mortgage and/or any other document evidencing or securing the Note, as the same may be amended from time to time (individually, herein referred to as the "Instrument" or "Loan Document" and collectively, either as "Instruments" or "Loan Documents") and the assignment of leases in rents dated of even date hereof by the Mortgagor in favor of Mortgagee, as the same may be amended from time to time (the "Assignment"), Mortgagee agreeing not to look personally to the Mortgagor or to the other Indemnitor or to any principals, trustees members, partners, shareholders, officers, directors, employees or agents of the Mortgagor (collectively, the "Affiliates") but to look solely to the Mortgaged Property, the Leases and the Collateral and no other assets of the Mortgagor, Indemnitor or the Affiliates for payment of any of such sums; provided that the foregoing shall not (i) constitute a waiver of any obligation evidenced by the Note, this Mortgage, the Assignment and/or any other Instrument, (ii) limit the right of the holder of the Note, this Mortgage, the Assignment, and/or any other Instrument to name the Mortgagor as a party defendant in any action or suit for judicial or nonjudicial foreclosure and sale under the Note, the Mortgage, the Assignment and/or any other Instrument in any action or proceeding hereunder so long as no judgment in the nature of a deficiency judgment or any other personal or money judgment shall be asked for or taken against the Mortgagor or the Affiliates, (iii) affect in any way the validity of any guaranty or indemnity from the Mortgagor, the other Indemnitors and/or any other person of all or any of the obligations evidenced and secured by the Note and/or the any of the other Instruments, or the rights of the Mortgagee in connection with such guaranties and/or indemnities to look to the property and assets of the Mortgagor, the other Indemnitor, any guarantor, and/or any Affiliates, but only to the extent provided in such guaranty and/or indemnity, as the case may be (iv) release or impair the Note or the lien of the Mortgage, the Assignment, and/or other Instrument, (v) prevent or in any way hinder the Mortgagee from exercising or constitute a defense, an affirmative defense, a counterclaim or other basis for relief in respect of the exercise of, any other remedy against the Mortgaged Property, the Leases and/or the Collateral and/or the Mortgage, Assignment, Instrument and/or any other instrument securing the Note including the other loan documents executed and delivered to the Mortgagee in connection with the transactions contemplated herein or as prescribed by law or in equity in case of default, except that Mortgagee shall in no event seek any deficiency or other

personal or money judgment against the Mortgagor or any Affiliates except to the extent provided for in such guarantees and/or indemnities, (vi) prevent or in any way hinder the Mortgagee from exercising, or constitute a defense, an affirmative defense, a counterclaim or other basis for relief in respect of the exercise of, its remedies in respect of any deposits, insurance proceeds, condemnation awards or other monies or other collateral or letters of credit securing the Note, or (vii) be applicable to the responsible Person in the event of and to the extent of fraud, misappropriation of funds or other property, or intentional damage to any of the Mortgaged Premises or any other collateral securing this Note or any part thereof intentionally inflicted in bad faith by Mortgagor or any partner, principal, shareholder, officer, director, agent or employee of Maker or any partner or principal of any of the foregoing or (viii) be applicable to the liability arising in respect of hazardous materials or ADA compliance.

Nothing herein shall be deemed to be a waiver of any right which the Mortgagee may have under Section 506(a), 506(b), 1111(b) or any other provision of the Bankruptcy Reform Act of 1978 or any successor thereto or similar provisions under applicable state law to file a claim for the full amount of the debt owing to the Mortgagee by the Mortgagor or to require that all of the Mortgaged Property shall continue to secure all of the indebtedness owing to the Mortgagee in accordance with the Note, this Mortgage, and the other Loan Documents.

9.11. Obligations Unconditional. The Mortgagor's obligations under the Note, the Mortgage and other Loan Documents are absolute and unconditional and are valid irrespective of any other agreement or circumstance which might otherwise constitute a defense to the obligations under the Note, the Mortgage or the other Loan Documents or to the obligations of others related to it.

9.12. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

9.13. Waiver of Jury Trial. The Mortgagor and the Mortgagee hereby irrevocably and unconditionally waive any and all rights to trial by jury in any action, suit or counterclaim arising in connection with, out of or otherwise related to the Note, the Mortgage and all other Loan Documents, the Debt and all other obligations of the Mortgagor related thereto.

THIS MORTGAGE IS GIVEN ON THE CONDITION that if the Mortgagor, its successors or assigns, shall well and truly pay the Note according to its tenor and shall pay all other sums due under the Loan Documents and any Hedge Agreement, and shall duly perform every covenant, term, condition and agreement of the Mortgagor in this Mortgage and in the Note and other Loan Documents contained and pay all of the other Obligations, then this Mortgage shall be void; otherwise it shall remain in full force and effect.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the Mortgagor and the Mortgagee have duly executed this Agreement the day and year first above written.

PORT BAY ASSOCIATES, LLC

By: Acadia Realty Limited Partnership, its
Managing Member

By: Acadia Realty Trust, its General
Partner

By

Robert Masters
Senior Vice President

FLEET NATIONAL BANK

By

Denise M. Smyth
Vice President

STATE OF NEW YORK
COUNTY OF _____

)
) ss.:
)

On the ____ day of January, 2004, before me, the undersigned, a Notary Public in and for said State, personally appeared Robert Masters, personally known to me or proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his capacity and that by his signature on the instrument, the person or the entity upon behalf of which the person acted executed the instrument.

Notary Public

My Commission Expires:

STATE OF NEW YORK

)

) ss.:

COUNTY OF _____

)

On the ____ day of January, 2004, before me, the undersigned, a Notary Public in and for said State, personally appeared Denise M. Smyth, personally known to me or proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that she executed the same in her capacity and that by her signature on the instrument, the person or the entity upon behalf of which the person acted executed the instrument.

Notary Public

My Commission Expires:

- -----

EXHIBIT A
DESCRIPTION

The Leasehold Interest in property described below as Parcels One and Two, pursuant to Lease evidenced by a Memorandum thereof dated December 19, 1985 recorded on February 3, 1986 in Liber 9702 page 404 from Soundview Shopping Center, Landlord, to Port Bay Associates (Now by Conversion: Port Bay Associates, LLC), Tenant:

Parcel One:

ALL that certain plot, piece or parcel of land, situate, lying and being in the Incorporated Village of Port Washington North and partly in the Incorporated Village of Manorhaven, Town of North Hempstead, County of Nassau and State of New York, bounded and described as follows:

BEGINNING at a point on the southwesterly side of Waterview Drive (Harborview Drive) distant 457.57 feet northwesterly from the extreme northwesterly end of the arc of a curve connecting the southwesterly side of Waterview Drive with the northwesterly side of Seaview Lane (Shoreview Lane):

RUNNING THENCE south 57 degrees 00 minutes 00 seconds west, 161 feet;

THENCE south 33 degrees 00 minutes 00 seconds east, 240 feet;

THENCE south 57 degrees 00 minutes 00 seconds west, 217 feet;

THENCE south 33 degrees 00 minutes 00 seconds east, 4.75 feet;

THENCE south 57 degrees 00 minutes 00 seconds west, 150 feet to the northeasterly side of New Shore Road;

THENCE north 33 degrees 00 minutes 00 seconds west along the northeasterly side of New Shore Road, 753.11 feet to the southeasterly side of Soundview Drive;

THENCE northeasterly along the southeasterly side of Soundview Drive along the arc of a circle bearing to the left having a radius of 754.41 feet, a distance along said curve of 282.65 feet;

THENCE north 35 degrees 32 minutes 01 seconds east, still along the southeasterly side of Soundview Drive, 17.45 feet to the westerly end of the arc of a curve connecting the southeasterly side of Soundview Drive with the southerly side of Fishermans Drive;

THENCE northeasterly along the arc of said curve bearing to the right having a radius of 20 feet, a distance along said arc of 27.15 feet to a point on the southerly side of Fishermans Drive;

THENCE easterly along the southerly side of Fishermans Drive and along the arc of a curve bearing to the left having a radius of 500 feet, a distance along said arc of 324.09 feet to the extreme westerly end of the arc of a curve connecting the southerly side of Fishermans Drive with the southwesterly side of Waterview Drive;

THENCE southeasterly along said arc of a curve bearing to the right having a radius of 10 feet, a distance along said arc of 14.98 feet to a point on the southwesterly side of Waterview Drive (as widened);

THENCE along the southwesterly side of Waterview Drive, the following three courses and distances:

1. South 18 degrees 00 minutes 00 seconds east, 120.26 feet;
2. Southeasterly along the arc of a curve bearing to the left having a radius of 452 feet, a distance along said curve of 118.33 feet;
3. South 33 degrees 00 minutes 00 seconds east, 119.51 feet to the point or place of BEGINNING.

Parcel Two:

- - - - -

ALL that certain plot, piece or parcel of land, situate, lying and being in the Incorporated Village of Port Washington North, Town of North Hempstead, County of Nassau and State of New York, bounded and described as follows:

BEGINNING at a point on the southwesterly side of Waterview Drive, distant 217.57 feet northwesterly from the extreme northwesterly end of the arc of a curve connecting the southwesterly side of Waterview Drive with the northwesterly side of East Soundview Drive;

RUNNING THENCE south 57 degrees 00 minutes 00 seconds west, 181 feet;

THENCE north 33 degrees 00 minutes 00 seconds west, 255.37 feet;

THENCE north 57 degrees 00 minutes 00 seconds east, 139.23 feet;

THENCE north 33 degrees 00 minutes 00 seconds west, 0.41 feet along the face of the building on the premises adjoining on the north;

THENCE north 57 degrees 00 minutes 00 seconds east, 45.77 feet to the southwesterly side of Waterview Drive;

THENCE south 33 degrees 00 minutes 00 seconds east along the southerly side of Waterview Drive, 255.78 feet to the point or place of BEGINNING.

The Fee Interest in property described below as Parcel Three:

Parcel Three:

- - - - -

ALL that certain plot, piece or parcel of land, situate, lying and being in the Incorporated Village of Port Washington North, Town of North Hempstead, County of Nassau and State of New York, more particularly bounded and described as follows:

BEGINNING at a point on the northerly line of East Soundview Drive, formerly Shoreview Lane, formerly Seaview Lane, said point of beginning being 140.24 feet easterly from the terminus of an arc connecting the easterly line of New Shore Road with the northerly line of East Soundview Drive, said arc having a radius of 10.00 feet and a length of 15.71 feet

RUNNING THENCE from said point of beginning, north 33 degrees 00 minutes 00 seconds west, 159.51 feet;

THENCE north 57 degrees 00 minutes 00 seconds east, 378 feet;

THENCE south 33 degrees 00 minutes 00 seconds east, 217.57 feet;

THENCE along a curve to the right having a radius of 16.83 feet and a length of 27.62 feet;

THENCE westerly along the northerly line of East Soundview Drive, the following four courses and distances:

1. South 61 degrees 00 minutes 00 seconds west, 33.14 feet;
2. On a curve to the right having a radius of 870.00 feet and a length of 204.99 feet;
3. South 74 degrees 30 minutes 00 seconds west, 64.98 feet; and
4. Along a curve to the left having a radius of 423.70 feet and a length of 65.81 feet, to the point or place of BEGINNING.

END OF EXHIBIT A

NOTE MODIFICATION AGREEMENT

THIS AGREEMENT dated as of December 1, 2003 between PORT BAY ASSOCIATES, LLC ("Maker"), having an office c/o Acadia Realty Trust, 1311 Mamaroneck Avenue, Suite 260, White Plains, New York 10605, and FLEET NATIONAL BANK ("Payee"), having an office at 1185 Avenue of the Americas, New York, New York 10036.

W I T N E S S E T H:

WHEREAS, Payee is the owner and holder of the Amended and Restated Mortgage Note (the "Note") from Maker dated July 19, 2000 in the original principal amount of \$10,000,000; and

WHEREAS, Maker and Payee desire to extend and modify the Note;

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, Maker and Payee hereby agree as follows (capitalized terms used herein and not otherwise defined shall have the meanings ascribed to them in the Note):

1. The Maturity Date of the Note is hereby extended to August 1, 2008.

2. References in the Note to Extended Term shall mean two (2) one-year extensions, the first of which, if exercised in accordance with the Note, will end on August 1, 2009 (the "First Extension") and the second of which, if exercised in accordance with the Note, will end on August 1, 2010 (the "Second Extension").

3. References in the Note to "Extension Fee" shall mean 0.125% of the principal balance of the Note at the Maturity Date with respect to the First Extension and 0.125% of the principal balance of the Note on the Extended Maturity Date with respect to the Second Extension.

4. Subparagraph 3(b)(iii) is modified by reducing the "floor rate" to 8.0% from 8.50% and in addition to the conditions in 3(b) of the Note which must be satisfied for the First Extension and the Second Extension, the Second Extension shall be conditioned upon the renewal of the lease with CSC Soundview Cinema or a substitute lease with a tenant approved by Payee, in either case, on terms and conditions reasonably acceptable to Payee.

5. The definition of "LIBOR Option" is amended by the addition of the following at the end of the first sentence thereof:

"provided, however, that during an applicable Interest Period where the Debt Service Coverage Ratio is 1.50 to 1 or greater and the outstanding principal balance of the Loan is not more than 55% of the appraised value of the Mortgaged Property, LIBOR Option shall mean a rate per annum equal to one hundred forty basis points (1.40%) plus the LIBOR Rate."

6. The definition of "Change in Control" is amended by deleting the words "of Ross Dworman as Chief Executive Officer of Acadia and of".

7. The first two sentences of subparagraph 2(a) of the Note are deleted and the following is substituted therefor:

"(a) The Principal Amount of this Note shall be payable in accordance with the following provisions: Commencing on January 1, 2004 and on the first day of each month thereafter, Maker will pay, on account of the Principal Amount, the fixed sum of \$10,350.50 (the "Fixed Principal Payment") until the making of an Additional Advance. Upon the making of an Additional Advance, the Fixed Principal Payment shall be recalculated based upon the new Principal Amount, including the Additional Advance, a twenty-five year loan maturity, less the number of months which have elapsed since December 1, 2003 and an assumed interest rate of 8% per annum and such recalculated Fixed Principal Payment shall be applicable to the payment due on the first day of the month following the making of the Additional Advance and each month thereafter unless and until another Additional Advance is made at which time the Fixed Principal Payment shall be further revised in accordance herewith."

8. Subparagraph 5(f) of the Note is modified by deleting references to the capped 18 month funding period for the Earn-Out and subparagraph 5(e) of the Note is modified by reducing the "floor rate" to 8.0% from 8.50%.

9. Paragraph 9 of the Note is hereby modified as follows:

(i) the "Debt Service Coverage Ratio" referred to in (b) shall be 1.30 to 1 and the "floor rate" is reduced to 8.0% from 8.50%;

(ii) the "Net Worth" of Acadia in (c) shall be \$100,000,000;
and

(iii) the minimum liquidity required in (d) shall be \$7,000,000.

10. Except as modified hereby, the Note remains unmodified and in full force and effect and Payee hereby covenants, represents and warrants that the principal amount of \$8,609,864.83 is outstanding as of the date hereof with \$1,000,000 remaining to be advanced under the Note and there exist no causes of action, offsets, counterclaims or defenses with respect to Payee's obligation under the Note, as modified hereby.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

PORT BAY ASSOCIATES, LLC

By: Acadia Realty Limited Partnership,
its managing member

By: Acadia Realty Trust, its general partner

By

Robert Masters
Senior Vice President

FLEET NATIONAL BANK

By

Denise M. Smyth
Vice President

WASHINGTON MUTUAL BANK, FA
National Commercial Operations Center
555 Dividend Drive, Suite 150
Mailstop 3545PMTX
Coppell, Texas 75019

As of December 19, 2003

RD Woonsocket Associates Limited Partnership
RD Bloomfield Associates Limited Partnership
c/o Acadia Realty Trust
20 Soundview Marketplace
Port Washington, New York 11050

Attention: Robert Masters, Esq.

Re: \$26,000,000.00 loan (the "Loan") to RD
Woonsocket Associates Limited Partnership and
RD Bloomfield Associates Limited Partnership

Dear Sir/Madam:

Washington Mutual Bank, FA, as successor by merger to The Dime Savings Bank of New York, FSB ("Administrative Agent") is Administrative Agent under that certain Term Loan Agreement dated as of December 21, 2001 (the "Term Loan Agreement") between you, Washington Mutual Bank, FA (successor by merger to The Dime Savings Bank of New York, FSB) ("WaMu"), and Administrative Agent. Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Term Loan Agreement.

Subject to the satisfaction of the conditions hereinafter set forth, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, (i) the fifth sentence of Section 2.04 of the Term Loan Agreement is hereby amended in its entirety to read "Each Advance made pursuant to this Agreement shall be in an amount at least equal to \$4,400,000 unless the 'Remediation Evidence' referred to in the immediately succeeding paragraph has been received prior to the making of the Advance in which case the Advance shall be \$5,000,000; in the event the Advance is \$4,400,000 and thereafter on or before June 30, 2004, the Remediation Evidence is received, Borrower shall be entitled to an additional Advance of \$600,000 on or before December 21, 2004", (ii) the sixth sentence of Section 2.04 of the Term Loan Agreement is hereby amended in its entirety to read "All Advances made pursuant to this Agreement must be made after the date hereof and prior to December 21, 2004" and (iii) the second sentence of the second paragraph of Section 2.04 is hereby amended by deleting the phrase "the first anniversary hereof" and inserting "June 30, 2004".

The foregoing is subject to Administrative Agent's receipt of an extension fee of \$7,500 (the "Extension Fee").

The terms and provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their heirs, representatives, successors and assigns.

Except as modified as set forth above, the Loan Documents shall remain unchanged and in full force and effect.

If the foregoing is acceptable to you, please so indicate by signing the enclosed copy of this letter and returning same to Administrative Agent, together with the Extension Fee, whereupon the date upon which Advances must be made shall be extended as provided herein. Your execution of the enclosed letter shall constitute your representation, covenant and warranty that (i) the outstanding principal balance of the Loan as of the date hereof is \$20,082,673.89, (ii) there exist no offsets, counterclaims, defenses or causes of action with respect to your obligations for the payment of the Notes as extended in accordance herein, and (iii) except as set forth herein, the Term Loan Agreement remains unmodified and in full force and effect.

This letter 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 letter agreement by signing any such counterpart.

[Remainder of page intentionally left blank]

Very truly yours,

WASHINGTON MUTUAL BANK, F.A. (successor by merger to The Dime Savings Bank of New York, FSB), as Administrative Agent

By

Name: Carmela Paulich
Title: Vice President

Accepted and agreed to as of the _____ day of December, 2003.

RD WOONSOCKET ASSOCIATES LIMITED PARTNERSHIP, 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:

RD BLOOMFIELD ASSOCIATES LIMITED PARTNERSHIP, 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:

The undersigned joins in the execution hereof for the purpose of (i) consenting to the extension of the date by which all Advances must be made to December 21, 2004 and (ii) reaffirming its obligations under the Loan Agreement.

ACADIA REALTY LIMITED PARTNERSHIP

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

By

Name:
Title:

NOTE MODIFICATION AGREEMENT

This NOTE MODIFICATION AGREEMENT (this "Agreement") made as of this 19th day of December, 2003 between WASHINGTON MUTUAL BANK, FA ("Payee"), and RD ELMWOOD ASSOCIATES, L.P. ("Maker").

Recitals

WHEREAS, Payee is the lender under that certain Revolving Loan Agreement, dated as of November 22, 2002 (the "Loan Agreement") between Maker and Payee;

WHEREAS, Payee is the holder of that certain Promissory Note dated as of November 22, 2002 (the "Note"); and

WHEREAS, Maker is the obligor under the Note which, as of the date hereof, evidences an aggregate outstanding principal indebtedness of \$0 (the "Indebtedness"), plus interest thereon; and

WHEREAS, the Note is secured by, among other things, that certain Guaranty Agreement from Acadia Realty Limited Partnership to Payee dated as of November 22, 2002; and

WHEREAS, Payee and Maker desire to change the "LIBOR Based Rate" (as defined in the Note) set forth in the Note as hereinafter provided.

NOW, THEREFORE, in consideration of the mutual agreements herein expressed, the parties hereto agree as follows:

1. Maker represents and warrants that the outstanding principal balance of the Note on the date hereof is \$0.

2. Maker hereby acknowledges that it is justly indebted to Payee under the Note, and has covenanted and promised to pay the Indebtedness, together with interest and other charges thereon, in accordance with the terms, covenants, conditions and provisions set forth in the Note, as modified hereby.

3. The definition of "LIBOR Based Rate" is hereby amended in its entirety to read "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) (a) with respect to amounts outstanding hereunder from time to time up to \$15,800,000, one hundred fifty (150) basis points and (b) with respect to amounts outstanding hereunder from time to time in excess of \$15,800,000, one hundred sixty-five (165) basis points";

4. Maker represents and warrants that there exist no defenses, offsets or counterclaims with respect to its obligations under the Note, as modified hereby.

5. The terms and provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their heirs, representatives, successors and assigns.

6. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original. Said counterparts shall constitute but one and the same instrument and shall be binding upon each of the undersigned parties as fully and completely as if all had signed but one instrument so that the liability of each of the undersigned hereunder shall be unaffected by the failure of any of the other parties to execute any or all of said counterparts. Furthermore, the signature page(s) of this Agreement may be signed by one or more of the signatories hereto and the foregoing fact shall not affect the effectiveness or validity of any signatures hereon and this Agreement shall be binding upon each of the parties as if all had signed the same signature page(s).

[remainder of page intentionally left blank]

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by each of the parties hereto as of the day and year first above written.

WASHINGTON MUTUAL BANK, FA

By

Name: Carmela Paulich
Title: 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

Name:
Title:

STATE OF NEW YORK)
 : ss.:
COUNTY OF NASSAU)

On the _____ day of December in the year 2003, before me, the undersigned, a notary public in and for said state, personally appeared Carmela Paulich, personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the instrument.

Notary Public

My Commission Expires:

STATE OF _____)
) ss.:
COUNTY OF _____)

On the ____ day of December in the year 2003, before me, the undersigned, a notary public in and for said state, personally appeared _____, personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the instrument.

Notary Public

My Commission Expires:

LIST OF SUBSIDIARIES OF
ACADIA REALTY TRUST

Acadia Realty Trust
Acadia Realty Limited Partnership

ACRS, Inc.
Acadia Realty Management Services, Corp.
Sound View Management LLC

Acadia Bartow Avenue, LLC
Acadia Mad River Property LLC
Acadia Merrillville Realty, L.P.
Acadia Town Line, LLC
Acadia Crescent Land, LLC
Acadia Rocky Hill Market, LLC
Blackman Fifty L.P.
Heathcote Associates, L.P.
Mark Plaza Fifty L.P.
Mark Twelve Associates, L.P.
Pacesetter/Ramapo Associates
RD Abington Associates Limited Partnership
RD Absecon Associates, L.P.
RD Bloomfield Associates Limited Partnership
RD Branch Associates L.P.
RD Columbia Associates, L.P.
RD Elmwood Associates, L.P.
RD Hobson Associates, L.P.
RD Methuen Associates Limited Partnership
RD Smithtown, LLC
RD Village Associates Limited Partnership
RD Whitegate Associates, L.P.
RD Woonsocket Associates Limited Partnership

Acadia 239 Greenwich Avenue, LLC
Acadia Heathcote, LLC
Acadia Merrillville Realty, Inc.
Acadia Pacesetter LLC
Acadia Property Holdings, LLC
Blackman Fifty Realty Corp.
Mark Plaza Fifty Realty Corp.
New Castle Fifty Realty Corp.
RD Absecon, Inc.

239 Greenwich Associates Limited Partnership
Crossroads II
Crossroads Joint Venture
Port Bay Associates, LLC

Acadia Realty Acquisition I, LLC
Acadia Strategic Opportunity Fund, L.P.

Acadia Amherst, LLC
Acadia Granville, LLC
Acadia Sheffield Crossing, LLC

Acadia Brandywine Condominium, LLC
Acadia Brandywine Holdings Special Member, LLC
Acadia Brandywine Holdings, Inc.
Acadia Brandywine Holdings, LLC
Acadia Brandywine Subsidiary, Inc.
Acadia Brandywine Subsidiary, LLC
Acadia Brandywine Town Center Special Member, LLC
Acadia Brandywine Town Center, Inc.
Acadia Brandywine Town Center, LLC
Acadia Market Square Special Member, LLC
Acadia Market Square, Inc.
Acadia Market Square, LLC

Acadia K-H, LLC
AmCap Acadia 8th Addition, LLC
AmCap Acadia 9th Addition, LLC
AmCap Acadia Agent, LLC
AmCap Acadia Atlanta LP
AmCap Acadia Batesville, LLC
AmCap Acadia Benton, LLC
AmCap Acadia Carthage LP
AmCap Acadia Cary, LLC
AmCap Acadia Cincinnati, LLC
AmCap Acadia Conroe LP
AmCap Acadia Great Bend, LLC
AmCap Acadia Hanrahan, LLC
AmCap Acadia Indianapolis, LLC
AmCap Acadia Irving LP
AmCap Acadia K-H Holding, LLC
AmCap Acadia K-H, LLC
AmCap Acadia Little Rock, LLC
AmCap Acadia Longview, LLC
AmCap Acadia Mustang, LLC
AmCap Acadia Pratt, LLC
AmCap Acadia Roanoke, LLC
AmCap Acadia Roswell, LLC
AmCap Acadia Ruidoso, LLC
AmCap Acadia San Ramon, LLC
AmCap Acadia Shreveport, LLC
AmCap Acadia Springerville, LLC
AmCap Acadia Tucson, LLC
AmCap Acadia Tulsa, LLC

Acadia Tarrytown, LLC
Acadia-Noddle Tarrytown Development Co., LLC

Acadia D.R. Management, Inc.
Acadia Hendon Hitchcock Plaza, LLC

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 33-95966 and 333-87993) pertaining to the 1999 Share Incentive Plan of Acadia Realty Trust; in the Registration Statement (Form S-3 No. 33-31630) of Acadia Realty Trust; in the Registration Statement (Form S-3 No. 333-104727) of Acadia Realty Trust; and in the Registration Statement (Form S-8 No. 333-106758) pertaining to the 2003 Employee Share Incentive Plan of Acadia Realty Trust of our report dated March 12, 2004, 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, 2003.

.....

/s/ ERNST & YOUNG LLP

New York, New York
March 12, 2004

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

/s/ Kenneth F. Bernstein

Kenneth F. Bernstein
President and Chief Executive Officer
March 12, 2004

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

/s/ Michael Nelsen

Michael Nelsen
Senior Vice President and Chief Financial Officer
March 12, 2004

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, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kenneth F. Bernstein, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 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

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Kenneth F. Bernstein
President and Chief Executive Officer
March 12, 2004

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, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael Nelsen, Sr. Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 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

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Michael Nelsen
Senior Vice President and Chief Financial Officer
March 12, 2004

FOURTH AMENDMENT TO
AMENDED & RESTATED PARTNERSHIP AGREEMENT

THIS FOURTH AMENDMENT (the "Fourth Amendment"), dated as of January 1, 2004, to the Amended and Restated Partnership Agreement, dated as of March 22, 1999, as amended by the First Amendment dated as of November 15, 1999, the Second Amendment dated as of November 18, 1999 and the Third Amendment dated as of May 1, 2003 (collectively, the "Partnership Agreement"), of ACADIA REALTY LIMITED PARTNERSHIP, a Delaware limited partnership (the "Partnership"). Capitalized terms used herein but not defined herein shall have the meanings given such terms in the Partnership Agreement.

BACKGROUND

The Partnership is a party to a certain Agreement of Contribution dated as of January 1, 2004 (the "Contribution Agreement") pursuant to which, among other things, the Partnership has agreed to acquire the Retail Services Business of Klaff Realty, LP and Klaff Realty, Limited, in consideration for, among other things, Preferred Units in the Partnership. Pursuant to Section 3.2(B) of the Partnership Agreement, the General Partner of the Partnership has the power and authority to issue additional Partnership Interests to Persons in exchange for additional Capital Contributions.

The General Partner, pursuant to the exercise of such authority and in accordance with Section 12(C) of the Partnership Agreement, has determined to execute this Fourth Amendment to the Partnership Agreement to evidence the issuance of additional Partnership Interests and the admission of the other signatory hereto (the "Contributor") as a Limited Partner of the Partnership.

NOW, THEREFORE, the parties hereto, for good and sufficient consideration and intending to be legally bound, hereby amend the Partnership Agreement as follows:

1. Annex "A" of the Partnership Agreement is hereby deemed amended and restated to reflect the admission as a Limited Partner on the date hereof of the Contributor whose authorized signature appears on the signature page hereto and which shall have 4,000 Preferred Units. Annex "B" of the Partnership Agreement is hereby deemed amended and restated to reflect the Capital Contributions made by the Contributor.

2. The Preferred Units issued hereby shall have the rights, preferences, privileges and designations set forth in the Certificate of Designation of Series B Preferred Operating Partnership Units which is hereby incorporated into the Partnership Agreement.

3. By execution of this Fourth Amendment to the Partnership Agreement, the Contributor agrees to be bound by each and every term of the Partnership Agreement as amended hereby from and after the date hereof.

4. This Fourth Amendment may be executed in counterparts, each of which shall constitute an original, but all together shall constitute one and the same document.

5. Except as expressly set forth in this Fourth Amendment, the Partnership Agreement is hereby ratified and confirmed in each and every respect.

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

ACADIA REALTY TRUST

By: _____
Name: Kenneth F. Bernstein
Title: President

ACADIA REALTY LIMITED PARTNERSHIP

By: Acadia Realty Trust, its General Partner

By: _____
Name: Kenneth F. Bernstein
Title: President

CONTRIBUTOR:

KLAFF REALTY, LP

By: Klaff Realty Limited, its general partner

By: _____
Name: Hersch M. Klaff
Title: President